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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT OF SDR 13.0 MILLION

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR A

SECOND VOCATIONAL TRAINING PROJECT

April 24, 1986

CURRENCY EQUIVALENTS

Currency Unit	=	Sri Lanka Rupee
US$1.00	=	SL Rs 27.40
SL Re 1.00	=	US$0.036

ABBREVIATIONS AND ACRONYMS

ACCSL - Association of Construction Contractors of Sri Lanka
CHPB - Center for Housing, Planning and Building
CITP - Construction Industry Training Project
HEOTC - Heavy Equipment Operator Training Center
ICTAD - Institute of Construction Industry Training and Development
JTI - Junior Technical Institutes
MLGHC - Ministry of Local Government, Housing and Construction
MOHE - Ministry of Higher Education
MOL - Ministry of Labor
MYAE - Ministry of Youth Affairs and Employment
NAB - National Apprenticeship Board
NTTTC - National Technical Teacher Training College
SEC - State Engineering Corporation
SDCC - State Development and Construction Corporation
UDA - Urban Development Authority
WDB - National Water Supply and Drainage Board

FISCAL YEAR

January 1 - December 31

SRI LANKA

SECOND VOCATIONAL TRAINING PROJECT

Credit and Project Summary

Borrower: Democratic Socialist Republic of Sri Lanka

Amount: SDR 13.0 million (US$15.0 million equivalent)

Terms: Standard

Project Description: The goal of the project is to improve the efficiency of the construction industry in Sri Lanka. The main objectives of the project are to (a) create an institutional framework to sustain training and industry development efforts started under the first Construction Industry Project (Credit 1130-CE); (b) increase the supply of semi-skilled, skilled and managerial personnel to the industry; and (c) improve the quality of manpower going into the sector. The institutional development objective would be achieved by establishing and developing the Institute of Construction Industry Training and Development (ICTAD). The manpower supply objective would be achieved by training about 50,000 new and upgrading about 26,000 existing semi-skilled, skilled and managerial workers in the construction industry. The quality improvement objective would be achieved by instituting an instructor training and upgrading program, revision and updating of curricula, monitoring and evaluating skill training and industry developments, and trade testing and certifying about 40,000 skilled workers and supervisors.

Risks: The project faces no special risks, and the project design provides flexibility in meeting the requirements for skill training as diagnosed by market surveys. A reduction of the demand for training in total or for any skill in particular has no implications for underutilization of staff and facilities as the project would utilize existing facilities and contract the instructors when specific courses are identified. Such changes in the demand for training may at most lead to some underutilization of project funds.

Estimated Cost: /a

	Local	Foreign	Total
	US$ million		
Institutional Development (ICTAD)	1.14	1.40	2.54
Skill Training	8.50	4.42	12.92
Management Training	0.96	0.53	1.49
Instructor Training	0.31	0.51	0.82
Monitoring and Evaluation	0.17	0.56	0.73
Total Base Costs	11.08	7.42	18.50
Contingencies			
Physical	0.63	0.41	1.04
Price	2.67	2.27	4.94
Total Project Costs	14.38	10.10	24.48

Financing Plan:

	Local	Foreign	Total
	US$ million		
IDA	5.38	9.62	15.00
UNDP	0.54	0.48	1.02
Government	8.46	-	8.46
Total	14.38	10.10	24.48

Estimated Disbursements:

IDA FY	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95
	US$ million								
Annual	0.30	4.18	3.58	1.76	1.14	1.10	1.08	1.04	1.12
Cumulative	0.30	4.48	7.76	9.52	10.66	11.76	12.84	13.88	15.00

Economic Rate of Return: Not applicable

Staff Appraisal Report: No. 5958-CE, dated April 2, 1986

Map: IBRD 19341.

/a Includes taxes of US$ 0.85 million equivalent.

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT TO THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA FOR A SECOND VOCATIONAL TRAINING PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Democratic Socialist Republic of Sri Lanka for SDR 13.0 million (US$15.0 million equivalent) on standard IDA terms to help finance a second vocational training project. Cofinancing has been arranged with UNDP (ILO) for a grant of US$1.0 million equivalent.

PART I - THE ECONOMY 1/

2. A country economic memorandum, "Sri Lanka: Recent Economic Developments and Policies for Growth" (Report No. 5628-CE, dated May 14, 1985) was distributed to the Executive Directors on May 28, 1985. Country data are provided in Annex I.

3. After almost ten years of low growth at 2.9 percent per annum, Sri Lanka, in 1977, initiated a new development strategy. It entailed a package of policy measures to liberalize the economy and allow a greater role for the private sector. These policies, supported by the IMF, were designed to: (a) reduce government intervention in commodity markets; (b) reduce government consumption subsidies and restore producer incentives and public savings; and (c) create a favorable environment for private (foreign and domestic) investment through tax concessions, the creation of an Investment Promotion Zone, and the unification and depreciation of the exchange rate. Two important characteristics of this policy reform package were: (a) periodic increases in the domestic support price for paddy (to bring it into line with world prices) that spurred a highly positive response from paddy producers; and (b) a decline in the cost of selected subsidies and transfers from about 10 percent of GDP in 1977 to about 3 percent by 1981.

4. At the same time, the Government began to implement an ambitious public investment program centered on three major initiatives: (a) accelerated implementation of the Mahaweli Ganga Development Program, the largest multipurpose river basin development program ever undertaken in Sri Lanka; (b) establishment of a 200-square mile free trade zone to attract

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1/ This part is substantially unchanged from Part I of the President's Report for the Second Industrial Development Project (Report No. 4284-CE), which was approved by the Executive Directors on May 8, 1986.

foreign investors located north of Colombo near the international airport; and (c) institution of a massive housing and urban renewal program focusing mainly on the Colombo metropolitan region, including the construction of a new capital complex at Kotte, a suburb of Colombo. As the public investment program gained momentum, its share in GDP jumped from 6 percent in 1977 to an average of 13 percent in 1978/79 and a peak of 19 percent in 1980. The public investment was financed in part by domestic resources (generated, in turn, by a reduction in subsidies and transfers) and, in part, by high levels of foreign aid.

5. The initial result of both the policy reforms and increased level of investment was an impressive jump in the GDP growth rate during 1977-80 to an annual average of 6.8 percent. The growth rate subsequently declined to a more sustainable 5.3 percent in 1980-83 and 5 percent in 1984-85. Underlying the increased growth of output was the expansion of paddy production, garment exports, construction, and tourist services. The growth rate of paddy production averaged 5.7 percent a year during 1978-85 with the result that rice imports declined sharply and averaged only 10 percent of total rice consumption during that period compared to 33 percent during 1970-77. Manufactured garment exports increased from US$12 million in 1977 to an estimated US$300 million in 1985 and now account for 80 percent of non-petroleum manufactured exports. Tourist arrivals increased from 150,000 in 1977 to 400,000 in 1982. However, due to ethnic disturbances, arrivals have declined since to 320,000 in 1983/84 and an estimated 260,000 in 1985.

6. The rapid expansion in aggregate demand, led by high levels of public investment, resulted in serious financial imbalances affecting the budget and the balance of payments. The massive public investment initiated in 1977 led to increases in budgetary spending from 23 percent of GDP in 1977, to a record 43 percent in 1980. These high levels of spending, however, were not accompanied by corresponding increases in fiscal revenues. When the economy began to show serious signs of "overheating" in the early 1980s, the Government squeezed current spending by reducing subsidies and by placing limits on already inadequate public sector salaries and operation and maintenance expenditures. But with severe limits on the extent to which these expenditures could be curtailed, the Government was impelled to borrow heavily to finance the deficits which varied between 10 and 17 percent of GDP during 1981-85. During that period, 45 percent of the deficits were financed by foreign aid, 10 percent were financed by foreign commercial borrowings and 45 percent by domestic borrowing.

7. The high levels of of investment also spilled over into the balance of payments. Between 1977 and 1980, import volumes grew at an average annual rate of 19 percent, while imported investment goods increased from US$83 million to US$493 million, and intermediate goods and petroleum imports tripled in current prices. As a result of this fairly broad-based expansion, merchandise imports as a share of GDP increased from 23 percent in 1977 to 51 percent in 1980. Export volumes, however, expanded at a much lower rate (an average annual growth rate of 5 percent between 1977 and 1980) as the decline

in tree crop export volumes offset the strong growth in garment exports from firms established in the Investment Promotion Zone. Consequently, merchandise exports as a share of GDP increased from 21 percent in 1977 to only 26 percent in 1980. These diverse trends in the volume of trade were accompanied by a 26 percent deterioration in the terms of trade over the same period. Rapid growth in tourism receipts and private remittances from abroad failed to offset this deterioration in the trade account, and the current account balance deteriorated from a surplus equivalent to 2.4 percent of GDP in 1977 to a record deficit equivalent to 19.8 percent of GDP in 1980. Deficits in 1978 and 1979 were more than offset by increased net aid disbursements, and Sri Lanka continued to add to international reserves. But, in 1980 the situation changed, when the current account deficit rose to $800 million. It was financed by concessional flows, use of reserves (which declined by $220 million) and recourse to commercial borrowing.

8. Realizing that a continuation of the 1980 trends would result in serious financial instability, the Government initiated an adjustment program in 1981. The measures agreed upon initially, in consultation with the IMF, included tighter overall monetary policy, a substantial reduction in government spending, and a gradual realignment of the exchange rate. The economy began to respond positively by the end of 1981 (when the current account deficit in the balance of payments declined to 13.7 percent of GDP and the budgetary deficit to 15.5 percent), but in 1982 - a year in which there were presidential elections and a referendum to extend the life of Parliament - the political resolve to continue to apply the needed policy mix weakened. As a result, both the external and internal deficits increased in 1982 (to 15.3 percent and 17.3 percent, respectively) and the GDP growth rate declined to 5.1 percent. Although policy measures did contribute to the decline in the current account deficit of the balance of payments in 1983 and 1984 (12.4 percent of GDP in 1983 and 3.7 percent in 1984), the primary factor was the improvement in the terms of trade as a result of higher tea prices. With the subsequent decline in the price of tea, the terms of trade deteriorated in 1985 and the current account deficit of the balance of payments increased to 8 percent of GDP. Furthermore, on account of lower receipts from taxes on exported tea and higher defense expenditures, the overall budget deficit increased from 10 percent of GDP in 1984 to 11 percent in 1985. Because the price of tea declined in the second half of 1985, however, its effects on the budget will mostly be felt in 1986 when the fiscal deficit may turn out to be much higher.

