PD-AAS-634

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA

ANNUAL BUDGET SUBMISSION

FY 82

SRI LANKA

BEST AVAILABLE

MAY 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

UNCLASSIFIED

ANNUAL BUDGET SUBMISSION

FY 1982

UNITED STATES AID MISSION TO SRI LANKA

Prepared May, 1980

Colombo, Sri Lanka

May 16, 1979

FORWARDING STATEMENT BY THE A.I.D. MISSION DIRECTOR

I am delighted to forward the FY 1982 Annual Budget Submission for Sri Lanka. During the last year this USAID has been focussing and refining its strategy in line with Sri Lankan problems and priorities and AID/W policy guidelines. This strategy was presented in the 1982 CDSS and will provide the basis for our activities over the next few years. The generous funding levels and excellent support provided by Washington and the concentration and focus of the proposed program will allow us to make a substantial impact on the economic development of Sri Lanka.

The major constraint to implementing our program is personnel levels. We do understand and are sympathetic to the overall staffing problems of the Agency and have kept this very much in mind while preparing our strategy and submissions. However, several factors must be emphasized: first, we have already shown that we can do "more with less." A minimal, though high-quality staff has designed and is beginning to implement a major AID program. By any measure - staff compared to program levels - staff compared to other Missions worldwide with comparable-or-smaller-programs - staff levels in Sri Lanka are less than provided to other Missions. (It should be noted that even if we obtain the requested staff increases for 1982, we will still have one of the smallest Missions in Asia, with one of the more substantial programs.) However, we are realistic and fully understand that we cannot expect an optimal staff build up. Therefore, the program and each project is and will be designed to require minimal USDH. However, it is obvious that a staff of 20 cannot design and manage an overall program of $230 million (including the preparation for FY 83) while maintaining the quality which I insist on, and continuing to do all the other things which an AID Mission is called upon to handle. Thus, if staff relief is not provided, we will regretfully be forced to eliminate activities and projects which are, in my opinion, very high priority, but manpower intensive. This includes activities which I have personally promoted as they are of such importance to Sri Lanka's development and U.S. policy objectives. A complete listing of activities to be eliminated is found on the long-term narrative of the ABS.

In summary, the program as presented is consistent with Sri Lanka's development needs and priorities, supports U.S. overall developmental policy and U.S. Government policy to Sri Lanka, and is designed to be managed by a minimal staff. We look forward to a continuing dialogue with the Government of Sri Lanka, the Embassy and AID/Washington on the structure and implementation of our program here.

Director

TABLE OF CONTENTS

FY 1982 ANNUAL BUDGET SUBMISSION

TABLE I - LONG RANGE PLAN BY APPROPIRATION ACCOUNT ($ Thousands)

Decision Unit USAID/SRI LANKA

Development Assistance	FY 1980 EST.	FY 1981 EST.	FY 1982 REQUEST MIN	FY 1982 REQUEST CURR	FY 1982 REQUEST AAPL	PLANNING PERIOD 1983	1984	1985	1986
Agric. Rural Dev. & Nutrition	24,200	33,800	35,000	43,000	43,200	47,500	66,000	53,000	92,000
Grants	3,300	2,200	2,000	7,000	7,200	12,500	14,000	15,000	17,000
Loans	20,900	31,600	33,000	36,000	36,000	35,000	52,000	38,000	75,000
Population	-	-	-	-	-	1,000	2,000	3,000	5,000
Grants						1,000	2,000	3,000	5,000
Loans						-	-	-	-
Health	5,200	10,200	3,500	3,500	3,700	10,500	1,000	26,000	2,000
Grants	1,200	200	500	500	700	500	1,000	1,000	2,000
Loans	4,000	10,000	3,000	3,000	3,000	10,000	-	25,000	-
Education	-	-	-	-	-	-	-	-	-
Grants									
Loans									
Selected Dev.Actvs.	100	2,100	-	-	5,100	1,000	1,000	1,000	1,000
Grants	100	2,100	-	-	5,100	1,000	1,000	1,000	1,000
Loans	-	-	-	-	-	-	-	-	-
SUBTOTAL FUNC. ACCTS.	29,500	46,100	38,500	46,500	52,000	60,000	70,000	83,000	100,000
Grants	4,600	4,500	2,500	7,500	13,000	15,000	18,000	20,000	25,000
Loans	24,900	41,600	36,000	39,000	39,000	45,000	52,000	63,000	75,000
Other DA ACCTS. (Specify)	-	-	-	-	-	-	-	-	-
Grants									
Loans									
TOTAL DA ACCTS.	29,500	46,100	38,500	46,500	52,000	60,000	70,000	83,000	100,000
Grants	4,600	4,500	2,500	7,500	13,000	15,000	18,000	20,000	25,000
Loans	24,900	41,600	36,000	39,000	39,000	45,000	52,000	63,000	75,000
Economic Support Fund									
Grants									
Loans									
TOTAL DA AND ESF	29,500	46,100	38,500	46,500	52,000	60,000	70,000	83,000	100,000
PL 480 (non-add) Title I	25,000	29,700	22,950	30,600	30,600	30,600	23,800	17,000	9,350
(Title III)	-	-	-	-	-	-	-	-	-
Title II	5,632	7,507	9,441	9,441	9,441	9,154	8,847	N/A	N/A
Housing Guaranties (non-add)		-	-	-	-	-	-	-	-
TOTAL PERSONNEL									
USDH	20	22	22	22	25	28	32	32	32
FNDH	28	35	35	35	38	42	45	45	45

