

## Development Planning in Ceylon<sup>1</sup>

*In its report to the Government of Ceylon a mission organised by the International Bank for Reconstruction and Development stated in 1952: "For some generations past Ceylon's productivity has maintained a lead in the race with population. Now the odds in the race are shifting. There is grave doubt whether increasing production in the old patterns can any longer keep up with a greatly accelerated population growth. Government and people therefore face the task of expanding and diversifying the country's sources of production fast enough to maintain the tempo of progress."*<sup>2</sup>

*The following article shows how the Government has faced this problem and is vigorously seeking greater productive efficiency and a wider range of economic activity.*<sup>3</sup>

In Ceylon, as in most other Asian countries, the population is growing rapidly and the standard of living is relatively low. Consequently it is necessary to expand production at a rate sufficiently rapid to outstrip population growth. The income per head of population has in fact increased from 102 rupees in 1938 to 131 in 1948, 148 in 1950 and 156 in 1952 (at 1938 prices), but the increase cannot be attributed entirely to an expansion in the productive capacity of the economy, since favourable terms of trade have made a significant contribution.

Ceylon's economy is dominated by three main commercial crops—tea, rubber and coconut, which take up two-thirds of the cultivated land and account for 90 per cent. by value of total exports. Furthermore, two-

<sup>1</sup> In addition to the sources quoted and the reports relating to the Colombo Plan, the following have been used: Government of Ceylon, Planning Secretariat: *Six-Year Programme of Investment, 1954/55-1959/60* (Colombo, Government Press, 1955); *The Economic Development of Ceylon*, Report of a Mission organised by the International Bank for Reconstruction and Development, at the request of the Government of Ceylon (Colombo, Government Press, 1952); Ministry of Finance: *Economic and Social Development of Ceylon: A Survey, 1926-1954* (Colombo, 1955); Central Bank of Ceylon: *Annual Report of the Monetary Board to the Minister of Finance for the year 1954*; Ministry of Industries, Housing and Social Services: *Industrial Policy of the Ministry of Industries* (Colombo, 1954); *Estimated Capital Outlays of the Ceylon Government 1955-56* (Colombo, Government Press, 1955); *Government Policy in Respect of Private Foreign Investment in Ceylon* (Colombo, Government Press, 1955); *Housing Policy of the Ministry of Housing* (Colombo, Government Press, 1954); Department of Information: *Budget Speech 1955-56* (Colombo); *Administration Report of the Director of Social Services for 1953* (Colombo, Government Press, 1954); *Administration Report of the Director of Rural Development for 1953* (Colombo, Government Press, 1954); *Report of the Commission on Government Commercial Undertakings* (Colombo, Government Press, 1953); Department of Census and Statistics: *Final Report on the Economic Survey of Rural Ceylon 1950-51* (Colombo, Government Press, 1954); *Administration Report of the Acting Director of Education for 1953* (Colombo, Government Press, 1954).

<sup>2</sup> *The Economic Development of Ceylon*, op. cit.

<sup>3</sup> A number of studies of development planning have already appeared in the *International Labour Review*. See "Development Planning in India", Vol. LXVIII, No. 2, Aug. 1953; "Development Planning in Pakistan", Vol. LXIX, No. 3, Mar. 1954; S. S. DHAMI: "Rural Development in India", Vol. LXIX, No. 5, May 1954; John LLOYD: "Planning a Welfare State in Burma", Vol. LXX, No. 2, Aug. 1954; "Development Planning in the Philippines", Vol. LXXI, No. 2, Feb. 1955; and "Development Planning in British Territories in South-East Asia", Vol. LXXII, No. 5, Nov. 1955.

thirds of the population depend for their livelihood on these crops or on associated manufacturing and distribution activities. This makes Ceylon precariously dependent on the fluctuation of world prices for these commodities, and the consequences have at times been grave. As this specialisation has been at the expense of food production, over half of Ceylon's annual expenditure on imports goes on food.

The economy is overwhelmingly agricultural, and before the war industrial development was negligible. For instance in 1946, of the total working population of about 2.6 million (or 39.2 per cent. of the total population), agriculture absorbed about 1.3 million and industry and mining only 286,000.

A planned development of the economy of the island is urgently needed in order to provide employment opportunities for the growing labour force and to establish a diversified economy with a balanced structural pattern for the purpose of securing greater stability, a better distribution of income and improved conditions of living. As the average annual rate of population increase during the next ten years (from 8.6 million in 1955 to 11 million in 1964) is estimated at about 2.7 per cent., a higher rate of increase in national income is necessary if the present standards of living are to be improved. This would require not only an improvement in the methods of production in the various economic sectors but also an increase in the volume of over-all investment.

#### THE FIRST ECONOMIC DEVELOPMENT PROGRAMME

With the attainment of independence in 1948 the Government of Ceylon started a six-year programme to foster economic development through planned capital outlays in the public sector. This, however, was not a well co-ordinated programme but rather an effort to influence development in specific fields according to certain broad targets set by different Ministries. Under this programme, although considerable success was achieved in the development of new land for agricultural purposes, attempts to develop industry in the public sector were less successful, largely owing to the fact that large-scale industry was new to the island.