9. Achieving a more viable internal and external financial position are now two prime policy objectives for Sri Lanka. To improve the external position, one of the foremost requirements of government policy will be to restructure the economy towards exports rather than producing for the very limited domestic market. With the exception of garments, for which Sri Lanka has a particularly strong comparative advantage, exports have performed poorly. A major focal point for improving export performance is the tree crop sector, which, as a result of more than a decade of neglect, has experienced a stagnant level of production. This trend must be reversed.

To promote export activities, a more neutral incentive framework is needed, including a foreign exchange policy that would permit the full diversity of Sri Lanka's comparative advantage to develop.

10. The Government has recently indicated its determination to pursue reforms in this sector. In 1985, it reduced the overall tax burden on tree crops. This reduction, in combination with the management/incentive reform package for state-owned plantations implemented in early 1984, has improved incentives for producers throughout this traditionally overtaxed subsector. The Government has also introduced tariff changes, based on recommendations made in the final report of the Presidential Tariff Commission on trade taxes, aimed at reducing the overall tariff level and the variance of effective protection among sectors.

11. The comparatively high levels of social welfare expenditures which the population has long enjoyed and which cannot easily be reduced, together with sharply increased defense expenditures, means that the Government must renew its efforts to improve domestic resource mobilization — especially in the public sector — to pay for these outlays. Improving the domestic financial situation will require broadening the tax base thus increasing tax revenues and reducing unproductive government expenditures. A focal point of these measures will have to be the public sector enterprises, which account for 40 percent of the value added in the non-petroleum manufacturing sector, but are a heavy burden on the budget because of high protection from external competition, administered prices for their products, their monopolistic or quasi-monopolistic position, and the inefficient use of resources. They will have to improve their management and reduce the support they obtain from the budget.

12. Throughout the entire 1978-85 period, the response of the international aid community to the Government's development efforts has been enthusiastic. Project aid was stepped up, particularly for the Accelerated Mahaweli Program. The overall level of aid commitments per year increased from US$250 million in 1977 to a record US$800 million in 1981, equivalent to US$55 per capita. Disbursements grew much more slowly so that the aid pipeline rapidly expanded to around US$1.63 billion by the end of 1981. Because implementation and domestic financial constraints required cuts in public capital spending after 1981, aid commitments declined to US$500 million in 1982, US$350 million in 1983, and US$460 million in 1984, halting further increases in the pipeline. Aid disbursements have increased steadily, from US$200 million in 1977 to US$550 million in 1984. Continued high levels of aid will depend upon donors' willingness to finance a sizeable portion of local costs, provide supplementary financing for ongoing projects, where needed, and to increase non-project aid. Local cost financing in support of Sri Lanka's resource mobilization efforts will not only provide valuable relief from budgetary pressures, but will also supplement foreign exchange resources needed to support the balance of payments.

13. At the end of 1985, the external public debt outstanding and disbursed stood at an estimated US$2.7 billion, about 40 percent of GDP. Although over 70 percent of this debt is on concessional terms, the increased commercial financing resorted to in 1981 and 1982 contributed to the increase in the debt service payments (excluding IMF charges and repurchases) between 1982 and 1985, at which time the debt service ratio had risen to 15 percent. Assuming that the Government's efforts to contain the budget deficit and to implement policy measures designed to stimulate exports and efficient import substitution activities are successful, the current account deficit in the balance of payments should decline to approximately 7 percent of GDP toward the end of the decade, and the debt service ratio, after temporarily rising to almost 19 percent because of existing debt repayment commitments, should drop to 15 percent in 1990. Nonetheless, the Government will need to monitor carefully the level and terms of external borrowing to ensure that the country maintains a satisfactory external payments position.

PART II - WORLD BANK GROUP OPERATIONS

14. Since the beginning of its operations in Sri Lanka in 1954, the World Bank has approved 12 loans totaling US$183.7 million (net of cancellations) and 38 credits totaling US$753.2 million (net of cancellations) in support of 47 projects. About 53 percent of World Bank assistance has been for agriculture (irrigation, tree crops, and rural and dairy development), 17 percent for power, 10 percent for transportation, and the remainder of 20 percent among development finance company operations, a program credit (involving the import of raw materials for industry), water supply, construction industry training, and telecommunications. Eight loans and 16 credits have been fully disbursed. Annex II contains a summary statement of World Bank Group operations as of March 31, 1986.

15. In Sri Lanka, the IFC has a total investment of US$2.13 million equivalent in equity and US$18.69 million equivalent in loans as of March 31, 1986. Investments have been made so far in two textiles industries, one polypropylene bag industry, one equipment-leasing company, one hotel, and two IFC lines of credit, one of which has been extended to the government-owned Bank of Ceylon for term loans to medium-sized industries.

16. A central element of the World Bank Group's current strategy in Sri Lanka is the achievement of a more sustainable balance-of-payments position in the medium term through export promotion and import substitution in viable economic activities. The Bank Group's macroeconomic and sectoral analyses of the Sri Lankan economy indicate that achieving and maintaining external equilibrium in the context of a growing economy require major policy changes in several areas: investment priorities should be assessed more carefully than in the past; the system of economic incentives should become more consistent; the role of the public sector in manufacturing activities should be limited to clearly established priority areas; and cost recovery

should be seen as complementary to, rather than conflicting with, greater equity in distribution.

17. Within the above framework, the Bank's lending program has been concentrating resources on directly productive sectors, such as agriculture and industry, and in support of energy and transport infrastructure. Within agriculture, Bank Group strategy had given until recently the highest priority to the expansion of paddy production and to rehabilitation of the vital tree crops subsector. Regarding tree crops, the objective has been to channel resources into an activity in which Sri Lanka has a comparative advantage. While this objective will retain its importance, the probable attainment of self-sufficiency in rice will allow the lending program to support in the future programs aimed at expanding the production of other important agricultural products for local consumption and, possibly, local processing for exports.

18. The World Bank has also provided financing for a broad range of large-, medium- and small-scale industrial enterprises, primarily in the private sector, through support of industrial development finance institutions. Future lending in the sector would continue this support, focusing on firms with export potential. It would also capitalize on the conclusions of technical assistance financed through past operations to provide support for improvement in trade and incentive policies, and for increasing the efficiency of public enterprises.

19. The Government's priority to rehabilitate rundown infrastructure and expand the capacity of existing capital stock by high priority new investments is well placed and necessary in order to support expanded economic activity, particularly in the private sector. Major elements of the lending program would be directed at helping to meet the energy needs of the economy and at easing transport bottlenecks. The World Bank has provided financing to a number of power projects for generation, transmission and distribution. The thrust of future operations would be decided on the basis of a comprehensive assessment of investment needs in all three areas. However, given that the majority of high yielding sources of energy in Sri Lanka have been utilized already, it is envisaged that the future program would accord relative priority to energy conservation rather than generation, through both required investments and policy measures. The old and inefficient power distribution system would be rehabilitated to reduce system losses; small but significant improvements in energy conservation would be undertaken in large energy consuming industrial/commercial units; and a study is underway to recommend measures to improve energy efficiency in the transport sector, a large consumer of commercial energy in Sri Lanka. Support to the transport sector would continue with rehabilitation and upgrading of the road network, institutionalizing proper maintenance methods and improving sectoral planning of policies and programs.

20. Institutional capabilities, at both the planning and implementation levels, have been strained by the recent rapid expansion of public

investment. Continuing emphasis would be placed on project components supporting institution building, human resource development, business and industrial management, and public administration.

21. The World Bank's development of a coherent lending program for Sri Lanka, and its continuous dialogue regarding the specific elements of the program and policies necessary for increasing the program's effectiveness, have been accompanied by firm support for a substantial transfer of resources to Sri Lanka. The main grounds for this support have been the need to offset the deterioration in the world trade environment; the achievement of a high and sustained growth rate; and the tightness of the Government's budgetary situation as increased operational and maintenance requirements make demands on domestic resources.

22. The World Bank Group, as of the end of 1984, accounted for 15.2 percent (IBRD, 2.3 percent; IDA, 12.9 percent) of Sri Lanka's total debt outstanding and disbursed, and 5.0 percent of debt service on medium- and long-term debt. The projected World Bank Group's share in total existing external debt outstanding and disbursed will increase to 18.3 percent (with IBRD's share declining to 1.9 percent) and its share in debt service will increase to about 5.4 percent, by the end of 1986.

PART III - VOCATIONAL TRAINING IN THE CONSTRUCTION SECTOR

Government Policies and Programs in Vocational Training

23. Since 1979, the Government has invested in training programs as a necessary part of its strategy to successfully implement its industrialization program. The increase in demand for skilled workers especially in engineering and construction trades within the country, and the migration of workers to the Middle East, increased the demand for technical education and vocational training. The other major decision taken by the Government was not to restrict the outflow of skilled labor from the country. Instead, a policy to expand training programs was instituted.

24. As a result, training capacities have expanded across the board, for technical manpower, instructor training, and vocational/construction training. Briefly, the network of polytechnics and Junior Technical Institutes (JTIs) of the Ministry of Higher Education (MOHE) was expanded through a Rs 500 million technical education project supported by the ADB, SIDA, and UNDP. A National Technical Teacher Training College (NTTTC) is also to be established under that project to provide pre- and in service training for instructors in MOHE institutions. This college is also expected to play a dominant role in relieving the lack of qualified instructors in the country.