LONG RANGE PLAN NARRATIVE

Part I - Relationship Between FY 1982 AAPL and Direct-Hire Personnel Planning Level

The Mission's Country Development Strategy Statements (CDSS) over the past two years have established three major program objectives: (1) expansion of rural production, (2) increase of employment and purchasing power and (3) improvement of human productivity and well-being in rural areas. In pursuit of these objectives the FY 1982-86 CDSS sets forth a program strategy of reducing the areas of concentration identified earlier and clearly delineating several key categories of development that are of high priority to the GSL, where additional external assistance is urgently needed and where AID has both a legislative mandate and comparative advantage.

Within these categories, FY 1982 program funding is highly concentrated in the areas of irrigation and potable water with $38.5 million (100% of the minimum level, 89% of the current level and 74% of the AAPL level) allocated to Mahaweli Basin Development II, Water Management II and Market Town Water Supply. While projects in other areas (e.g. planning and implementation, basic food production and marketing, and natural resources and energy) are given a high priority and are important to meeting program objectives, they have substantially less absorptive capacity in the near-term. Since a greater number and variety of small projects creates a need for additional direct-hire expertise and management, project priorities set forth in the Mission's FY 1982 decision package levels are predicated more on direct-hire staffing constraints than funding constraints.

The CDSS identifies the major impediments to effective implementation of this program as (1) constraints in GSL implementation capacity and (2) insufficient US direct-hire staff. The CDSS proposes to address the first impediment within the context of the Mission's program, while addressing the second by making maximum possible use of FN direct-hire staff, consultants and contractors. The CDSS notes, however, that some expansion of US direct-hire staff is absolutely essential for policy and program development, key support functions, and legislatively mandated management and monitoring responsibilities. It projects a staff requirement of 22 US and 35 FN in FY 1981 and of 28 US and 38 FN in FY 1982 as part of a logical, orderly progression towards a full staff complement of 32 US and 45 FN by FY 1983-84.

In view of the issues raised by AID/W's review of the Mission's FY 1982-86 CDSS and a position ceiling planning level which restricts USAID/Sri Lanka to its FY 80 level of 20 US and 28 FN staff, the mission has undertaken yet another review of our staffing requirements. This review indicates that the efficiencies now in place along with the introduction of planned efficiencies may enable USAID/Sri Lanka to eke by with a minimum of 25 US staff in FY 1982 provided that: (1) the staffing levels of 22 US and 35 FN positions required in FY 81 are authorized and can be filled early in FY 81, (2) that 3 US PSC's are authorized for FY 1982, (3) that the full complement of 38 FN in FY 1982 is approved, and (4) that FN pay scales are adjusted upwards sufficiently to enable the Mission to retain present staff and recruit additional capable employees.

These staffing requirements are predicated on the program level and project composition programmed for the $52 million AAPL program and the need to gear up rationally in advance a program at the approved assistance planning levels for FY 1983-86. These staffing requirements have been determined on the basis of a more comprehensive approach than that suggested by the FY 1982 ABS guidelines. While the latter may be appropriate for more established missions, it would be unrealistic and self-deceiving for a relatively new Mission with a rapidly expanding program to attempt to justify its personnel requirements on simple position-to-project associations. While there is a rather ill-defined relationship between program levels/project mix and staff requirements, the latter cannot be determined solely on the basis of simple associations of specific positions with specific bilateral projects. To do so would be to disregard other areas of field mission responsibilities, internal relationships, and operations. Such direct associations do not, for instance, adequately reflect real needs either in terms of the time an employee is actually available (about 20% of mission positions are physically unoccupied at any given time due to time gaps in filling positions, annual leave, sick leave and home leave) or in terms of the time and attention which must be spent on the staggering array of non-project activities which often take higher priority than project work. It also does not take into account the experience and qualifications of individuals which effect productivity. For instance, an IDI could not be expected to be as productive as an employee with years of AID field experience.

Another reason is that on-board staffing of new missions usually lags far behind actual requirements as a result of prolonged pressures both in the field and Washington to increase workloads while minimizing US direct-hire staffing. Moreover, program planners are often much too optimistic in the early stages of a program with regard to how much implementation can actually be accomplished with any given number and mix of staff. Thus, new missions with rapidly expanding programs usually must start from a staffing level well below that of the zero-base required to even complete implementation of their pipeline projects.