#### THE SIX-YEAR PROGRAMME, 1951-57, AND ITS MODIFICATIONS

Ceylon was one of the countries that prepared, under the Colombo Plan, a six-year development programme for the period 1951-57 in accordance with the decision of the Commonwealth Consultative Committee.<sup>1</sup> The main objective of the Government of Ceylon in drawing up the programme was to bring about increased economic stability by reducing Ceylon's excessive dependence upon factors beyond its control. In order to achieve this it was proposed to diversify the economy by some increase in food production and by the creation of other forms of employment.

Table I shows the initial allocation of the resources available for carrying out the programme and the modifications introduced when the programme was revised in 1952.

<sup>1</sup> See "The Colombo Plan" in *International Labour Review*, Vol. LXXI, No. 5, May 1955.

TABLE I. ALLOCATION OF RESOURCES IN THE ORIGINAL PROGRAMME AND THE REVISED PROGRAMME OF 1952

*(Millions of rupees)*

Item	Programme of 1950		Revised programme, 1952	
	Cost	Per cent. of total	Cost	Per cent. of total
Agriculture and multi-purpose projects <sup>1</sup> . . . . .	503	37	900	28
Transport and communications	297	22	600	19
Fuel and power (including coal)	109	8	150	5
Industry . . . . .	75	6	200	6
Social capital . . . . .	375	27	758	24
Rural development . . . . .	—	—	400	12
Research . . . . .	—	—	25	1
Miscellaneous <sup>2</sup> . . . . .	—	—	167	5
Total . . . . .	1,359	100	3,200	100

Source: *The Colombo Plan: The First Annual Report of the Consultative Committee on Economic Development in South and South-East Asia*, Cmd. 8529 (London, H.M. Stationery Office, 1952), p.13.

<sup>1</sup> Agriculture and multi-purpose projects are treated as one item because the multi-purpose projects in Ceylon are mainly agricultural.

<sup>2</sup> "Miscellaneous" includes items of capital expenditure that cannot be included under other headings.

### *Principal Objectives and Initial Form of the Programme*

It will be noted that a large percentage of the total expenditure under the programme is devoted to agriculture. About two-thirds of the population of the country lived in the zone of heavy rain in the west of the island, crowded into a little less than one-third of its area. The Government planned to relieve the pressure on the western zone by migration to the more sparsely inhabited dry zone in the eastern and north central parts. As a result, all the major projects for land development are being undertaken in this area.<sup>1</sup>

The largest of the projects involves the damming of the Gal-Oya in the Eastern Province, from which it is hoped to irrigate 100,000 acres under jungle and to improve the irrigation of 30,000 acres already cultivated with a view to growing two crops a year instead of one. It was planned to provide in this new area 21,000 peasant holdings.<sup>2</sup> A similar project at Huruluwewa is to provide water for 10,000 acres of paddy land and 6,000 acres of garden crops.

The main project under transport and communications, which is allotted 22 per cent. of the total, is the development of the port of Colombo. As regards electric power, the installed generating capacity of 25,000 kW of the only (Laksapane) hydro-electric scheme in the country will be increased in two stages. At each stage a further capacity of 25,000 kW is expected.

<sup>1</sup> The total acreage cultivated at the time of planning was 3,250,000 and it was estimated that another 3,250,000 acres were potentially available for cultivation. Of the cultivated area, over 2 million acres were devoted to the production of the three primary products, tea, rubber and coconut, leaving only about 1 million acres for food production. It was planned to have under food crops by 1957 another 200,000 to 250,000 acres—an increase of about 20 per cent. on the present food-producing areas, from which it was expected that 75,000 tons of rice would be harvested annually.

<sup>2</sup> The Gal-Oya project will not be completed until 1962.

A large part of the allocation to social investment was for schools and hospitals.

### *The Revised Programme*

As a result of the revision of the programme in 1952 provision was made for certain additional projects that were considered important for the development of the country. The original estimate of 1,359 million rupees for the six-year programme represented the aggregate of only the major items of Ceylon's net capital investment, and did not include minor works and other development of a capital nature financed out of current revenue. The revised programme, estimated to cost 3,200 million rupees<sup>1</sup>, represented the total gross capital investment of the Government for the period of the plan and embodied the minimum development considered necessary and practicable to achieve its objectives.

The revised programme included, apart from all the projects in the original programme, a number of others, particularly in the field of transport and communications, since great emphasis is placed on the efficient maintenance and new establishment, where necessary, of basic utility services. It also includes a scheme for rural development, which is estimated to cost about 400 million rupees. A sum of 25 million rupees is also included in the revised programme for the expansion of research work in agriculture and industry.

Of the total of 900 million rupees for agriculture and multi-purpose projects, 442 million are for multi-purpose schemes, largely agricultural in character, and 21.2 million for fisheries; the main emphasis continues to be placed on the production of rice.