25. The National Apprenticeship Board (NAB), under the Ministry of Youth Affairs and Employment (MYAE), established an Apprenticeship Training

Institute at Katubedda with assistance from the Federal Republic of Germany. The NAB with assistance from UNDP/ILO is also establishing a Technician Training Institute at Katunayake. It also administers craft training at work sites for 16-22 year old youths, and currently supervises about 10,000 trainees. NAB does no training itself, but recruits apprentices, establishes training curricula and testing standards, and carries out field inspections of training on work sites. For construction trades, there are some one-year courses, but the majority are courses sponsored under the Construction Industry Training Project (CITP -- Credit 1130-CE). NAB runs a special apprenticeship scheme with an annual intake of about 500 trainees at higher levels (about 375 middle-level supervisors, plus undergraduate training in universities for about 100 upper management trainees).

26. The Ministry of Labor (MOL) has established seven permanent vocational training centers with the assistance of the Dutch Government, and also plans to strengthen its institutions at Orugodawatte, Narahenpita and Marawila. With SIDA assistance, the MOL has established a Foreman Training Center in Colombo. In rural areas where students are dispersed over a wide geographical area, MOL operates two permanent centers and 317 very small mobile units offering courses in masonry and carpentry, metal work, and motor repair and maintenance, for about 2,700 students a year. Additional training in carpentry is provided by the Department of Small Industries which operates 109 centers nationwide.

27. Several issues affect technical/vocational training in Sri Lanka. These relate to manpower, the efficiency of the vocational training system, the management of the system itself, and financing policies. As regards policy, there are four issues which warrant attention: the export of manpower, the lack of testing and certification, and the wages and benefits to staff in technical/vocational training and cost recovery. The efficiency of the system is affected by the relevance of the curriculum to market needs, the competence of instructors, the availability of training equipment and materials, and the degree to which the trainees are employed and the benefits they receive after training.

28. Export of Manpower. The Government has adopted a policy of encouraging the migration of skilled and semi-skilled workers. In 1982, 76 percent of the migrants were either skilled or semi-skilled workers. The major factor influencing migration is the high wages offered abroad. In 1983, remittances amounted to Rs 6.8 billion and were the second highest foreign exchange earner after the export of tea. While the large number of skilled and semi-skilled persons migrating to the Middle East has eased the pressure of local unemployment, it has created a number of problems for the local construction industry. There have been difficulties in recruiting competent personnel, and productivity in the construction industry has declined because the more experienced and skilled workers have been leaving. The escalation of construction costs due to the increase in wages is linked also to migration. With the recent drop in international oil prices, an emerging issue is whether a significant number of workers who went to the Middle East

would be compelled to return when their contracts expire, thereby increasing the supply of skilled workers in the local market. Many of the returnees will return to their original occupations as construction workers. However, preliminary data (from ILO/ARTEP) shows that the overwhelming number of returning workers normally invest their savings in land or commercial enterprises and therefore prefer self-employment.

29. Certification. Training programs for the same trades which are conducted by various ministries differ in the level of skills imparted, and the training methodology and curriculum utilized. This lack of uniformity is aggravated by the paucity of facilities for trade testing. Employers, therefore, find it difficult to ascertain the skill levels of new recruits and prefer instead to administer their own tests and establish commensurate wage scales.

30. Salary and Benefits. The recruitment and retention of technical personnel has been of serious concern. The situation is most evident in the training profession, because general conditions of employment and basic pay scales are more attractive in private industry. Although the problem is recognized, there has been little action to remedy the situation, largely because pay scales are part of a wider public service system.

31. Relevance of Curriculum. Some ministries have achieved a degree of success in designing training courses which reflect the needs and the requirements of the industry. However, there has been no formal system where curricula are designed in consultation with the industry, or feedback gathered on the relevance of training imparted. This shortcoming can only be corrected by institutionalizing a process whereby consultative and representative committees are appointed, which guide and advise training organizations on the needs of the industry.

32. Competence of Instructors. Another problem of the training system is the lack of instructors who have the necessary industrial experience. Because the opportunities for training new instructors have been reduced during the last decade, the few who have been trained abroad, quickly leave for more lucrative employment opportunities overseas and domestically.

33. Availability of Materials. Most vocational training institutions do not have adequate supplies of consumable training materials because of budget constraints. Apart from the funding aspects, high-quality materials are not provided in a timely way. The reliance on instructor-focused rather than trainee-centered instructional programs as well has prevented experimentation with more innovative teaching methods.

34. Coordination and Management of the Training System. Technical and vocational education and training is the responsibility of a number of ministries and organizations. The need for coordination to avoid duplication of effort and a waste of resources is urgent. As a good example of coordination efforts, the Government has cited the CITP which spans several ministries in

implementing a sector-related training program. There has been no duplication of effort in implementing the project, and existing training facilities are utilized wherever possible, thus obviating the need for new facilities.

35. Cost Recovery. Sri Lanka has developed a heavily subsidized vocational training system. The Government's policy is to meet almost the entire capital and recurrent costs of these programs from general resources (namely, the business turnover tax, income taxes, and export duties); and at present, none of these revenues is earmarked for education and training activities and funding is based on available resources (para. 55). The 1971 NAB Act, which provides for a training levy on employers with more than 50 employees, has never been utilized to finance vocational training. The business turnover tax is seen as the means through which all employers contribute to government-sponsored training programs. Public training institutions also have a subsidized fee structure. In the technical institutes, the fees are nominal, while public in-service training institutions administer fee structures that attempt to achieve full cost recovery from private sector trainees, but provide free training to public sector employees. In the private sector, there are a number of institutions which conduct specialized vocational training programs and charge realistic fees from their clientele. There are, however, few private institutions which offer basic skill training in the construction trades. The Government also has a policy of awarding stipends in some of its vocational training programs, designed to attract trainees from poorer households. There is, however, no uniformity in the amounts paid by the different government agencies for essentially similar training.

Bank Involvement in Vocational Training

36. The Construction Industry Training Project (Credit 1130-CE), approved in April 1981, is the only vocational training operation supported by IDA to date. It was established under the Ministry of Local Government, Housing and Construction (MLGHC) with the objective of developing a training program to meet the immediate requirements of skilled labor for the construction industry, as well as improving the methods and procedures in the construction industry. This project was designed to: (a) establish a unified modular training system for construction-related trades; (b) improve the use and maintenance of plant and equipment by training operators and mechanics; (c) increase the effectiveness of work planning and supervision by training middle and upper management in contract procedures, site management and quality control; and (d) strengthen the agencies and institutions involved in training for the construction industry. The project had original training targets of: (a) 45,000 workers in basic construction skills; (b) upgrading of about 9,600 existing workers in their construction skills; (c) about 1,800 workers in equipment operation and maintenance; (d) about 900 supervisors in work supervision and quality control; and (e) about 80 senior staff in improved work planning and management. With the slower rate of expansion in public works after 1980-81, the initial projections of increases in the construction workforce in the order of 15 percent per annum proved to be

optimistic. The targets for manpower training in the project were therefore reduced in 1983. There were three reasons for reducing the training targets: (a) the original targets set at appraisal were too ambitious for a three-year project; (b) the project had a slow start-up, and (c) construction industry activities declined after 1981.

37. The Government established a temporary Project Cell in the Urban Development Authority (UDA) under the MLGHC. A committee consisting of the secretaries of the MLGHC (Chairman), MYAE, Plan Implementation, MOHE, Lands and Land Development, Mahaweli Development, and MOL, was established to formulate policy and oversee the implementation of the project. The Government agreed to implement through the NAB, standardization of the selection of trainees, training, testing, certification and registration of construction workers, supervisors and specialists. This task has been completed already and implementation is now being handled by the NAB. The Government also agreed to implement standardization of the construction industry contracting specifications, procedures and documentation. This was handled by a temporary National Steering Committee. The work is now completed and has been approved by the Cabinet for implementation.

38. Under Credit 1130-CE, attempts are also being made to recover or share part of the costs of the training programs with primary and secondary beneficiaries (trainees and contractors). For example, in skill training, the CITP finances the costs for the 10-week institutional training period plus 10 weeks of the 40-week on-site phase. Contractors pay the trainees a comparable or higher stipend during the remaining 30 weeks of the supervised on-site training period. For upper and middle management courses and trade testing, fees have been levied from the inception of the project. The CITP also undertakes several activities which generate revenue as part of the training program. These practices need to be strengthened and expanded, so that the financial burden to the Government from operating these programs is substantially reduced (para. 56).

39. The project objectives have largely been met, but continued support is required in order to institutionalize and consolidate these achievements. The modular training system has been established, but requires that curricula and training manuals be updated to reflect changes in construction techniques as well as instructional methodology; middle and upper management training programs would have to be expanded, particularly in view of the urgent need to increase public sector efficiency and the expanding role of private sector contractors. The agencies involved in construction industry training, mainly the MOHE, MOL and MYAE, have been assisted under the project. Coordination has been enhanced through the temporary Secretaries' Committee and Project Cell. This organizational device must now be formalized to prevent duplication of programs and facilities, and to manage programs and policies which can stimulate the role of the private sector. By December 1985, 24,000 persons had been trained under the project and it is expected that a total of about 30,000 persons would be trained by project completion. Tracer studies conducted in 1983, 1984 and 1985 showed that up to 85 percent of trainees

have found employment in their area of training. The 1985 study also showed that the rate of employment (permanent, self or casual) and the wage earning capacity were higher for CITP trainees than for non-CITP trained workers. On average about 35 percent of CITP-trained artisans (carpenters, plumbers, masons, electricians) found full-time permanent employment while the others were either self-employed or operated as casual (daily) workers. The average daily wage of CITP-trained artisans was about 44 percent higher than for unskilled/untrained workers (Rs 36 per day compared with Rs 15-25). CITP-trained equipment operators and mechanics achieved almost 100 percent permanent full-time employment with average monthly wages of Rs 1,500 which is about 10 percent above the average for other permanently employed skilled workers in the private sector. Employed construction site supervisors (lower level managers) had an average monthly wage of Rs 1,368, and this compares favorably with supervisors at similar levels in the construction industry.