USAID/Sri Lanka's program is expanding from $29.5 million in FY 1980 to $52.0 million in FY 1982. During this period of time we must also begin developing programs for AAPL's of $60 million in FY 1983 and $70 million in FY 1984. In FY 1982 the mission will have an active program portfolio of over $170 million in projects. Should the Mission be restricted to the FY 1982 ABS position ceiling planning level (i.e. 20 USDH and 28 FNDH which is the same as our FY 1980 staffing requirements), this would involve an implementation workload of $8.5 million and a program/design workload of $6.5 million for a total workload of $15 million for each US employee. At the level of 25 US requested in this ABS, these workload factors would be reduced to $6.8 million under implementation and $5.2 million under design for a total of $12 million for each US employee. While even this appears to be an inordinately high level of development assistance workload as compared to other Missions, USAID/Sri Lanka believes that the FY 1982 AAPL program can be launched, "out year" programs designed, and other mission activities continued with the same high level of quality, timeliness and efficiency that has become the hallmark of this mission over the past several years.

The most fundamental functions of a field mission are to (1) design and implement development assistance programs, (2) exercise responsibility over AID funds and resources in the host country, (3) develop an adequate body of first-hand knowledge about all development related aspects of the recipient country, and (4) maintain a continous dialogue with host country officials on matters of developmental policies and techonolgy. To adequately perform these and the vast array of other less critical functions imposed on missions requires an adequate number and mix of US professional specialities. While this number and mix may differ nominally among missions with moderate to large programs depending on the recipient country, type of program and stage of program (i.e. expanding, stable or contracting), most missions require more or less the same number and mix of US and FN staff. Until such time as AID's present modus operandi is substantially altered, staffing requirements in the field are unlikely to change significantly.

While the Mission appreciates the need to limit direct-hire staffing, we believe that these and other factors warrant special consideration of USAID/Sri Lanka's request for an increase in positions. AID's development assistance program in Sri Lanka is a relatively new program which has grown sharply since FY 1976 when it was reinstated with a $3.8 million loan for rice research. By FY 1981 USAID/Sri Lanka will have a ratio of one US employee for every $2.3 million of new obligations as compared to Nepal's $0.6, Philippine's $1.2, Thailand's $1.2, Indonesia's $1.3 and Bangladesh's $2.6. Thus, by most measures, USAID/Sri Lanka's US staff requirements are very low as compared to other USAIDs in Asia. In FY 1982 USAID/Sri Lanka will have a program portfolio of over $170 million in active projects. Simultaneously, non-project activities and other functions required of a mission have also increased substantially.

It is a well estbalished fact that a new mission, especially one with a program expanding at the rate of that in Sri Lanka, is confronted with a great many problems which are not encountered by more established missions. Administrative, procedural and logistical systems must be established; US personnel must be moulded into a functional organization; FN personnel must be recruited and trained; program and project design work increase faster than staff; implementation responsibilities and problems mount as the portfolio increases rapidly; etc.

On board staffing has lagged one to two years behind program requirements (as verified by the AG Personnel/Program Audit of 1978) since FY 1977 due to delays in MODE clearances, approvals of staff ceilings and recruitment. Thus, the failure to increase the staff commensurate with program requirements has imposed an inordinate workload on available Mission staff. The degree of this overload is highlighted by the fact that in FY 1979 US personnel not only worked over 6,000 hours of unpaid overtime, but also forfeited 390 hours of annual leave in order to barely stay abreast of the most essential tasks in programming, implementation and administrative work. However, many essential functions, particularly in the implementation and monitoring area, are slipping with unfortunate results on the program. Overtime worked and annual leave lost total about 6,500 hours -- the equivalent of four person work years which is more than 25% of on-board staff as of the end of FY 1979. To restrict USAID/Sri Lanka to its FY 1980 staff levels would perpetuate this inequitable workload.

The analysis of the minimum staff needed to carry out the program took into account the efficiencies already being practiced or being developed as well as prudent management needs and sound implementation practices essential to meet our prescribed responsibilities. This Mission's experienced staff believes that the Mission already is operating in a most efficient and effective manner as compared to other missions with which they are familiar. Due to the newness of the mission and the necessity of expanding its staff at the same time as its program level is being greatly increased, some efforts listed below as being in process undoubtedly are already in place in more established missions.

Efficiency is not obtained solely by changes in a few major areas of work but results from attention to many smaller actions which in total may add up to a substantial drain on human resources although individually they do not occupy a great deal of time or effort. With the addition of several professionals to our staff, and the experience of a year of intensively working together as a team, the Mission has now reached a point on the learning curve that future operations should be carried out in a more efficient manner than in the past.

Efficiencies Already in Place: Some operating practices already installed by this Mission which have enabled the Mission to "do more with less" include: (a) procurement and training included within consultant contracts whenever possible; (b) authority delegated to the lowest possible level; (c) FNDH involved and used extensively at both the professional and clerical-secretarial levels; (d) contracting actions kept to a minimum by such practices as using a single firm rather than several PSCs; (e) meetings kept to a minimum both in frequency and in attendance; and (f) paper flows and clearances kept to a minimum.