The rural development programme has been devised with the objective of solving the problem of underemployment and unemployment in the rural areas and of eliminating poverty. The main features of the village economy (85 per cent. of the population lives in villages) are the seasonal character of employment and the small amount of capital equipment utilised. The average income of a typical family (four to five persons) is estimated at 93 rupees a month. Owing to unemployment, a considerable volume of idle manpower is immobilised in the rural sector.

The proposed rural development scheme, like other schemes in Asian countries, is a state-village partnership for village development, the State supplying the tools, materials and technical assistance and the village supplying labour. The projects under the programme consist of the construction of houses, roads, bridges, wells and irrigation canals.

### THE SIX-YEAR INVESTMENT PROGRAMME, 1954/55 TO 1959/60

In 1955 a new programme for economic development was drawn up in the light of the report of a mission sent by the International Bank for Reconstruction and Development, which had visited the island in 1951 at the request of the Government of Ceylon in order to investigate the development potentialities of the country. The report set out the main lines that economic development may be expected to follow, together with the problems besetting such development. It put forward

<sup>1</sup> The increase in the estimated cost of the revised programme is accounted for by a variety of reasons—one being the different basis of computation of the two figures. It also takes into account increased prices of domestically produced goods as well as of imports.

definite conclusions respecting the size of the investment programme for which Ceylon can afford to budget in the six years 1953-59 and suggested specific allocations in various fields. It also made practical recommendations under these principal headings: general policies; organisation and new institutions; surveys; monetary and fiscal policies; specific development policies; and education and technical assistance.

The six-year programme of investment issued by the Government of Ceylon in July 1955 covers the years 1954/55 to 1959/60 and involves a total government capital expenditure of 4,177 million rupees. It provides for the continuation of projects commenced before 1954/55 and the execution of new projects between 1954/55 and 1959/60. A few projects in each group will continue beyond the six-year period.

Of the total, 760 million rupees have already been spent on projects begun before 1954/55. Of the residual total 888 million rupees will be carried over for expenditure on projects still in process of construction after the six-year period. The expenditure requirement between the years 1954/55 and 1959/60 is, therefore, 2,529 million rupees, which represents the magnitude of the six-year programme, though of this total, 1,268 million rupees, or 50.1 per cent., represents expenditure on commitments already made, i.e. on the completion of the continuing projects and the capital outlay of a recurrent nature arising out of policies already in force. The expenditure on new projects introduced for the first time during the six-year period, therefore, is 1,261 million rupees, or 49.9 per cent. of the total.

### *Objectives of the New Programme*

The general objective of the programme is to increase the total output of the economy by increasing the productivity of the export sector, by extending the acreage of land under cultivation, by raising yields of areas already cultivated, by promoting the development of an industrial sector, and by improving the earning capacity of other industries, such as fisheries and tourism.

The distribution of projects, both new and committed, comprising the six-year programme is shown in table II.

It will be seen that nearly 77 per cent. of the total programme is devoted to projects of an economic nature, which include considerable expansion of the basic utility services and agriculture, irrigation and fisheries. About 16 per cent. is allocated to social services, including health, education and housing. Civil administration and defence receive about 3.5 per cent. each.

### *Major Types of Investment*

#### *Agriculture and Irrigation.*

The agricultural programme has three principal objectives: (i) to increase the productivity of the agricultural export sector; (ii) to extend the acreage under cultivation, particularly in respect of non-export food crops such as rice; and (iii) to increase the productivity of the acreage now under non-export crops.

With a view to achieving the first, 105 million rupees will be devoted to the rehabilitation of the rubber industry, 15 million to the rehabilitation of the coconut industry and 4 million to assistance to small tea

TABLE II. DISTRIBUTION OF ESTIMATED EXPENDITURE  
UNDER THE SIX-YEAR PROGRAMME OF INVESTMENT, 1954/55-1959/60  
(Thousands of rupees)

Sector	Estimated expenditure	Percentage of total
Defence . . . . .	94,623	3.74
Administration :		
Civil administration . . . . .	41,228	1.63
Police and prisons . . . . .	38,120	1.51
Law and justice . . . . .	10,129	0.40
Total . . . . .	89,477	3.54
Social services :		
Health . . . . .	118,369	4.68
Education . . . . .	146,101	5.78
General housing . . . . .	105,131	4.16
Unclassified . . . . .	33,137	1.31
Total . . . . .	402,738	15.93
Economic projects :		
Public utilities . . . . .	837,621	33.12
Agriculture, irrigation, fisheries . . . . .	922,602	36.48
Industry . . . . .	111,799	4.42
Rural development and village works . . . . .	57,550	2.28
Tourism . . . . .	12,376	0.49
Total . . . . .	1,941,948	76.79
Grand total . . . . .	2,528,786	

Source : *Six-Year Programme of Investment 1954/55 to 1959/60*, p. 23.

gardens. There is an allied project, estimated to cost 43 million rupees, for the alienation of undeveloped state land to colonists for the cultivation of commercial and export crops like tea, rubber and coconuts.