Employment Prospects in the Construction Industry

40. Although emigration to the Middle East has slackened and Sri Lanka's investment program has been reduced since 1982, there is still a substantial unmet demand for training, including upgrading of already employed workers. Further, there is a need to strengthen the links between training and other activities contributing to the development of the construction sector. The expected mix of new investments in the Public Investment Program (1986-1990), the Government's emphasis on better maintenance of existing capital assets, and its policy to strengthen the local private construction industry would generate a substantial demand for skilled and semi-skilled workers. Estimates of training requirements have been obtained from an analysis of the Public Investment Program (1986-1990), and an assumed breakdown of staff required for the construction and maintenance of ordinary and complex buildings, road construction and maintenance, slum and shanty development, semi-permanent and permanent housing, irrigation, water supply and drainage works. It is clear from this analysis that the skill mix needed for future investments would differ from that required in the period up to 1981, during which heavy construction in Mahaweli, the Free Trade Zone (factory construction), and the tourism (hotels) sectors expanded rapidly. The implications of the change in the investment profile are, first, that a skill gap would exist with the reduction of expatriate firms and workers in the construction sector and, second, a significant retraining effort of existing workers would have to be undertaken to meet the requirements.

41. In estimating future training requirements, factors such as worker retirement, exodus of construction workers for overseas employment, return of construction workers from overseas to employment in the sector, and the contribution of other institutional and non-institutional (apprenticeship) training were taken into account. On this basis, the estimated total training need over the nine-year project period would be on the order of 120,000 persons. Allowing for training to be provided by existing institutions and programs as well as on-the-job upgrading and other informal practices, it is estimated that the residual requirements for training, to be provided under

the proposed project, would amount to about 76,000, of which 50,000 would be new entrants to the sector, and 26,000 would be existing workers who are to be retrained and upgraded in specific trade areas. This would average about 8,400 workers per year (5,600 new and 2,800 existing workers). This level is slightly above the first project (Cr. 1130-CE), where the training load now averages about 6,000 per year (5,000 new and 1,000 existing workers). It is clear that the emphasis would be on upgrading of existing workers, while the training of new entrants to the labor force would remain at present levels. IDA support through a second project, therefore, would build on the momentum gained in developing rational training programs started under the first project, while contributing to strengthening the key institutions which design and provide training.

PART IV - THE PROJECT

42. The proposed project was prepared by the Ministry of Local Government, Housing and Construction. The project was appraised in August 1985 and post-appraised in December 1985. Negotiations were held in Washington D.C. from March 18-25, 1986. The Sri Lankan delegation was led by Mr. R. Paskaralingam, Secretary, MLGHC. A Staff Appraisal Report entitled "Sri Lanka - Second Vocational Training Project" (Report No. 5958-CE) dated April 2, 1986, is being circulated separately to the Executive Directors. A supplementary project data sheet is attached as Annex III.

Project Objectives

43. The objectives of the proposed project would be to: (a) create an institutional framework to sustain training and industry development efforts started under Credit 1130-CE; (b) increase the supply of semi-skilled, skilled and managerial personnel to the industry; (c) improve the quality of manpower supplied to the sector; and (d) institute a system of cost recovery in vocational training for the construction sector. The institutional development objective would be achieved by establishing and developing the Institute for Construction Industry Training and Development (ICTAD). The manpower supply objective would be achieved by training about 50,000 new and upgrading about 26,000 existing semi-skilled, skilled and managerial workers in the construction industry. The quality improvement objective would be achieved by instituting an instructor training and upgrading program, strengthening monitoring and evaluation of training and industry development, and trade testing and certifying about 40,000 skilled workers and supervisors. The cost recovery objective would be achieved by requiring that the beneficiaries share in the training costs.

Project Description

Institutional Development

44. Establishing the Institute for Construction Industry Training and Development (ICTAD). In order to implement the recommendations for construction industry development which were approved by the Cabinet, to build on the momentum gained in developing rational training programs and sustaining the training effort, and most important, institutionalizing the experience gained under Credit 1130-CE, the temporary Project Cell would be transformed into the Institute for Construction Industry Training and Development (ICTAD) under the UDA. This would require an increase of 17 professional level project cell staff. The Government would appoint the additional staff at the appropriate levels according to a schedule agreed with IDA. To support the establishment and development of ICTAD, the project would finance civil works, equipment, vehicles, books, expert services, fellowships and consumable materials and the salaries of additional staff on a declining scale.

45. ICTAD would have two major functions: (a) training and (b) industry development. A Training Division would assist existing institutions to deliver training, rather than providing training itself. The only exception would be where no other agency has the capability (or potential) to deliver training. The division would design, supervise and finance appropriate training schemes. Its training activities would be centered at the technical institutes of the MOHE for craft-level training, the State Engineering Corporation (SEC) workshops for mechanic training, the Heavy Equipment Operator Training Center (HEOTC) for equipment operator training, and the Center for Housing, Planning and Building (CHPB) for management training at all levels. The division would work closely with the NAB on the further development of trade standards and tests and collaborate closely with the NTTTC (when it is fully established) for the training of instructors. However, in the interim, it would develop a capability to monitor the quality of instructor training, identify gaps in the program, and assist in the development of courses, curricula, and appropriate instructional methodologies.

46. The Industry Development Division of ICTAD would have three major functions: (a) development of technology; (b) improvement of the operating environment of the construction industry; and (c) development of private contractors. Technology development would provide information on construction methods, materials, and equipment which are available in other countries and are relevant to local conditions. The encouragement of the use of local materials, the development of appropriate specifications, standards and building regulations, and the economics of substitution (local vs. foreign) would be undertaken. The improvement of the operating environment of the industry would include the collection and interpretation of construction industry statistics including price indices, manpower demand/supply, contract awards, etc. The data obtained would be used as the basis for recommending changes in bidding procedures, contract conditions, prequalification

requirements, and regulation of foreign contractors. The development of private contractors depend in part on government action, but largely on actions by the contractors themselves. It would be a function of the Industry Development Division to work closely with the Association of Construction Contractors of Sri Lanka (ACCSL) to determine a development strategy and to prepare a phased program for transfer of responsibility for these activities from ICTAD to ACCSL. This would be a gradual process and even when achieved, there would still be a residual role for ICTAD to play. The Government has agreed that by January 31, 1989, ICTAD would relinquish to the ACCSL all work on the registration of contractors and the promotion of the private sector in the construction industry.

Manpower Supply

47. Skill Training. The objective of this component is to increase the supply of skilled and semi-skilled workers for the construction industry through (a) extending training to construction trades not covered by existing training programs; (b) increasing the range of competencies of semi-skilled workers who have already been trained to the Grade III (semi-skilled) level; and (c) certifying the quality of skill training by testing construction workers to National Skill Standards. Approximately 72,000 skilled and semi-skilled workers out of a total of 76,000 would be trained and/or upgraded in various skill trades (para. 41), and of these only about 40,000 would be trade-tested and certified, given planned trade testing capacity (para. 50) and the existing capabilities and expected demand for these tests. Training would be provided for new entrants in craft trades, mechanics, equipment operation, various levels of management, and instructors.

48. New entrants in craft trades would be trained to the basic Grade III (semi-skilled) level while existing workers would be upgraded to either Grade II or Grade I (skilled worker). The training program for new entrants would consist of 10 weeks of institutional training followed by 40 weeks of on-site practical training. The equipment operator program would consist of 6 weeks institutional training, followed by 200-240 hours of on-site training. For mechanics, the program is differentiated between light and heavy mechanics. In the case of heavy mechanics, the program includes 6 months of training at a center, followed by 12 weeks of on-the-job training. For light equipment mechanics, the institutional phase of the program would be reduced to 5 months. Programs to upgrade skills would be of shorter duration, modular in design, and conducted on weekends. The upgrading of equipment mechanics would be achieved by using modules of a longer duration.

49. The institutional phase of all skill training programs would be conducted at existing institutions. This gives a large degree of flexibility to the training system because it enables courses to be scheduled in response to training demands. Some civil works construction, however, would be required to provide for the storage of training materials, upgrading of existing workshops, and staff and trainee housing. The on-site or practical part of the training program would continue to be organized by the ICTAD,

with assistance from the district training officers (DTOs) who are employees of the Building Department of MLGHC. Trainees are placed on building construction sites and supervised by both DTOs and NAB. Equipment operators and mechanics would be given supervised practical experience either at their place of employment or, for new entrants, on simulated or contracted work. Trade testing would be conducted at various technical colleges, the SEC workshop, HEOTC and a National Trade Testing Centre being constructed by the Government. Course curricula, instructional manuals, and other teaching aids for all skill training, developed under Cr. 1130-CE, require revision to meet the changing needs of the construction industry. In order to support this level of skill training, the project would finance some civil works, furniture, equipment, vehicles, books, expert services, fellowships, and, on a declining basis, recurrent expenditures (consumable materials, operation and maintenance, tool kits, and salaries of additional staff).