Efficiencies Being Developed: Some actions or practices which the Mission is in the process of developing or installing include: (a) developing and using good models of certain types of documents (e.g. host country contracts, requests for proposals or bids, and project papers) so personnel can concentrate on substance rather than being preoccupied with form or drafting what should be "boiler-plate" material; (b) developing a mission policy on GSL and contractor reporting so as to ensure a more complete, consistent and timely flow of information on project implementation. This will not only aid in monitoring but make it easier to prepare reports for AID/W, briefing materials, etc.; (c) designing projects for ease of implementation and minimum involvement of USAID personnel consistent with carrying out their assigned responsibilities; (d) preparing in-house training for project officers to increase their knowledge of implementation actions and efficient approach to work; and (e) exploring the possibility of a separate USAID FN pay scale, based on an AID-directed and oriented classification system, to avoid loss of some of our best staff and increase recruitment of better people for vacancies.

On the assumption that our minimum required staffing levels will be approved, we have proceeded to program in this ABS an optimal project mix for funding in FY 1981 and FY 1982. Should staffing levels of 22 US and 28 FN in FY 1981 and 25 US and 38 FN in FY 1982 not be forthcoming, the USAID will have no alternative, even with the economy measures to be instituted, but to effect a number of austere measures having far reaching program consequences in order to administer a program level of $52 million in FY 82 and the AAPL's for FY 1983 and beyond.

The most profound impact would be the necessity to restrict program funding to basically three main projects: Mahaweli Basin Development, Water Management and the Potable Water Sector Loan. The extent of the impact on the balance of the program would depend on the staffing levels actually approved, but restriction to the FY 80 levels would necessitate the elimination of most other new project starts proposed in FYs 1981 and 1982, including AID/W and IDCA initiatives which we consider very important. While most continuing projects will be allowed to run their course without any follow-on projects, it will be necessary to terminate low-cost, staff-intensive projects such as PVO Co-Financing and all centrally-funded activities which do not directly support the USAID's core program. Such a program consolidation would need to begin in FY 1981.

Failure to provide the minimum staff levels will also have a substantial adverse effect on project implementation since first claims on staff time are inevitably for such actions as preparing program documents (CDSS, ABS, CP, etc.), responding to AID/W communications, preparing regular and ad hoc reports, accommodating visitors, writing PIDs, designing projects and effecting obligations. Not only would implementation suffer, but project design work and obligation rates may receive less than desired attention and the overall quality of work would decrease. The result would be that AID, irrespective of program funding levels, contributes less and less to the development of Sri Lanka.

A summary of the consequences would be as follows:

1. Elimination of any further consideration of (a) PL 480 Title III program, (b) rural enterprise program, (c) alternative energy project, (d) Mahaweli environment project, (e) dryland agricultural production/marketing II project, and (f) bi-lateral population project;

2. Inability to consider new program/project initiatives by AID/W and IDCA;

3. Inability to accommodate any new centrally-funded activity proposals (matching grants, OPGs, population grants, etc.), which do not directly support USAID's core programs, however worthy, and review of all existing centrally-funded activities to determine how soon each can be terminated at convenience of the USG;

4. Termination of the PVO Co-Financing project in FY 1981;

5. Elimination of support for all Maldivian activities;

6. Substantial curtailment of visitors (AID/W, other agencies, PVO representatives, etc.) who are not requested by USAID or otherwise in direct support of USAID's core program by imposing a monthly quota system for all categories in any one month other than those specifically requested by the Mission (sixty days advance notification would be required);

7. Reduction of support of State Department/Embassy activities including CERP reporting, participation in Mission economic reporting and other committees, and other activities which are not in direct support of the USAID's core program;

8. Withdrawal from support of and participation in all USG or PVO sponsored workshops and seminars (e.g. POPSTAN), regional training programs, conferences, etc. unless directly related to USAID's core program and curtailment of staff training programs located outside Sri Lanka; and

9. Substantial reduction in responsiveness to AID/W requests for information and ad hoc exercises (USAID/Sri Lanka will request that AID/W indicate why information is required, its importance and relative priority, identification of requesting office, and level of clearance in Asia Bureau).

We should stress that we consider all of the above activities important, in greater or less degree, to the implementation of a coherent assistance strategy for Sri Lanka and to support of US foreign policy and AID/W objectives. However, each of these projects and activities require staff time which simply will not be available unless the Mission's request for a minimum of 25 USDH and 38 FNDH is approved. Without this additional staff, the Mission has no alternative but to concentrate its limited resources on its most significant projects.

Part II - <u>Relationship Between Program In "Out Years" and Direct-Hire Personnel Requirements</u>

The project composition of the "out year" programs will be determined in some measure by the level of USAID/Sri Lanka's direct-hire staff allocations in FYs 1981-82. Therefore, any discussion of relationships between the FY 1983-86 program and personnel requirements at this time is conjuctural at best. Nevertheless, a description of one or two probable scenarios can be outlined.