The second objective involves the provision of irrigation facilities and the colonisation of new land. A number of major irrigation schemes now under construction are to be completed during the six-year period. Others will be carried towards their final stages, and five new large irrigation projects will be commenced during the six-year period. It is expected to provide irrigation for over 120,000 acres of land at present not irrigated and to settle over 140,000 families on areas brought under irrigation schemes or village expansion schemes or on state land to be cultivated with commercial crops. The total capital allocated to the Ministry of Lands and Land Development during the six-year period is 744 million rupees.

The improvement of peasant agriculture is to be attained by the raising of yields through the cultivation of a more varied range of products and by the provision of better marketing facilities and services. The programme provides for a total outlay of 32 million rupees to improve the productivity of non-export agriculture.

*Basic Utilities.*

An estimated total of 765 million rupees is envisaged for the improvement of ports and harbours, roads and railways, power supplies, civil aviation, telecommunications, meteorology, broadcasting, etc. The Colombo Port Development Scheme will be completed in the early years of the programme, and the ports of Galle, Kankasanturai and Trincomalee will be developed before 1959/60.

*Industries.*

Industrial development is specially emphasised in the programme, though the policy of the Government is to encourage private enterprise in this field. It provides for the reorganisation or completion of government factories, including those producing vegetable oil, cement, plywood, leather, ceramics, paper, D.D.T. and caustic soda. Furthermore, the Government will participate, where necessary, in large-scale industries (oil refining, sugar manufacture, the production of tyres and the exploitation of mineral sands) jointly with private capital, both local and foreign. Special emphasis is given to the development of small-scale and cottage industries.

*Rural Development.*

The rural development programme, which is based on self-help, provides a means of harnessing the vast unused labour potential of the country for purposes of development.

*Social Services.*

The education programme, which places special emphasis on technical education, is to cost 145 million rupees. Of the 118 million rupees allocated to health services, 104 million are to be spent on the development and expansion of hospitals and the medical services.

Large sums have also been set aside for water supply and housing development projects.

*Employment under the Programme*

As the six-year programme is basically a programme of capital formation, and is confined to the public sector, it does not provide a measure of the maximum volume of employment that is likely to be created during the period.<sup>1</sup> In general, it is expected to create two kinds of employment: the "revolving" employment created in the construction of projects (an increase of about 41,900 jobs during the period 1955-60), and the permanent employment generated after the projects are completed and brought into operation (an increase of 94,895 jobs during the period).

<sup>1</sup> Although there is no satisfactory measure of either unemployment or underemployment in Ceylon, in 1953, according to the consumer finance survey of the Central Bank of Ceylon, over 500,000 persons were unemployed in both the urban and rural areas. In recent years the population of Ceylon has been increasing by about 200,000 per year, and the increase in the work force is estimated at about 40 per cent. of the total, or about 80,000 persons annually.

Tables III and IV show estimates of constructional and operational employment under the programme. In table V the figures for each year are culminated from the commencement of the programme till the year 1959/60.

TABLE III. CONSTRUCTIONAL EMPLOYMENT  
UNDER THE SIX-YEAR PROGRAMME

Category	Number employed		Increase
	1954/55	1955/56 to 1959/60 (Yearly average)	
Administrative and clerical . . .	2,095	2,538	443
Technical . . . . .	3,470	4,360	890
Skilled workers . . . . .	22,562	39,526	16,964
Unskilled labour . . . . .	71,366	94,970	23,604
Total . . . . .	99,493	141,394	41,901

Source : *Six-Year Programme of Investment, 1954/55 to 1959/60*, p. 38.

TABLE IV. OPERATIONAL EMPLOYMENT  
UNDER THE SIX-YEAR PROGRAMME

Category	Estimated increase in number of permanent jobs at end of period
Administrative and clerical . . . . .	4,854
Technical . . . . .	4,988
Skilled workers . . . . .	38,081
Unskilled labour . . . . .	46,972
Total . . . . .	94,895

Source : *Six-Year Programme of Investment, 1954/55 to 1959/60*, p. 38.

### *Settlement of Peasant Families and Colonists*

As a result of the colonisation and settlement organised under the programme it is expected that 30,000 families will be settled under irrigation schemes, 7,000 in state lands taken over for the cultivation of commercial crops and a further 6,000 under the Gal-Oya development project. In addition, 100,000 families are to be settled under village expansion schemes.

It is to be noted that the above estimates do not include possible expansion resulting from factors unrelated to government investment. Nor do they take into account the indirect impact on employment through the stimulation of activity in industries providing materials and services. It is expected that as investment in the public sector increases it will create a rising volume of employment, both in the construction and the operation of projects.

### *Implementation of the Programme*

The programme will be carried out through a number of constructional authorities, including the Public Works Department, the Irrigation Department and the Public Health Engineer, and also by

foreign contractors. About 29.8 per cent. of the total value of projects requiring construction work will be executed solely by the Public Works Department, and the remainder by other authorities, either in association with that Department or independently.

With a view to ensuring the efficient functioning of the six-year investment programme the Government has decided to appoint a Development Advisory Board comprising nominees both from the Government and the private sector.<sup>1</sup> The entire programme will come within the purview of the Board, which will watch its progress and point out defects, weaknesses, waste, delays and technical shortcomings. The Government also plans to reorganise completely and strengthen the Planning Secretariat.<sup>2</sup>

### *Financing*

It is envisaged that, of the total outlays of the programme, about 771 million rupees, or 30.5 per cent., will be spent outside the country; the remaining 1,758 million, or 69.5 per cent., represents local expenditure.