50. Management Training. About 5,700 new and existing managers and supervisors of all grades in the Ministries of Highways, Mahaweli, Irrigation, MLGHC, and the private sector would be trained in programs organized by CHPB. The program would consist largely of two to five day seminars and workshops which focus on topics such as construction engineering and technology, contract management, construction planning and control, as well as financial, materials and personnel management. The Government has agreed that all upper-level management courses beginning January 1, 1990, would be financed by the trainees or their employers. Middle management training courses would be mainly upgrading the skills of existing staff in (a) specific areas of construction management, project analysis, and contract supervision, as it relates to highways, housing building, and irrigation; and (b) general areas of financial and personnel management. The program would range from short one-to-eight week courses conducted at CHPB, to a specialized degree in quantity surveying and building economics which would be carried out at the University of Moratuwa. The training of the management staff of the Highways Authority would also be a responsibility of the CHPB. Lower-level (supervisory) courses for new recruits would consist of an 8-week institutional course followed by an on-site program of 50 weeks, including a final 4-week institutional training period. Existing supervisors who are being upgraded would undergo training of from one-to-four weeks and this would be both on-the-job and institutional. Trainees would take a National Skill Standard test, developed by ICTAD and administered by NAB, at the end of their training period. While curricula, training materials and instructional staff have been developed under Cr. 1130-CE, the expanded scope of training and the new clientele to be trained, require that new curricula be developed and the instructional capabilities of staff improved. In order to support the entire management/supervisory training effort, the project would finance expert services, fellowships, equipment, books, and consumable materials and the salaries of additional staff on a declining scale.

Quality Improvement

51. Instructor Training. Three types of instructors would be trained: trainers of craftsmen, trainers of equipment operators, and trainers of managers. To undertake the proposed program of skill development and management improvement, approximately 235 existing instructional staff would need to be upgraded and a further 265 new staff recruited and trained. Existing skill trade instructors for the basic construction trades are employed by the MOHE and would be upgraded in both skill and instructional methodology. The courses would be of six weeks duration and be undertaken initially at the (Interim) Technical Teacher Training Centre of the MOHE, with practical trade skill upgrading being carried out in the appropriate workshops of technical colleges. The Government has ensured that by June 30, 1990, all skill-level instructor training would be transferred to the NTTTC. ICTAD would work closely with the NTTTC on the design and implementation of instructor courses for the construction trades.

52. The training of 282 equipment operators and mechanics instructors would take place at the HEOTC, SEC and NTTTC. The courses would vary in duration, depending on the nature of the skills to be taught. The courses would be of about three months duration for instructors and six months for demonstrators.

53. In order to train instructors in management subjects a staff development program would be carried out for CHPB to increase both individual instructor as well as institutional capacity in conducting programs using appropriate teaching technology. The staff at technical colleges participating in the supervisory management training would also be upgraded. It is envisaged that training links with similar staff development programs overseas would be established. The project would finance equipment, vehicles, consumable materials, expert services, fellowships, and additional staff salaries on a declining basis to support the entire instructor training program.

54. Monitoring and Evaluation. Under Credit 1130-CE, the Government was required to establish a monitoring and evaluation system. The monitoring of project inputs and outputs has been up-to-date and timely but evaluation has been less systematic. The Government undertook two training needs assessments (1983 and 1985). The first provided the basis for adjusting training targets under Credit 1130-CE, while the second provided the estimates for the proposed project. The project would provide resources so that these training needs assessments can be conducted every two years during the project. The Government would conduct four training needs assessments, complete them according to an agreed schedule, and review the findings with IDA prior to their implementation. The second area of evaluation which requires assistance are tracer studies. Three tracer studies have been undertaken since 1981. The general conclusions were that 85 percent of the sample remained with the industry and that their permanent employment and wages rates were higher than those of non-CITP trainees. Under the Project,

support would be provided to expand the scope of the tracer studies to include more detailed demographic and social data; migration (internal and external), and household income and expenditure information. Four studies would be conducted during the course of the project. The Government would complete them according to an agreed schedule and review the findings with IDA. The project would finance equipment, vehicles and technical assistance to support monitoring and evaluation. Because many project activities (training targets, tracer studies, cost recovery system, NTTTC taking over instructor training, devolution of activities to ACCSL) are scheduled to be reviewed within three years of project start-up, the Government would also conduct a mid-term review in January 1991. This mid-term evaluation would take stock of achievements to date and make adjustments as necessary in light of experience during the first years of implementation.

Cost Recovery

55. When fully operational in 1995, the project would require about Rs 63.58 million annually in recurrent costs. These annual recurrent expenditures would represent less than 1 percent (specifically, 0.43 percent) of projected total recurrent expenditures on education and training, but about 13.2 percent of projected recurrent expenditures on technical/vocational training in 1995. Since the cost recovery program started under Cr. 1130-CE is continuing under this project, the revenue generated would be used to defray a part of the operational costs. On the basis of ongoing revenue mechanisms, established under the first project, it is estimated that about Rs 9.6 million can be generated annually, which is 15 percent of projected annual recurrent expenditures under the project. The Government has however agreed to cover from sources other than the general budget all trainee stipend and tool kit costs by December 31, 1989, and about 50 percent of all consumable training material costs by December 31, 1994. This means that by 1994, about 50 percent of all recurrent costs of training would be covered by non-budgetary sources.

56. While the Government has acknowledged that beneficiaries (trainees and contractors) should cover a larger part of the costs of training, it has also indicated that experience would favor covering these costs by the sale of trainee products and services and a reduction of stipends, rather than reliance on fees and removal of stipends. Because of the inherent conflicts which can develop when training is fully subsumed into production, as well as the existing public budgetary constraints, all options of cost recovery must be considered in deciding how to reach the target of 50 percent cost recovery. A detailed study of the financial and economic costs and benefits of publically financed construction industry skill training, the impact on the government budget, the appropriate level of fees by course/trade area, and the proportions to be shared by trainee, Government and private sector, would be undertaken. The study is also expected to provide guidance on what stipends should be reduced or eliminated, who should receive stipends, and what level of fees can be charged for which courses. The Government would complete the study and review the findings with IDA by September 30, 1987.

Technical Assistance

57. The technical assistance to be provided under the project to assist in the accomplishment of all the above objectives, would comprise 11.0 staff-years of expatriate expert services, 96 staff-years of local expert services, 19.6 staff-years of international and regional fellowships and 121.5-staff years of local training.

Project Costs

58. The total cost of the project, including duties and taxes on imported goods (US$0.85 million) is estimated at Rs 711.05 million or US$24.48 million equivalent. The estimated foreign exchange component is US$10.11 million or 41 percent of total project costs. Physical contingencies (US$1.04 million) are estimated at 6 percent of base costs of all project components and price contingencies (US$4.94 million) to cover expected price escalation at the following rates. For civil works and goods; foreign costs at 7.5 percent in 1987, 7.7 percent in 1988, 7.6 percent in 1989 and 4.5 percent in 1990-1994; and local costs at 9 percent in 1987 and 8 percent in 1988 and 7.6 percent in 1989 and 4.5 percent from 1990-1994. The foreign costs of salaries and services are calculated at 7.5 percent in 1987, 7.7 percent in 1988, 7.6 percent in 1989, and 4.5 percent from 1990-1994, and local costs at 1.0 percent from 1987-1994.

Project Financing

59. The proposed IDA credit of SDR 13.0 million (US$15.0 million equivalent) would cover 63 percent of total project cost net of taxes. UNDP (ILO) would finance US$1.02 million, and the Government would finance the remaining net costs of US$7.61 million (32 percent of total net costs) and all taxes. Total external financing would cover 68 percent of total project costs net of taxes.

60. Retroactive Financing: The design preparation costs for the ICTAD headquarters building was financed under Credit 1130-CE. Construction and bid documents have been completed, and contractors prequalified. The estimated expenditure for the civil works to be incurred during the period prior to credit signing is US$0.25 million. The Government requested and IDA agreed to retroactively finance these costs.

Implementation

61. Implementation of the project would be the responsibility of the MLGHC through ICTAD. The Secretaries Committee would include the secretaries of all the ministries involved with the project, with the Secretary, MLGHC, as the Chairman. The other ministries would be Higher Education, Youth Affairs and Employment, Plan Implementation, Labor, Mahaweli Development, and Lands and Land Development, plus private sector representation. ICTAD would

coordinate the training activities which span across the ministries mentioned above. The Secretaries Committee would be responsible for (a) policy formulation; (b) approval of training and development programs; (c) reviewing and evaluating performance; (d) approving personnel and staffing policies including terms and conditions of employment of ICTAD employees; and (e) formulating administrative and operating procedures for the Institute. In addition to the Secretaries Committee, ICTAD would also constitute two consultative committees to advise on the broad functions of the institution. The Consultative Committee for Training would be responsible for advising ICTAD on issues of training, trade testing standardization, and curriculum development. The Consultative Committee for the Construction Industry would provide advice on issues relating to specifications, technology, small-scale contracting, etc. Both committees would have about 10 members each, divided equally between the public and private sectors.

62. The Chief Executive of ICTAD would be the Director General and three divisions for training, industry development and resource management would be established under his direction. Supervision of civil works implementation, procurement of equipment, vehicles and training materials would also be the responsibility of the Resource Management Division.

Accounting and Auditing

63. ICTAD would prepare and maintain project accounts in accordance with sound accounting practices. Project accounts would be prepared and withdrawal applications would be supported by full documentation. Expenditures on salaries and other recurrent expenditures would be reimbursed against statements of expenditures certified by the Director General. The Government has agreed that: (a) accounts and financial statements for each fiscal year would be prepared and audited by independent auditors acceptable to IDA; (b) records concerning statements of expenditure would be maintained in accordance with sound accounting practices, and retained for at least one year after the completion of the audit for the fiscal year in which the last withdrawal was made; and (c) certified copies of the audited accounts and financial statements for each fiscal year, together with the auditors report would be furnished to the Association as soon as available, but not later than nine months after the end of each fiscal year.

Procurement

64. Contracts for construction of stores, workshops, staff and student housing, and ICTAD headquarters building would be awarded on the basis of LCB procedures. Because the centers are dispersed around the island, it is anticipated that 14 contracts would be awarded for the civil works program (US$2.30 million) to local contractors. Equipment and vehicles contracts (US$3.33 million, inclusive of taxes) would be awarded in accordance with ICB procedures. Local manufacturers would be given a 15 percent margin of preference. Equipment and vehicles would be grouped to the extent possible in large packages for bulk procurement. Books financed by IDA (US$0.28

million) would be purchased directly from distributors. Consumable training materials and trainee tool kits, would be procured through prudent shopping on the basis of three price quotations from different sources. Fellowships and technical assistance financed by UNDP would be in accordance with their guidelines. All civil works contracts over US$250,000 equivalent each, corresponding to about 75 percent of value of works, would be subject to prior IDA review. All equipment and vehicles contracts over US$100,000 equivalent each, corresponding to about 7.5 percent of value of goods would be subject to prior IDA review. Other contracts would be subject to selective post-award review.