The first and most desirable scenario is based on the assumption that USAID/Sri Lanka will receive its minimum staffing requirements of 22 US and 35 FN in FY 1981 and 25 US (plus 3 US PSCs) and 38 FN in FY 1982. In this event the Mission's project portfolio is expected to stabilize in FYs 1983-84 with a staff of 28 US (plus 4 PSCs) and 45 FN. Such a staffing level would enable the Mission to develop and implement an effective program responsive to Sri Lanka's needs as spelled out in the Mission's FY 1982-86 CDSS. The parameters of this program also afford the necessary flexibility to respond to changing development needs and new initiatives by IDCA, AID/W, the GSL and the Mission.

The other scenario is based on the assumption that USAID/Sri Lanka will be restricted to the FY 1980 staffing level of 20 US and 28 FN. In this event the consolidation of the program into several large projects as described in Part I would be completed by FY 1983. While the approved assistance planning levels of $60 to $100 million for FYs 1983-86 could probably be maintained for several years by concentrating all funding in the areas of Mahaweli Basin development, water management and potable water, even these would begin to reach their absorptive capacity by the mid-1980s and perhaps earlier. All other projects, not otherwise terminated earlier, would be nearing completion thereby reducing the Mission's project portfolio to the several large projects. Thus, the Mission's staff requirements for other projects would begin to diminish somewhat in FY 1983-84.

Either of these scenarios will require an adequate number and mix of US and FN staffing if USAID/Sri Lanka is to conduct an effective program. While efficiencies may relieve some demands on staff, they cannot substantially reduce direct-hire staffing requirements given AID's present internal and external methods of doing business. USAID/Sri Lanka believes that efficiencies which allow reductions in staff and which afford more attention to substantive matters can and must be developed if AID is to conduct effective development assistance programs. Such efficiencies, however, cannot be identified and instituted solely by field missions -- this must be a mutual endeavor involving the fullest cooperation of AID/W. We are therefore suggesting a number of areas where AID/W can institute measures which would enable field missions to operate more efficiently.

USAID/Sri Lanka believes that a more efficient AID modus operandi is to be found in providing serious attention to sound organization and management practices rather than in AID's continuing pursuit of elusive panaceas. The Agency has moved so rapidly from one vogue to another in recent years that organizational structure and management have simply not been able to keep pace. Guidelines and directions are, in too many instances, vague or non-existent.

The so-called efficiency measures identified in the CDSS guidance and repeated on page 8 of this years ABS guidelines are neither innovative nor particularly constructive. For the most part they are directed at treating symptoms -- not the basic problem of AID's organizational and management deficiencies. Only three or four offer any real efficiencies and these are already in force in this mission. Moreover, at least one of these measures, that regarding the use of PVOs, has proven to be a highly inefficient mode of delivering development assistance (see M. Stafford's memorandum to A/AID dated December 14, 1979 and in response to Colombo 1394 the following cables: Bangkok 16612, Islamabad 3488, Jakarta 6631, Kathmandu 2381, Manila 7545, New Delhi 9339 and Suva 1264). The suggestion of greater use of other donors while attractive is not practical. Most donors do not have field missions nor the rigorous standards required by AID. In one case here we have relied on other donors to design a project. The project is so poorly designed that the project may be lost or at best seriously delayed.

In view of the above, USAID/Sri Lanka recommends that AID/W give serious attention to the following measures which would enhance substantially the efficiency and effectiveness of field missions.

1. Reorganize AID/W operations in such a manner as to eliminate unnecessary requests for information and exercises and re-allocate a substantial portion of its positions to the field where management and monitoring of the development process must take place. This would be the most significant efficiency/effectiveness measure that could be taken.

2. Allocate staffing between AID/W and field missions and among field missions on the basis of verified workload rather than tradition or other criteria.

3. Clarify mission oversight responsibilities and expedite completion of Handbook No.3 as requested by this Mission (see Colombo 1394 and 1443).

4. Assist mission efforts to effect a substantial curtailment of visitors (AID/W, other USG agencies, PVO representatives, etc.).

5. Assist missions to substantially reduce the workhours devoted to AID/W requests for information, ad hoc exercises, etc. USAID/Sri Lanka proposes a system of requiring AID/W to indicate why information is required, its importance and relative priority, identification of requesting office and level of clearance in Asia Bureau.