As the six-year programme covers only the public sector, the finance required for its implementation will have to be provided through the budget. The way in which the total budget is financed will depend on the existing economic situation and general requirements of fiscal policy as a whole rather than on the specific types of expenditure incurred (current expenditure will be financed out of revenue and capital expenditure out of borrowing). A decision concerning the most appropriate method of financing the budget will have to be taken each year in the light of the general requirements of the economy.

The total cost of the programme is about 2,500 million rupees, which implies an average annual expenditure over the period of six years of nearly 420 million rupees. To this amount must be added the probable requirements each year for certain capital items of a miscellaneous or minor nature that could not be included in the programme. In the financial year 1953/54 provision was made in the budget estimates for a level of expenditure on all capital items of 411 million rupees. In the year 1954/55, the first year of the programme, the corresponding provision was 450 million. The average provision required for the rest of the period will not, therefore, be substantially different from the provision made in the recent past. If economic conditions do not change during the period, the financing of the programme need not give rise to any special problem.

### *Impact on the Private Sector*

Although the programme is described as a public sector programme, its outlays are not strictly confined to investments in the public sector. In many cases it promotes development in spheres where actual production is undertaken by private individuals or concerns.

It is part of the government policy to encourage the flow of private capital into industrial and allied spheres of investment. As a result the Government would normally refrain from the direct construction and operation of new ventures in these fields. Furthermore, it has sought to

<sup>1</sup> It is the first time that the representatives of the public will be called upon to advise the Government on major development work.

<sup>2</sup> *Ceylon News* (Colombo), Vol. 20, No. 32, 11 Aug. 1955.

improve the inducements and incentives for private investment in these fields by the offer of specific tax concessions and exemptions in the system of direct taxation.<sup>1</sup> It has sought to ease the problem of markets and production costs by the imposition, where justifiable, of protective tariffs and the reduction of import duties on raw materials, component parts and other capital goods.

The Government has also sought to improve the availability of finance for the private sector by establishing a specialised credit institution in the form of a Development Finance Corporation<sup>2</sup>; by providing for participation with private enterprise in the establishment of new ventures; and by setting up, through the departments concerned, borrowing facilities for small-scale and cottage industries.

The Government has also provided research and technical services for the private sector, and has established an autonomous corporate body, the Ceylon Institute of Scientific and Industrial Research, to render a variety of technical services to private firms, producer associations, financial institutions and other organisations. It also proposes to provide technical facilities for the training of skilled personnel for private industry.

#### INDUSTRIAL POLICY OF THE GOVERNMENT

In a statement of 17 September 1954 the Minister of Industries stated that the main causes of the failure of the past industrial policy of Ceylon could be summarised as follows:

- (i) insufficient encouragement of private enterprise;
- (ii) excessive mechanisation and over-capitalisation, which did little to relieve the unemployment situation in the country; and
- (iii) the types of goods selected for manufacture were such that more than one-third of Ceylon's privately employed labour (excepting plantations and the building trade) was engaged in producing goods that eventually ended in foreign markets.<sup>3</sup>

He stated that the future lines of development of industry in Ceylon should be—

- (i) the promotion of small-scale enterprise, which meant decentralised factory industries rather than enlarged cottage industries;
- (ii) the encouragement of foreign capital and aid to large-scale undertakings;
- (iii) assistance to local industry—both large and small;

<sup>1</sup> Up to 5 per cent. of the profits on industrial undertakings commenced within six years beginning 1 April 1951 are exempted from taxation for a period of six years after commencement; dividends paid out to shareholders from such exempted profits are also exempted. The National Housing Act, too, provides incentives for the construction of residential building by providing that income derived from new houses will be exempt from income tax up to eight years, beginning with the assessment year 1955/56.

<sup>2</sup> The initial capital of the Corporation will be 24 million rupees, of which 16 million will be provided by the Government as an interest-free loan; the remaining 8 million is expected to be subscribed by banks and private investors. The Corporation is also empowered to borrow from the International Bank for Reconstruction and Development a sum not exceeding 24 million rupees (*Times of Ceylon*, 21 Oct. 1955).

<sup>3</sup> At the same time Ceylon imported merchandise valued at about 1,700 million rupees (excluding agricultural products such as wheat, paddy and fresh fruits), of which about 700 million were for consumer goods that could be produced by small-scale techniques.

- (iv) directional control of capital movement in Ceylon ;
- (v) the participation of the Government in private enterprise <sup>1</sup> ;
- (vi) the redrafting of industrial legislation <sup>2</sup> ;
- (vii) accelerated industrial research ;
- (viii) co-ordinated and systematised training facilities ; and
- (ix) industrial standardisation.

### FOREIGN INVESTMENT POLICY

According to a statement of government policy of 15 July 1955, there was much scope for the investment of private foreign capital in Ceylon in a way that would serve the interests of both the foreign investor and the people of Ceylon.