Table 1 : Procurement Method

Category of Expenditure	ICB	US$ (million) LCB	Other	NA	Total Cost 1/
Civil Works & Prof. Fees		2.30 (2.07)			2.30
Furniture		0.17 (0.13)			0.17
Equipment	2.97 (2.60)				2.97
Vehicles	0.36 (0.23)				0.36
Books			0.28 (0.28)		0.28
Technical Asst.	2.36 (2.36)		1.02		3.38
Consumable Materials & Tool Kits				9.52 (5.43)	9.52
Incremental Recurrent Expenses				5.50 (1.90)	5.50
TOTAL	5.69	2.47	1.30	15.02	24.48
IDA	(5.19)	(2.20)	(0.28)	(7.33)	15.00
UNDP	-	-	1.02	-	1.02
GOSL	0.50	-	-	7.69	8.46

1/ Includes contingencies and duties and taxes where applicable.

NOTE: Figures in brackets are the respective amounts financed by IDA.

Disbursements

65. The proposed Credit would be disbursed over a period of nine years which conforms to the disbursement profile for IDA-assisted projects in Sri Lanka. The Credit would cover 63 percent of total project costs net of taxes

and would finance 100 percent of expenditures for technical assistance; 90 percent of civil works and professional fees; 100 percent foreign expenditures for directly imported equipment, furniture, books and vehicles, 100 percent of ex-factory costs of locally manufactured goods and 80 percent if locally procured. All expenditures on salaries, consumable materials, tool kits and operation and maintenance costs would be disbursed against statements of expenditure on a declining basis from 80 percent in FY87-89 to 20 percent in FY94. Disbursements in respect of contracts for the equivalent of US$20,000 or less for IDA-financed items would be made against statements of expenditures certified by the Director General. The relevant documentation would be retained by ICTAD and made available to IDA representatives for review on request.

Special Account

66. A Special Account of US$0.7 million equivalent is proposed for the project, representing about four months of estimated expenditures. The Special Account would be replenished based on the required documentation for eligible expenditures and would be operated in accordance with terms and conditions satisfactory to the Association.

Project Benefits

67. Over 85 percent of all project trainees would be either new entrants or existing workers at the basic skills levels in the construction industry, and would come from lower income households. Because of the employment and income benefits which will accrue to these trainees (para. 39), the project would have an impact on poverty alleviation. The project would increase the capacity of the Sri Lanka construction industry to be more productive, efficient, and capable of meeting targets in the investment program in both the public and private sector. Benefits which would accrue from the project include: (a) the addition of skilled construction workers to the industry; (b) increasing the labor productivity and efficiency of the existing construction personnel by up-grading their skills; (c) improving the income levels of unemployed youths by providing necessary skills so they could obtain gainful employment in the industry; and (d) increasing returns on invested capital from better and efficient use of equipment. The project would also have institutional benefits. The effectiveness and productivity of the existing training facilities would be increased, and the standards of the construction industry improved by introducing more appropriate specifications.

Project Risks

68. There are a number of risks associated with this project. One concerns changes in the demand for training arising out of lower levels of construction activities or changes in the composition of skills that may be required. The project design is oriented to provide flexibility in meeting the requirements for skill training as diagnosed by the training needs

surveys. A reduction of the demand for training in total or for any skill in particular may at most lead to some underutilization of project funds. As the project would utilize existing facilities and contract additional instructors only when very specific courses are identified, no implications for underutilization of staff and/or facilities exist. If a larger than expected number of emigrants would return from the Middle East, the supply of certain skills will be affected and some of the envisaged training may not be required. Equally, though, some retraining of returnees may also be required. The concern about the recruitment and retention in service of qualified instructors is likely to be overcome by the steps undertaken during the project. These include, a systematic training program (local and foreign fellowships), training allowances and overtime pay. While there is agreement that ICTAD should not be a regulatory agency, nor attempt to preempt activities which should normally be undertaken by the private sector, there is the risk that a government agency/institution would gradually attempt to play just such a role. The representation of the private sector on the Consultative Committees, the Administrative Order (Cabinet Memorandum) which established ICTAD, and the program to assist the ACCSL to undertaken more activities should overcome this risk.

PART V - RECOMMENDATION

69. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve the proposed credit.

A. W. Clausen
President

Attachments
Washington D. C.
April 24, 1986

TABLE 3A

SRI LANKA - SOCIAL INDICATORS DATA SHEET

	SRI LANKA 1960/b	SRI LANKA 1970/b	SRI LANKA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME ASIA & PACIFIC	MIDDLE INCOME ASIA & PACIFIC
AREA (THOUSAND SQ. KM)					
TOTAL	65.6	65.6	65.4	.	.
AGRICULTURAL	17.2	24.2	26.1	.	.
GNP PER CAPITA (US$)	..	..	330.0	278.3	1011.1
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF OIL EQUIVALENT)	122.0	152.0	123.0	285.7	566.8
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	9889.0	12516.0	15416.0	.	.
URBAN POPULATION (% OF TOTAL)	17.9	21.9	26.0	22.3	35.9
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			21.1	.	.
STATIONARY POPULATION (MILL)			32.0	.	.
POPULATION MOMENTUM			1.7	.	.
POPULATION DENSITY					
PER SQ. KM.	150.7	190.8	235.0	173.8	386.9
PER SQ. KM. AGRI. LAND	573.9	517.6	582.0	353.3	1591.2
POPULATION AGE STRUCTURE (%)					
0-14 YRS	42.0	41.9	35.2	36.3	38.2
15-64 YRS	54.3	54.4	60.3	59.4	57.7
65 AND ABOVE	3.6	3.6	4.3	4.3	3.5
POPULATION GROWTH RATE (%)					
TOTAL	2.5	2.4	1.6	2.0	2.3
URBAN	4.7	4.3	2.9	4.1	4.1
CRUDE BIRTH RATE (PER THOUS)	35.7	29.4	26.5	27.5	30.1
CRUDE DEATH RATE (PER THOUS)	9.2	7.5	6.0	10.2	9.4
GROSS REPRODUCTION RATE	2.6	2.2	1.6	1.7	1.9
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	55.3	100.5	.	.
USERS (% OF MARRIED WOMEN)	..	..	55.0	49.4	56.5
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	93.0	103.0	146.0	116.6	124.4
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	98.0	107.0	109.0	106.3	115.7
PROTEINS (GRAMS PER DAY)	44.0	47.0	44.0	60.1	60.3
OF WHICH ANIMAL AND PULSE	13.0	12.0	8.0 /c	14.4	14.1
CHILD (AGES 1-4) DEATH RATE	7.1	4.9	2.0	7.3	7.2
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	62.0	63.6	69.3	60.5	60.6
INFANT MORT. RATE (PER THOUS)	71.0	59.0	37.0	69.2	64.9
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	21.0	33.0 /d	44.2	46.0
URBAN	..	46.0	65.0 /d	77.2	57.6
RURAL	..	14.0	18.0 /d	34.6	37.1
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	64.0	69.0 /d	7.8	50.1
URBAN	..	76.0	80.0 /d	28.8	52.9
RURAL	..	61.0	63.0 /d	5.5	44.7
POPULATION PER PHYSICIAN	4490.0	5950.0	7170.0 /d	3318.0	7751.7
POP. PER NURSING PERSON	4170.0 /e	2260.0	1340.0 /d	4690.7	2464.8
POP. PER HOSPITAL BED					
TOTAL	320.0	330.0	340.0 /f	1039.2	1112.1
URBAN	120.0 /e	210.0	240.0 /g	299.1	651.4
RURAL	1060.0 /e	570.0	580.0 /g	6028.2	2596.9
ADMISSIONS PER HOSPITAL BED	..	54.4	..	52.3	41.1
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	5.4 /h	5.8	..	..	..
URBAN	6.3 /h	6.3	..	..	..
RURAL	5.2 /h	5.5	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	2.0 /h	2.5	..	..	..
URBAN	2.1 /h	2.7	..	..	..
RURAL	2.0 /h	2.5	..	..	..
PERCENTAGE OF DWELLINGS WITH ELECT.					
TOTAL	7.5 /h	9.0	..	..	..
URBAN	35.9 /h	34.5	..	..	..
RURAL	2.3 /h	3.0	..	..	..