TABLE IV PROJECT BUDGET DATA

DECISION UNIT
USAID/SRI LANKA

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	DATE OF NEXT PLANNED NON-ROUTINE EVAL.	CUM. PIPELINE AS OF 9/30/79	FY 1980 OBLIG.	FY 1980 EXPEND.	FY 1980 CUM. PIPELINE	FY 1981 OBLIG.	FY 1981 EXPEND.	FY 1981 CUM. PIPELINE	FY 1982 AAPL OBLIG.	FORWARD FUNDED TO (MO/YR)	FUTURE YEAR OBLIGATIONS
	AGRIC. RURAL DEV. & NUTRITION					36,033	24,200	32,440	27,793	33,800	13,453	48,140	43,200		n/a
383-0040	Rice Research	L	76	76	5/79	2,571	-	950	1,621	-	600	1,021	-	1/82	-
383-0041	Paddy Storage & Processing I	L	77	77	3/80	2,265	-	1,340	925	-	575	350	-	6/82	-
383-0042	Mahaweli Ganga Irrigation	L	77	77		2,991	-	1,141	1,850	-	1,850	-	-	9/82	-
383-0044	Development Services & Training	G	78	79		2,438	-	1,428	1,010	-	700	310	-	8/82	-
383-0045	Agricultural Base Mapping	L	77	77	10/80	4,415	-	2,942	1,473	-	728	745	-	11/83	-
383-0048	On-Farm Water Management	G	77	77	10/80	638	-	318	320	-	160	160	-	9/82	-
383-0051	Agricultural Inputs II	L	78	80	6/80	14,499	5,000	19,499	-	-	-	-	-	8/80	-
383-0055	Reforestation & Watershed Mgt.	G	80	81	12/83	-	500	-	500	500	500	500	-	5/85	-
"	" " " "	L	80	81	"	-	2,000	-	2,000	1,400	1,500	1,900	-	5/85	-
383-0056	Mahaweli Basin Development I	L	80	80		-	10,000	900	9,100	-	2,200	6,900	-	8/85	-
383 0057	Water Management I	G	79	81	4/82	500	2,000	500	2,000	500	1,000	1,500	-	4/84	-
"	" "	L	79	80	"	5,400	1,400	3,150	3,650	-	1,000	2,650	-	4/84	-
383-0058	Dryland Agric. Prod./Mktg. I	G	80	81	6/83	-	500	-	500	500	500	500	-	12/85	-
"	" " "	L	80	81	"	-	2,500	-	2,500	3,500	1,000	5,000	-	12/85	-
383-0060	PVO Co-Financing	G	79	83	10/81	316	300	272	344	200	140	404	200	8/85	300
383-0065	Dryland Agric. Prod/Mktg. II	G	81	81		-	-	-	-	500	-	500	-	6/86	-
"	" " "	L	81	82		-	-	-	-	1,700	-	1,700	3,000	6/86	-
383-0073	Mahaweli Basin Development II	L	81	84		-	-	-	-	25,000	1,000	24,000	25,000	12/82	35,000
383-0074	Water Management II	G	82	-		-	-	-	-	-	-	-	2,000	6/84	8,000
"	" "	L	82	-		-	-	-	-	-	-	-	8,000	6/84	32,000
383-0075	Mahaweli Environmental Protection	G	82	83		-	-	-	-	-	-	-	2,000	6/84	3,000
383-0076	Development Services & Training	G	82	83		-	-	-	-	-	-	-	2,000	6/84	3,000
383-0077	Village Low-End Poverty Program	G	82	86		-	-	-	-	-	-	-	1,000	6/84	9,000
	HEALTH					11,639	5,200	3,832	13,007	10,200	4,800	18,407	3,700		
383-0043	Malaria Control	L	77	79		11,432	-	3,832	7,600	-	3,800	3,800	-	10/84	-
383-0060	PVO Co-Financing	G	79	83		207	200	-	407	200	200	407	200	8/85	100
383-0062	Kalutara Inst. of Health Scs.	G	80	80		-	500	-	500	-	200	300	-	9/85	-
383-0063	Market Town Water Supply	G	80	82		-	500	-	500	-	100	400	500	9/86	-
"	" "	L	80	82		-	4,000	-	4,000	-	500	3,500	3,000	9/86	-
383-9996	Potable Water Sector Loan	L	81	-		-	-	-	-	10,000	-	10,000	-	6/90	35,000

AID 1330-8 (5-79)

TABLE IV PROJECT BUDGET DATA

DECISION UNIT
USAID/SRI LANKA

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	DATE OF NEXT PLANNED NON-ROUTINE EVAL.	CUM. PIPELINE AS OF 9/30/79	FY 1980 OBLIG.	FY 1980 EXPEND.	FY 1980 CUM. PIPELINE	FY 1981 OBLIG.	FY 1981 EXPEND.	FY 1981 CUM. PIPELINE	FY 1982 AAPL OBLIG.	FORWARD FUNDED TO (MO/YR)	FUTURE YEAR OBLIGATIONS
	EDUCATION					5,910	-	1,125	4,785	-	1,500	3,285	-		
383-0049	Agricultural Education Dev.	G	78	79	9/81	5,910		1,125	4,785		1,500	3,285		9/85	
	SELECTED DEV. ACTIVITIES					-	100	-	100	2,100	100	2,100	5,100		
383-0060	PVO Co-Financing	G	80	83		-	100	-	100	100	100	100	100	8/85	400
383-0064	Program/Project Prep. Studies	G	82	82		-	-	-	-	-	-	-	3,000	6/85	
383-9997	Alternative Rural Energy Tech.	G	81	82		-	-	-	-	2,000	-	2,000	2,000	9/86	
	TOTAL					53,582	29,500	37,397	45,685	46,100	19,853	71,932	52,000		