There is no special law in Ceylon concerning the various aspects of foreign investment.<sup>3</sup> The Government has adopted a liberal and flexible policy. It is considered desirable for local capital to participate wherever possible with foreign capital in the establishment of business enterprises.<sup>4</sup>

The Government attaches considerable importance to the training and employment of Ceylonese nationals in foreign enterprises as much as possible.<sup>5</sup> In the event of the continuation of exchange control the Government will freely permit the remittance of profits, dividends and interests as well as the withdrawal of foreign capital. In the field of taxation foreign concerns will be treated on terms of equality with local enterprises. Nor will there be any discrimination against them under any system of rationing or control in respect of raw materials, labour, etc. In the event of compulsory acquisition, foreign investors will be entitled to the fullest compensation.

There is no law in Ceylon demarcating the spheres of investment into which foreign capital may flow, but the Minister pointed out that it would be particularly welcome in fields where there was a genuine programme of production, where indigenous capital or technical knowledge were inadequate, or where the country's balance of payments position would be strengthened through a reduction in imports or an expansion in exports. The investment of foreign capital in the sphere of trade and distribution, however, is relatively less urgent, except where technical knowledge is an essential aspect of trading activity.

<sup>1</sup> Government capital or other participation may become necessary in certain cases, e.g. where it is a strategic industry, or where a new industry has to be set up from scratch, or where the Government already has some concern that need no longer remain under state management, or where a private entrepreneur is in urgent need of it.

<sup>2</sup> The statement emphasised that all the laws relating to industry should be codified and made more comprehensive. The Minister stated that new legislation concerning aid to industries, the protection of local industries, the conditions under which foreign capital will be admissible and its liabilities, obligations and rights, the control of capital flotation, the licensing and inspection of industries, standardisation and other matters relating to industrial development was being considered by the Ministry.

<sup>3</sup> Such as the question of partnership between foreign and local capital, the employment of local personnel, exchange restrictions on the movement of funds, taxation, the allocation of raw materials and labour, and the problem of future nationalisation.

<sup>4</sup> There are, however, no rigid laws either to make such participation compulsory or to prescribe the respective shares of foreign and local capital in the capital structure of new enterprises.

<sup>5</sup> There are, however, no rigid rules, as the Government recognises the right of individual concerns to select their own personnel in key posts.

## GOVERNMENT EXPENDITURE ON DEVELOPMENT PLANNING

Since 1948 there has been a steady increase in both the absolute volume of the Government's outlay on capital development and in the relative proportions of such outlays in total government expenditure. Thus capital expenditure increased from 152.6 million rupees (26 per cent. of the total government expenditure) in 1947/48 to 298.3 million (31.2 per cent.) in 1953/54 and is estimated at 452.1 million (42 per cent. of total expenditure) for the year 1954/55. In 1955/56 the total capital budget amounted to 491,372 million rupees.<sup>1</sup>

Table V provides an analysis of the distribution of the total capital budget over various spheres of investment.

TABLE V. COMPOSITION OF CAPITAL BUDGET <sup>1</sup>

Item	1953-54	1954-55	1955-56	Percentage of total		
	Rupees			Percentage of total		
Defence . . . . .	17,047,630	15,853,179	14,478,515	5.71	3.50	2.95
Administration :						
Civil administration . . . . .	6,587,756	4,291,005	8,483,980	2.21	0.96	1.73
Police and prisons . . . . .	3,372,641	2,807,076	7,514,815	1.13	0.62	1.53
Law and justice . . . . .	322,947	1,471,594	2,429,993	0.11	0.33	0.49
Total . . . . .	10,283,344	8,569,675	18,428,788	3.45	1.90	3.75
Social services :						
Health . . . . .	10,447,141	18,263,829	35,796,577	3.50	4.04	7.28
Education . . . . .	16,972,849	25,263,286	30,541,843	5.69	5.59	6.22
General housing . . . . .	10,332,573	14,482,220	19,996,253	3.46	3.20	4.07
Rural development . . . . .	5,322,139	5,963,960	7,321,850	1.78	1.32	1.49
Unclassified . . . . .	6,282,043	7,113,121	7,826,380	2.11	1.57	1.59
Total . . . . .	49,356,745	71,086,416	101,482,903	16.54	15.72	20.65
Economic projects :						
Public utilities . . . . .	110,058,127	186,142,208	190,235,753	36.88	41.17	38.71
Agriculture, irrigation, fisheries . . . . .	100,923,562	158,131,897	148,739,624	33.82	34.98	30.27
Manufacture, mining . . . . .	10,015,278	11,326,222	15,146,844	3.36	2.50	3.08
Distribution and trade . . . . .	603,950	849,105	2,437,555	0.20	0.19	0.50
Tourism . . . . .	98,747	159,500	422,063	0.03	0.04	0.09
Total . . . . .	221,699,664	356,608,932	356,981,839	74.30	78.88	72.65
Grand total . . . . .	298,387,383	452,118,202	491,372,045			

Source : *Estimated Capital Outlays of the Ceylon Government, 1955-56* (Ceylon, July 1955), p. 5.