TABLE 3A

SRI LANKA - SOCIAL INDICATORS DATA SHEET

	SRI LANKA 1960/b	SRI LANKA 1970/b	SRI LANKA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b LOW INCOME ASIA & PACIFIC	MIDDLE INCOME ASIA & PACIFIC
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	95.0	99.0	103.0	92.6	100.7
MALE	100.0	104.0	106.0	105.5	104.4
FEMALE	90.0	94.0	101.0	79.3	97.2
SECONDARY: TOTAL	27.0	47.0	54.0	31.3	47.8
MALE	38.0	46.0	52.0	40.8	50.6
FEMALE	16.0	48.0	57.0	21.9	44.8
VOCATIONAL (% OF SECONDARY)	..	0.4	0.4 /g	3.2	18.4
PUPIL-TEACHER RATIO					
PRIMARY	31.0	28.0	16.0	38.0	30.4
SECONDARY	..	..	..	17.4	22.2
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	8.4	7.0	7.3 /i	0.9	10.1
RADIO RECEIVERS/THOUSAND POP	35.8	39.9	111.9	129.8	172.9
TV RECEIVERS/THOUSAND POP	..	..	3.3	19.8	58.5
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	36.0	48.9	110.7	25.7	65.3
CINEMA ANNUAL ATTENDANCE/CAPITA	2.9 /i	7.8	4.3	6.0	3.4
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	3391.0	4188.0	5920.0	.	.
FEMALE (PERCENT)	22.6	23.7	25.2	33.2	33.6
AGRICULTURE (PERCENT)	56.0	55.0	54.0 /d	69.6	52.2
INDUSTRY (PERCENT)	14.0	14.0	14.0 /d	15.8	17.9
PARTICIPATION RATE (PERCENT)					
TOTAL	34.3	33.5	38.4	41.9	38.9
MALE	50.8	49.1	50.9	53.6	50.8
FEMALE	16.2	16.5	17.8	29.1	26.8
ECONOMIC DEPENDENCY RATIO	1.3	1.4	1.0	1.0	1.1
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	26.4 /h	18.2	..	..	..
HIGHEST 20% OF HOUSEHOLDS	52.1 /h	43.4	..	..	46.0
LOWEST 20% OF HOUSEHOLDS	4.5 /h	7.5	..	..	6.4
LOWEST 40% OF HOUSEHOLDS	13.7 /h	19.2	..	..	15.5
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	..	133.9	..
RURAL	..	..	..	111.6	151.9
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	..	..	177.9
RURAL	..	..	..	61.7	164.7
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	43.8	23.5
RURAL	..	..	..	51.7	37.8

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1981 and 1983.

/c 1977; /d 1980; /e 1962; /f 1979; /g 1976; /h 1963; /i 1978; /j 1958.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups

AREA (thousand sq.km.)

Total—Total surface area comprising land area and inland waters; 1960, 1970 and 1983 data.

Agricultural—Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow, 1960, 1970 and 1982 data.

GNP PER CAPITA (US$)—GNP per capita estimates at current market prices, calculated by same conversion method as *World Bank Atlas* (1981-83 basis); 1983 data.

ENERGY CONSUMPTION PER CAPITA—Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1982 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands)—As of July 1; 1960, 1970, and 1983 data.

Urban Population (percent of total) Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1983 data

Population Projections

Population in year 2000—The projection of population for 2000, made for each economy separately. Starting with information on total population by age and sex, fertility rates, mortality rates, and international migration in the base year 1980, these parameters were projected at five-year intervals on the basis of generalized assumptions until the population became stationary.

Stationary population—Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate = 1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Population Momentum—Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year *t* is measured as a ratio of the ultimate stationary population to the population in the year *t*, given the assumption that fertility remains at replacement level from year *t* onward, 1985 data.

Population Density

Per sq.km.—Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1983 data.

Per sq.km. agricultural land—Computed as above for agricultural land only, 1960, 1970, and 1982 data.

Population Age Structure (percent)—Children (0-14 years), working age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1983 data.

Population Growth Rate (percent)—total—Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-83.

Population Growth Rate (percent)—urban—Annual growth rates of urban population for 1950-60, 1960-70, and 1970-83 data.

Crude Birth Rate (per thousand)—Number of live births in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Crude Death Rate (per thousand)—Number of deaths in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Gross Reproduction Rate—Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1983.

Family Planning—Acceptors, Annual (thousands)—Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning—Users (percent of married women)—The percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production Per Capita (1969-71 = 100)—Index of per capita annual production of all food commodities. Production excludes animal feed and seed for agriculture. Food commodities include primary commodities (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded); they comprise cereals, root crops, pulses, oil seeds, vegetables, fruits, nuts, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of Calories (percent of requirements)—Computed from calorie equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961, 1970 and 1982 data.

Per Capita Supply of Protein (grams per day)—Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961, 1970 and 1982 data.

Per Capita Protein Supply From Animal and Pulse—Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-4) Death Rate (per thousand)—Number of deaths of children aged 1-4 years per thousand children in the same age group in a given year. For most developing countries data derived from life tables; 1960, 1970 and 1983 data.

HEALTH

Life Expectancy at Birth (years)—Number of years a newborn infant would live if prevailing patterns of mortality for all people

at the time of of its birth were to stay the same throughout its life; 1960, 1970 and 1983 data.

Infant Mortality Rate (per thousand)—Number of infants who die before reaching one year of age per thousand live births in a given year; 1960, 1970 and 1983 data.

Access to Safe Water (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician—Population divided by number of practising physicians qualified from a medical school at university level.

Population per Nursing Person—Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed—total, urban, and rural—Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private, general and specialized hospitals and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per Hospital Bed—Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household)—total, urban, and rural—A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average Number of Persons per Room—total, urban, and rural—Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Percentage of Dwellings with Electricity—total, urban, and rural—Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female—Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations. While many countries consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of school are reflected in the ratios given. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are below or above the country's standard primary-school age.

Secondary school - total, male and female—Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational Enrollment (percent of secondary)—Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher Ratio - primary, and secondary—Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

CONSUMPTION

Passenger Cars (per thousand population)—Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio Receivers (per thousand population)—All types of receivers for radio broadcasts to general public per thousand of population; excludes un-licensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population)—TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population)—Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year—Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands)—Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1983 data.

Female (percent)—Female labor force as percentage of total labor force.

Agriculture (percent)—Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

Industry (percent)—Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

Participation Rate (percent)—total, male, and female—Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1983 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio—Ratio of population under 15, and 65 and over, to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Total Disposable Income (both in cash and kind)—Accruing to percentile groups of households ranked by total household income.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US$ per capita)—urban and rural—Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US$ per capita)—urban and rural—Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent)—urban and rural— Percent of population (urban and rural who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1985

SRI LANKA - ECONOMIC INDICATORS

OUTPUT IN 1984 BY SECTOR

	Value Added $ Million	Value Added %	ANNUAL RATE OF GROWTH (%, constant prices) 1970-77	1977-84	1970-84
Agriculture	1,519	28.0	2.0	4.0	3.0
Industry a/	1,347	24.8	2.1	5.3	3.9
Services	2,566	47.2	3.7	7.1	5.4
Total b/	5,432	100.0	2.9	5.7	4.4

GROSS DOMESTIC PRODUCT IN 1984

	US$ Million	%
GDP at Market Prices	6,012	100.0
Investment	1,567	26.1
Gross National Savings	1,347	22.4
Current Account Deficit	220	3.7
Exports of Goods and NFS	1,755	29.2
Imports of Goods and NFS	2,121	35.3

GOVERNMENT FINANCE

	Central Government (Rs million) 1984	% of GDP at Market Prices 1975	1983	1984
Current Receipts c/	33,342	17.2	18.9	21.8
Current Expenditures d/	27,795	18.3	18.6	18.2
Current Surplus	5,547	-1.1	0.3	3.6
Capital Expenditures e/	21,105	7.3	13.7	13.8
External Assistance	12,934	3.2	8.0	8.5

a/ Manufacturing, mining, and construction.
b/ GDP at factor cost.
c/ Includes capital revenue.
d/ Includes advance accounts.
e/ Includes net lending.

South Asia Programs Department
February 5, 1986

SRI LANKA - ECONOMIC INDICATORS

MONEY, CREDIT, AND PRICES (end of period)	1970	1977	1978	1979	1980	1981	1982	1983	1984
					(Rs Million)				
Money and Quasi Money	3,115	8,717	10,892	15,058	19,860	24,447	30,510	37,257	43,427
Bank Credit to Public Sector	2,856	4,659	4,226	6,267	13,095	17,277	21,828	21,918	18,703
Bank Credit to Private Sector	1,320	4,116	6,449	8,705	12,709	16,690	20,570	27,375	31,224
					(Percentages or Index Numbers)				
Money and Quasi Money as % of GDP	22.8	23.9	25.5	28.7	29.9	28.8	30.5	30.6	28.4
General Price Index (1970=100)	100.0	147.0	164.8	182.6	230.2	271.6	301.1	343.3	400.5
Annual Percentage Changes in:									
General Price Index	+5.9	+1.2	+12.1	+10.8	+26.1	+18.0	+10.8	+14.0	+16.7
Bank Credit to Public Sector	+10.4	+7.7	-9.3	+48.3	+109.0	+31.9	+26.3	+0.4	-14.7
Bank Credit to Private Sector	+8.6	+40.5	+56.7	+35.0	+46.0	+31.3	+23.2	+33.1	14.1

BALANCE OF PAYMENTS

	1982	1983	1984
	(US$ Million)		
Exports of Goods, NFS	1,305	1,360	1,755
Imports of Goods, NFS	2,205	2,138	2,121
Resource Gap (deficit = -)	-900	-778	-366
Net Factor Income	-98	-138	-131
Net Transfers & Remittances	264	274	277
Balance on Current Account	-734	-642	-220
Direct Foreign Investment	63	37	36
Net MLT Loans	403	292	311
Disbursements	472	373	410
Amortization	69	81	99
Capital Grants	162	171	154
Other Capital (net)	79	143	24
Change in Reserves (+ = increase)	-27	+1	+305
Gross Reserves (end-year)	527	522	735
Net Reserves (end-year)	-22	-21	284
Crude Oil and Petroleum Products			
Imports	590	468	419
Exports	158	114	129

MERCHANDISE EXPORTS (1984)

	$ Million	%
Tea	620	42.0
Rubber	130	8.8
Coconut Products	60	4.1
All Other Commodities	665	45.1
TOTAL	1,475	100.0

EXTERNAL DEBT ($ Million) a/

	December 1983	December 1984
Total Outstanding	3,678	3,738
Total Outstanding and Disbursed	2,214	2,420
DEBT SERVICE RATIO b/ (%)	17.7	14.2

IBRD/IDA LENDING, September 30, 1985 (US$ Million)

	IBRD	IDA
Outstanding and Disbursed	34.6	362.7
Undisbursed	23.9	342.2
Outstanding, including Undisbursed	58.5	704.9

RATE OF EXCHANGE

End 1979	**End 1982**
US$1.00 = Rs 15.45	US$1.00 = Rs 21.32
Rs 1.00 = US$ 0.06	Rs 1.00 = US$ 0.05
End 1980	**End 1983**
US$1.00 = Rs 18.00	US$1.00 = Rs 25.00
Rs 1.00 = US$ 0.06	Rs 1.00 = US$ 0.04
End 1981	**End 1984**
US$1.00 = Rs 20.55	US$1.00 = Rs 26.28
Rs 1.00 = US$ 0.05	Rs 1.00 = US$ 0.04

a/ Repayable in foreign currencies and with a maturity over one year.
b/ Ratio of debt service on public and publicly guaranteed MLT debt (including IMF charges and repurchases) to exports of goods and services.