ESTIMATED U.S. DOLLAR COST ($000)

AID 1330 8 (8-79)

NEW PROJECT NARRATIVES

Project Title and No: Program/Project Preparation Studies (383-0064)

AID Funding:	FY 82	$3.0 million (G)
	Life of Project	$3.0 million (G)

Approp. Account: SD

Purpose: To establish the foundation required to undertake medium and long-term planning and to prepare "New Directions" projects for AID financing.

Description of Problem: A major constraint to more rapid economic development in Sri Lanka is the lack of high quality: (a) sector and sub-sector studies and analyses for rational resource allocation; (b) pre-feasibility studies or surveys to screen out at an early stage those unworkable ideas and proposals identified in the sector studies and in long range planning; and (c) comprehensive feasibility studies to completely prepare for external donor financing and implementation those developmental ideas which have survived the sector studies and pre-feasibility surveys. All three tools are needed for program and project preparation if the GSL and foreign donors are to allocate scarce resources to those projects which are the most feasible in all respects, which contribute the most benefits to the country at the least cost, and which are in harmony with the long-term development objectives of Sri Lanka.

Description of Project: This project would finance: (a) sector and sub-sector studies, (b) pre-feasibility surveys, and (c) comprehensive project feasibility studies in those areas and subjects consistent with the AID "New Directions" and this Mission's areas of concentration. Studies would not be financed for projects outside the "New Directions" areas or for which commercial or private financing might be available.

The target groups (beneficiaries) cannot be identified at this time as a definitive list of studies to be financed is not available or necessary for project preparation purposes. Since studies may be made of various potential projects throughout the country, all the people of the country might be considered as potentially being in the target group.

It is anticipated that most of the surveys and studies will be in the agricultural and rural development sectors -- those sectors which are the primary focus of the AID program in Sri Lanka. A few studies might also be made of potential projects in the health and energy sectors. Studies would be made by U.S. consulting firms, universities and individuals under AID or GSL contracts.

GSL Entities Involved: The Department of External Resources within the Ministry of Finance and Planning would be the overall coordinator for the project. After ERD and USAID agree on a given study (sub-project), USAID would work directly with the concerned ministry or department. Therefore, several different ministries would be involved, but all cannot be precisely identified at this time.

Major Issues: None.

Project Title and No: Water Management II (383-0074)

AID Funding:	FY 82	\$ 2.0 million (G)	\$ 8.0 million (L)
	Life of Project	\$10.0 million (G)	\$40.0 million (L)

Approp. Account: FN

Purpose: To modernize additional irrigation schemes and establish management programs for increased food production and improved well-being of small farmers.

Description of Problem: Many of the major irrigation systems in Sri Lanka have physically deteriorated due to years of neglect in operations and maintenance. Only a fraction of the potential irrigated acreage in dry zone schemes receive adequate and timely water. The result is much less food production, less farm income, and less farm employment than is possible from the land and water resources available. Poor water management practices exist at the level of the main systems and the individual farms. The systems deliver water in too large or too small quantities, and at the wrong times.

Under AID's Water Management I grant/loan project of 1979, detailed master plans are to be developed to modernize and reconstruct the irrigation channels serving 65,000 acres of irrigated land in the Gal-Oya scheme and the master planning for 36,000 acres in the Uda-Walawe scheme. The GSL has also just proposed plans to upgrade and improve the management and operations of 22 other major schemes involving some 130,000 acres. Thus, Water Management II will consist of implementing the Uda-Walawe master plan involving 69,000 acres plus 22 other major schemes involving 130,000 acres for a total of about 200,000 acres. The actual work would involve redesign and reconstruction, including de-silting; some channel lining; improvement and replacement of nearly all gates and control structures; and other measures to control the water and release it to farmer field channels and fields when needed and in quantities needed.

Description of Project: This project, which will build on the experience and work being done under Water Management I, is expected to include (a) rehabilitation of the Uda-Walawe irrigation scheme, (b) some minor habilitation work in five other major schemes and lesser work in fifteen, and (d) irrigation associations to help rebuild the system and then to operate and maintain the systems.

The target groups will be all the farmers within the irrigation schemes, most of whom are small, poor farmers by any definition with estimated beneficiaries numbering about 335 thousand rural people.

GSL Entities Involved: The Irrigation Department within the Ministry of Lands and Land Development will be the main GSL entity involved in this project.

