

SUBJECT.

PRIME MINISTER <sup>PC</sup>

PERSONAL MESSAGE

SERIAL No. TS7A184



*President of Sri Lanka*

10 April 1984

My dear Prime Minister,

The 20th meeting of the Sri Lanka Aid Group will be held in Paris on the 21st of June this year. I would like to thank you and your Government for the special interest you have shown in our development programmes in the past and the very generous assistance you have provided in support of these programmes. The intention of this letter is to keep you personally informed of the impact of recent economic trends on our development strategy and our external assistance needs. I hope that this will help you to formulate your Development Assistance Programme to Sri Lanka in the light of our present needs.

Sri Lanka's economy continued to be under pressure from large deficits in the balance of payments. Inflationary trends worsened in 1983 and the external debt increased. We responded to these developments by means of a series of stabilisation measures which were intended to reverse these trends. I do not wish to enumerate in detail the measures which were taken by us since these documents already available would describe the measures taken. 1983 was not a particularly happy year as far as we are concerned. Our economy expanded by around 4.9 per cent as against the previous year's growth rate of 5.1 per cent. The two major contributory factors were the reduction in agricultural production and processing as a result of the prolonged drought that prevailed in the first half of that year and even continued into the 3rd quarter in certain areas and the unfortunate dislocation of the economy caused by the

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The Rt. Hon. Margaret Thatcher, PC., MP.,  
Prime Minister,  
London.



ethnic disturbances in July, 1983. As a result of the massive development programme undertaken by this Government in 1977, major expenditures on development began to peak in 1982 and continued to do so in 1983. In order to prevent further deterioration of this situation, the Government decided that no new development projects should be started in 1984 and it is the intention of my Government that this period be treated as a period of consolidation.

On the political front, we could seek to restore political stability and strive to find a reasonable solution to the ethnic problems which surfaced in July last year in order that there would be no recurrence of such events and that all communities in this country could lead a life of amity and peace.

In the years to come we would be giving high priority to projects that conform to the following guidelines:-

1. Quick-yielding production oriented projects.
2. Export-oriented and efficient import substitution projects that would improve the balance of payments.
3. Essential infra-structure needs in power, irrigation, transport and communications, and
4. Provision of basic needs and improvement of the nutritional standards of the people.

The key area in the export sector is still the plantation sector. The performance of this sector in recent times has been unsatisfactory. Production in tea, rubber and coconut has been sluggish over the past few years and there has been a considerable decline from the production levels of the 1960's. Insufficient investment on re-planting maintenance costs and inadequate liquidity have been the major contributory factors. There is an over-riding need to rehabilitate the plantation sector in view of its present and potential contribution to export earnings. It is with this idea in mind that we have prepared a medium-term investment programme for the State-owned plantations managed by two Government Corporations. These plantations account for around 70 per cent of the tea production and

/30 per cent....



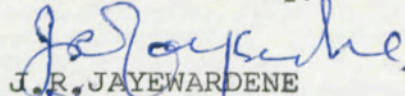
30 per cent of the rubber production of the country. This project will be treated as one of the lead projects in the next few years and we would welcome assistance in order to enable us to successfully implement this project. A brief summary of this project was made available to the donor community at last year's Aid Group meeting and this year we would be providing further details. In fact, a team from the World Bank has already assessed the feasibility of this project and it is hoped that we would be able to launch it by the beginning of 1985.

It was felt that we would achieve self-sufficiency in our staple food, namely, rice, last year, but, unfortunately the severe drought which prevailed in the rice-producing areas thwarted our efforts. Taken as a whole, however, the increase in agricultural production, especially rice, has been one of the success stories of the period after 1977.

Over the past few years the Government has had to take some difficult policy decisions, but we are most anxious that these decisions should not, in any way, reduce the physical quality of life enjoyed by our people. It is our intention that these levels be at least maintained, if not enhanced, in the years to come. To make this possible, I must once again urge donor countries such as yours, who have been most generous to us in the past, to assist us in overcoming the difficulties which we are confronted with at the moment. In particular, I would urge you to consider increasing your support to on-going projects, some of which are now under-financed due to cost overruns. In view of the fact that Government will not undertake any new projects in 1984 and will be only able to accommodate a few in 1985, you may also consider increases in quick-disbursing Food and Commodity Aid.

With my warm personal regards,

Yours sincerely,



J.R. JAYEWARDENE

President of Sri Lanka.