South Asia Programs Department
February 5, 1986

THE STATUS OF BANK GROUP OPERATIONS IN SRI LANKA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of March 31, 1986)

Loan or Credit No.	Year	Borrower	Purpose	US$ Million Amount (net of cancellations) Bank	IDA	Undisbursed
Eight loans and sixteen credits fully disbursed				72.9	133.2	
818	1978	Sri Lanka	Tree Crop Rehabilitation (Tea)		21.0	5.1
891	1979	Sri Lanka	Kurunegala Rural Development		20.0	7.0
931	1979	Sri Lanka	Agricultural Extension and Adaptive Research		15.5	9.0
979	1980	Sri Lanka	Mahaweli Ganga Technical Assistance		3.0	1.3
994	1980	Sri Lanka	Road Passenger Transport		53.0	13.0
1017	1980	Sri Lanka	Smallholder Rubber Rehabilitation		16.0	5.8
1020	1980	Sri Lanka	Telecommunications		30.0	0.7
1041	1980	Sri Lanka	Second Water Supply		30.0	12.6
1048	1980	Sri Lanka	Sixth Power		19.5	8.4
1079 /a	1981	Sri Lanka	Second Rural Development		33.5	13.5
1130 /a	1981	Sri Lanka	Construction Industry		13.5	3.6
1160 /a	1981	Sri Lanka	Village Irrigation Rehabilitation		30.0	18.1
1166 /a	1981	Sri Lanka	Mahaweli Ganga Development III		90.0	40.6
1182 /a	1982	Sri Lanka	SMI II		30.0	23.1
1210 /a	1982	Sri Lanka	Seventh Power		36.0	10.7
1240 /a	1982	Sri Lanka	Tea Rehabilitation and Diversification		20.0	9.0
2187	1982	Sri Lanka	Eighth Power	36.7	-	2.6
1317 /a	1982	Sri Lanka	Forestry I		9.0	8.4
1363 /a	1983	Sri Lanka	Third Rural Development		23.0	12.2
1401 /a	1983	Sri Lanka	Industrial Development Project		25.0	8.1
1494 /a /b	1984	Sri Lanka	Mahaweli Ganga Development IV		30.0	30.0
2437 /b	1984	Sri Lanka	Mahaweli Ganga Development IV	12.1		12.1
1537 /a	1985	Sri Lanka	Major Irrigation Rehabilitation		17.0	17.6
2517	1985	Sri Lanka	Second Roads	24.0		21.1
1562 /a	1985	Sri Lanka	Fourth Tree Crops		55.0	55.6
2576 /a /b	1985	Sri Lanka	Dairy Development II	38.0		38.0
TOTAL				183.7	753.2	387.2
of which has been repaid				52.1	6.2	-
Total now outstanding				131.6	747.0	
Amount sold			3.6			
of which has been repaid			3.6			
Total now held by Bank and IDA /c				128.0	747.0	
Total Undisbursed				35.7	351.5	387.2

/a IDA 6th, and 7th replenishment Credits, principal amounts and credits not yet effective shown in US dollars equivalent at date of negotiations, as shown in the President's Reports and undisbursed amounts for effective credits shown in US dollars equivalent at the rate of exchange for the SDR at March 31, 1986.

/b Not yet effective.

/c The original principal of credits under replenishments 1, 2 and 3 has been increased by the amount of the translation adjustment as a result of the devaluation of the US dollar in 1972 and 1973.

B. STATEMENT OF IFC INVESTMENTS (as of March 31, 1986)

Year	Obligor	Type of Business	Amount (US$ Million) Loan	Equity	Total
1970	Pearl Textile	Textiles	2.50	0.75	3.25
1978/80/83	The Development Finance Corporation of Ceylon	Development Banking	-	0.45	0.45
1978/81	Bank of Ceylon	Development Banking	7.00	-	7.00
1979/81	Cyntex	Textiles	3.15	0.54	3.69
1979	Mikechris Industries	Polypropylene Bag	0.89	0.10	.99
1980/84/85	LOLC	Leasing	3.00	0.34	3.34
1981	Taj Lanka Hotels	Hotel	19.30	.70	20.00
	Total Gross Commitments		35.84	2.88	38.72
	Less: Cancellations, Terminations, Repayments, and Sales		17.15	.75	17.90
	Total Commitments now Held by IFC		18.69	2.13	20.82

SRI LANKA

SECOND VOCATIONAL TRAINING PROJECT

Supplementary Project Data Sheet

Section I: Timetable of Key Events

(a) Time taken to prepare project:

1 Year.

(b) Agencies preparing the project:

Ministry of Local Government, Housing and Construction.

(c) Date of first preparation mission by IDA and date of first mission to consider the project:

October 1984.

(d) Date of departure of appraisal mission:

August 1985.

(e) Date of completion of negotiations:

March 25, 1986.

(f) Planned date of effectiveness:

90 days after signature.

Section II: Special IDA Implementation Action:

None.

Section III: Conditions of Effectiveness:

(a) signing of contract with a technical assistance agency for IDA-financed technical assistance (para. 57); and

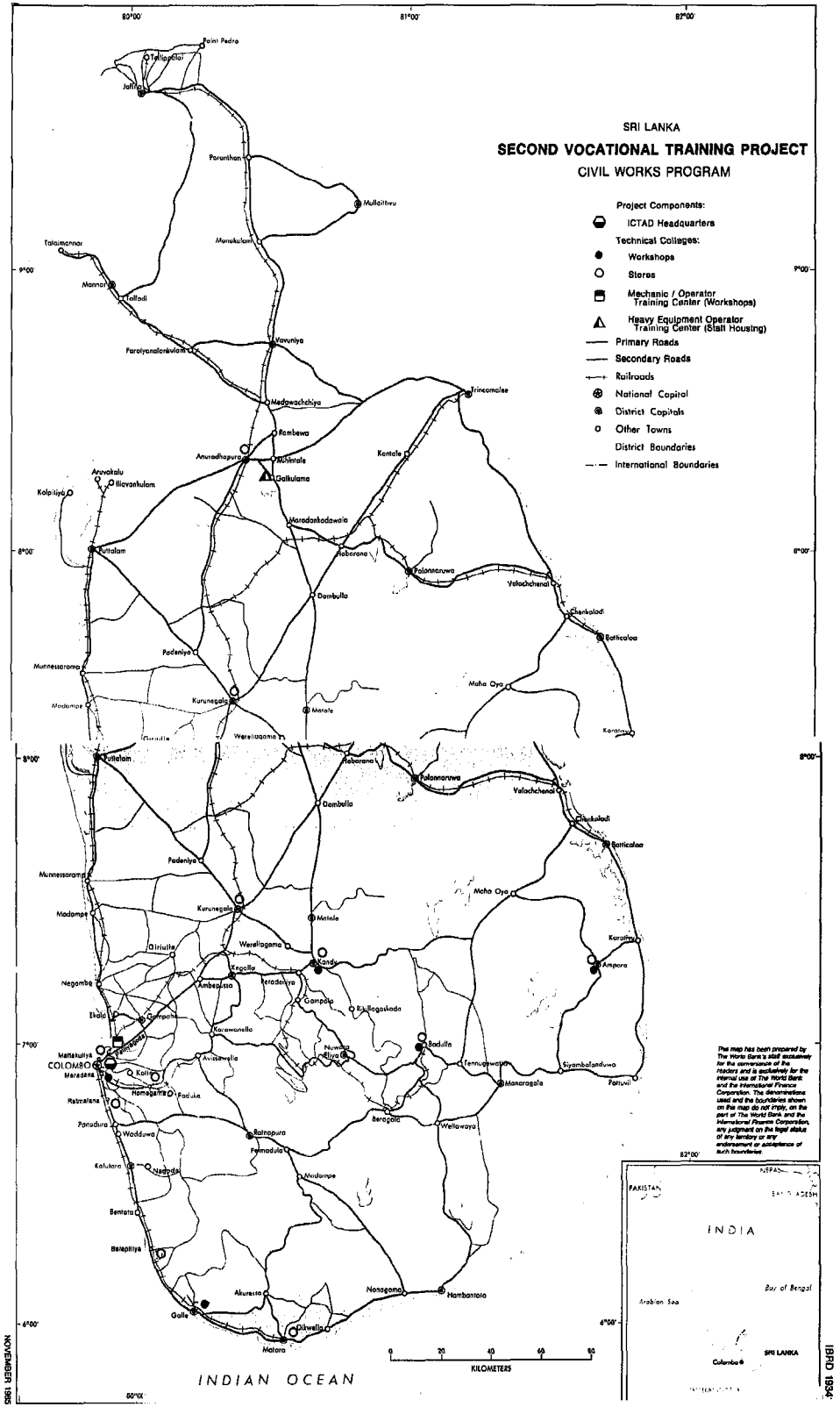
(b) signing of technical assistance agreements between GOSL and UNDP (para. 59).

Special Conditions:

(a) The Government would cover by December 31, 1989, the costs of stipends and tool kits (para. 55); and

(b) The Government would, by December 31, 1994, cover in addition to the costs of stipends and tool kits about 50 percent of consumable training materials (para. 55).

(c) The Government would complete and review with the Association by September 30, 1987, a study on the financing of vocational training in the construction industry (para. 56);



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