<sup>1</sup> The figures for 1953-54 represent actual expenditures. Those for 1954-55 and 1955-56 are based on the printed estimates submitted to Parliament for the respective years.

<sup>1</sup> These figures include the expenditure on "consumer durables" in the revenue budget. These amounted to 5.8 million, 8.8 million and 14 million rupees respectively during the three years beginning 1953/54. Figures for 1953/54 are actual ; those for 1954/55 and 1955/56 are estimates.

It will be noted from table V that the expenditure on economic projects and on social services combined during the three years since 1953/54 has been over 90 per cent. of the total (90.84, 94.60, and 93.30, respectively).

#### EXTERNAL AID

The success of the development programme depends in Ceylon, as in other Asian countries, on adequate finance and the availability of technical and skilled personnel. It is estimated that the amount that can be raised by way of domestic loans through subscriptions from public savings would vary from 25 million to 50 million rupees a year, depending almost entirely on the level of prosperity at the time the loan is floated. There is also a shortage of technical personnel.<sup>1</sup> As a result both financial and technical assistance from abroad is necessary for a rapid development of the country.

#### *Capital Aid*

Australia has authorised since 1951/52 capital aid to Ceylon amounting to 17.5 million rupees (10.7 million for irrigation projects, 3.7 million for food production and agricultural development and 3.1 million for the establishment of chest clinics). Canada authorised a total aid valued at 41.6 million rupees (14.8 million for fisheries, 8.1 million for diesel locomotives, 3.5 million for the Institute of Practical Technology, and 3.8 million for rural electrification in the Gal-Oya Valley, etc.). Corresponding figures for New Zealand were 7.9 million rupees (6 million for a dry-farming research station, 1.2 million for trade schools, and 0.7 million for the construction of a dental school and hostel).

#### *External Loans*

In 1954 Ceylon made its first approach to the London money market since 1939. A loan of £5 million was floated, bearing an interest rate of 4¼ per cent. It was fully subscribed on 25 March 1954.

On 17 June 1954 the directors of the International Bank for Reconstruction and Development approved a loan of \$19.11 million (91 million rupees) for external expenditure in connection with the hydro-electric scheme project at Laksapane.

At the end of September 1953 Ceylon's net foreign debt was 65.7 million rupees. At the end of June 1954 it was 128.3 million rupees.

#### *Technical Assistance*

##### *Colombo Plan.*

From the beginning of the technical co-operation scheme of the Colombo Plan in 1950 up to 30 June 1955, Ceylon had applied for 217 experts in various fields and had been supplied with 142 (education, 17; medicine and health, 43; agriculture and forestry, 12; engineering, 22; industry and trade, 13; fisheries, 19; other, 16). Of the total, the United Kingdom supplied 65, Australia 28, Canada 26, New Zealand 10, India 10 and Japan 3.

<sup>1</sup> The Governor-General of Ceylon stated at the 1955 Annual Conference of the Engineering Association of Ceylon, that nearly 100 engineers are needed to fill existing vacancies, and many more will be needed in the near future for work under the Six-Year Programme. *Daily News* (Colombo) 27 Oct. 1955.

During the same period Ceylon applied for 684 places for trainees in a variety of subjects ; 512 were provided—101 in Australia, 33 in Canada, 76 in India, 3 in Japan, 51 in New Zealand, 4 in Pakistan and 244 in the United Kingdom. Ceylon, in turn, provided places for 11 trainees from a number of countries in the region in the field of co-operatives.

During the same period Ceylon received equipment valued at £105,276, and equipment valued at £55,755 was on order or offer.

#### *United Nations and Specialised Agencies.*

During the period 1 July 1950 to 30 June 1955 244 experts were sent to Ceylon and 68 fellowships were awarded to Ceylonese workers ; classified by organisations, the number of experts and fellowships supplied were respectively : U.N.T.A.A. : 44 and 17 ; I.L.O. : 19 and 21 ; F.A.O. : 98 and 4 ; U.N.E.S.C.O. : 25 and 40 ; W.H.O. : 58 and 22.

### ACHIEVEMENTS

#### *Agriculture*

Between 1948 and 1953 a total of 165,184 acres of new land was rendered irrigable (Gal-Oya scheme, 72,500 acres ; other major irrigation works, 72,252 acres ; minor irrigation works, 20,432 acres), and improved irrigation facilities were also provided for 125,520 acres (including 51,640 acres under the Gal-Oya scheme) of existing paddy lands.

Taking into consideration development under all schemes during the period 1948-53, land has been rendered irrigable at the rate of 27,730 acres per year, and the development of new land has been at the rate of 19,575 acres per year.

#### *The Gal-Oya Scheme*

According to the progress report of settlement under the Gal-Oya scheme during the years 1950/51 to 1953/54, the total number of families settled was 4,822, the estimated number of settlers 39,400, the estimated number of acres cleared and prepared for homestead allotments 12,191, and the estimated number of acres of irrigable croplands made ready for cultivation 23,943.

In 1953/54, the rate of land development was accelerated to 18,140 acres. A notable feature was that areas of 1,175 acres and 1,540 acres were made available for middle-class colonisation and for the Gal-Oya Food Production Corporation respectively. During 1955 land development was continued, and it was expected to develop a further 7,800 acres.

#### *Industries and Public Utilities*

In the field of industries progress has not been so encouraging. Private enterprise in Ceylon has been reluctant to invest in new industrial undertakings. Of the various factories started by the Government the cement factory, which started production in 1950, was the only large-scale scheme completed during the period 1948-53, though considerable progress was made in respect of the paper factory, the caustic soda plant, the vegetable oil scheme, and the plywood and leather factories (reorganisation schemes). Some of the factories had

been closed down because of severe competition from abroad, and the Government decided to hand over to private corporations most of the industries it had started.<sup>1</sup>

Considerable achievements, however, have been made in the field of public utilities. Mention must be made of the development and modernisation of the port of Colombo; improvements in the postal and telecommunication services, the extension of the electricity supply services and the improvement of road and rail communications.

### *Social Services*

Great progress has been made in the field of public health. For instance, the death rate declined from 14.3 per thousand in 1947 to 10.4 per thousand in 1954—a rate lower than that of the United Kingdom and France. During the same period the infant mortality rate fell from 101 to 72 per thousand live births and the maternity mortality rate from 10.6 to 4.6. The expectation of life increased between 1920 and 1946 from 33 to 44 years, and between 1946 and 1954 to 58 years.

In the field of education the number of schoolchildren increased by 600,000 between 1947 and 1954 and the number of teachers by over 20,000. The number of teachers per 10,000 of the population was 58, as compared with 21 in India and eight in Burma.<sup>2</sup> Education in Ceylon is free from the primary school to the university, and 70 per cent. of the population are now literate.<sup>3</sup>

### CONCLUSION

For successful planning in a democracy such as Ceylon, various interests, at times conflicting, have to be reconciled, and the genuine support and co-operation of the people must be won. As a result progress is bound to be comparatively slow. Ceylon, furthermore, is a small country with very limited resources. It has followed the policy of "economic development with financial stability". In the budget of 1954-55, for instance, the objective of economic development was ensured by increasing further the proportion of capital expenditure in total expenditure, and that of financial stability by limiting total expenditure (including capital expenditure) to what could be met from revenue and from borrowing abroad. The Minister of Finance, however, stated at the Singapore (October 1955) Meeting of the Consultative Committee of the Colombo Plan that "if there are favourable conditions for our export industries, which is unpredictable, or if external

<sup>1</sup> Speech in Parliament by Mr. J. R. Jayewardene, former Minister of Finance (*Times of Ceylon*, 6 July 1955).

A Commission was appointed by the Government in 1952 to examine the usefulness of a number of commercial undertakings run exclusively with government capital. The main recommendation of this Commission was that government undertakings, especially in the field of industry, if they were to prove commercially successful, should be transferred to corporations, joint-stock companies or co-operative organisations. By 1953, however, the Government had already decided to close down uneconomic factories, continue and reorganise the more profitable ones and defer those major projects whose economic soundness needed to be re-examined.

<sup>2</sup> From a speech by the former Finance Minister, Mr. J. R. Jayewardene in the House of Representatives in June 1955 (*Times of Ceylon*, 6 July 1955).

<sup>3</sup> From a speech by the Finance Minister, Mr. M. D. H. Jayawardane (*Times of Ceylon*, 21 Oct. 1955).

assistance is made available, which is more hopeful, the programme of development can not only be accelerated but also expanded in scope".<sup>1</sup>

It is to be noted, however, that during the last seven years there has been a considerable lag between the budgetary provision made by Parliament and the actual expenditure incurred by the Government. Actual expenditure as a percentage of the total provision has ranged from 6.92 to 14.26 in the case of the revenue budget and from 28.41 to 47.31 in the case of the loan fund.<sup>2</sup> This continuous shortfall of considerable magnitude shows the tendency for actual performance in the sphere of development to lag behind initial expectations. Although a certain amount of underspending might be unavoidable, and in some cases might even represent a genuine saving of costs through a lowering of prices or an improvement in efficiency, it has been mainly due to a slackening of the rate of implementation and the retarding of time-tables. This is caused by inaccuracies in estimating, delays due to procedural causes (e.g. relating to the calling of tenders, orders for equipment, acquisition of land, etc.), and limitations in the physical or constructional capacity (e.g. inadequacy of personnel and scarcity of materials and resources) required for the execution of the projects. The Government is fully aware of these deficiencies and proposes to bring about the necessary improvements with a view to implementing the new six-year programme more efficiently, since, in the words of the Minister of Finance, Mr. M. D. H. Jayawardane, "a rapid and extensive economic development is an urgent and vital necessity for Ceylon if it is even to maintain its present living standards".

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<sup>1</sup> Ibid., 21 Oct. 1955.

<sup>2</sup> The budget has two categories: the revenue budget (chargeable to revenue, and consisting mainly, though not exclusively, of current expenditure) and the loan fund (entirely capital expenditure).