Major Issues: Since major construction activities (both new facilities and rehabilitation) often are financed by the IBRD or the Asian Development Bank, it might be more appropriate for one of these international development banks to finance this large scale program. However, due to the existing involvement of AID in water management through on-going projects, and the needs in other sectors for the limited funds of the two banks, it might be more appropriate for AID to finance this program. This issue will be explored with the GSL and other donors during the project design stage. This is an area where AID can build on past experience (Water Management I) in a relatively non-staff intensive way. The Mission has confidence that given the nature of these major schemes and the development policy framework of the GSL, small, low-income farmers and their families will be the major beneficiaries.

Project Title and No: Mahaweli Environmental Protection (383-0075)

AID Funding: FY 82 $ 2.0 million (G)

Life of Project $ 5.0 million (G)

Approp. Account: FN

Purpose: To mitigate possible negative effects of the Accelerated Mahaweli Program on the environment.

Description of Problem: Under the Accelerated Mahaweli Development Program, AID and other donors will be financing the construction of four major and two minor dams; the rehabilitation of existing small tanks; preparation of 117,000 hectares of uncultivated land by clearing, irrigation and cultivation; and voluntary settlement of about 500,000 people in what is now the lightly populated central eastern area of Sri Lanka. The substantial changes in land and water use in this area will have a significant impact on both the physical and social environment. This impact was analyzed in 1979-80 by a U.S. firm under AID financing. The study showed that much of this impact will be beneficial, and possible harmful effects can be mitigated by concerted interventions.

Description of Project: This project is to finance some important interventions needed to mitigate possible negative impacts of the overall Accelerated Mahaweli Development Program, including the areas being financed by other donors. The activities to be financed under this project include: programs to control the spread of water weeds; development of the Maduru-Oya National Park; assistance in planning and managing wildlife parks and sanctuaries; pilot projects in potable water and sanitation; watershed management; and monitoring of changes in the social and physical environment as implementation of the Accelerated Mahaweli program proceeds.

The target group will be all the people living in or to be settled in the Mahaweli area.

GSL Entities Involved: The Mahaweli Development Board.

Major Issues: None.

Project Title and No: Development Services and Training II (383-0076)

AID Funding: FY 82 $ 2.0 million (G)

Life of Project $ 5.0 million (G)

Approp. Account: FN

Purpose: To provide a sound basis for long-term development by strengthening institutional capabilities to carry out development programs consistent with AID's overall development assistance strategy.

Description of Problem: AID and other donors provide large amounts of assistance for specific projects to assist in overcoming major problems of development. Included within many projects are funds for training directly related to that project. However, there often is a need for training (short or long-term), small studies, limited amounts of technical assistance and small experimental or pilot projects which are too small or too limited in nature to warrant financing as separate, discrete projects but which are of priority interest to AID and the GSL, e.g. energy, women, environment etc.

The DS&T I grant of $2.6 million started in 1978 to finance these types of activities. It has been used to finance such sub-projects as: the Mahaweli environmental study; an irrigation sub-sector study; a combined sail-power fishing boat experimental project; a solar kiln pilot activity; a hand pump manufacturing installation pilot project; and development of the Agrarian Research and Training Institute. In addition, a substantial number of participants from various GSL ministries have been sent abroad for short-term training and a few for longer term (one year) academic training.

Both the GSL and USAID have found the DS&T I project so useful in financing small but important activities that contribute to the economic and social development with a minimum of red tape and staff work that it is desirable to continue this method of financing when DS&T I funds are fully committed.

Description of Project: The project is to finance: (a) several small, experimental or pilot activities of a developmental nature that fall within the "New Directions" mandate; (b) technical assistance and consultants as needed on a limited scale for "New Directions" activities; and (c) short-term participant training that cannot be financed under other AID projects.

The target groups cannot be defined at this time since a definitive list of sub-projects that might be financed is not essential for project preparation. Ultimate beneficiaries will be the poor majority of Sri Lanka since sub-projects and training will be in areas consistent with AID's bilateral assistance strategy.

GSL Entities Involved: The Department of External Resources within the Ministry of Finance and Planning will continue to coordinate all activities to be financed under DS&T II in the same manner as it did for DS&T I. However, nearly all the activities will involve other departments and ministries of the GSL.

Major Issues: None.

Project Title and No:	Village Low-End Poverty Program (383-0077)	
AID Funding:	FY 82	$ 1.0 million
	Life of Project	$ 1.0 to $10 million
	(possible expansion and conversion into PL 480 Title III program)	
Approp. Account:	FN	

Purpose: To identify the poorest families in villages in 3 to 5 pilot districts and to assist them with loans and grants to establish short gestation income generating activites based on their preferences as well as available physical and human resources and market potential.

Description of Problem: Although there is wide spectrum of development schemes and special programs currently operating in Sri Lanka, it is generally the better educated and most vocal groups in a community who avail themselves of the benefits available. For those at the lower end of the income scale, the direct and indirect costs of participating in these benefits are high relative to their incomes. Low incomes and lack of physical and human assets (e.g. educational attainment generally not beyond primary school) make these poverty groups vulnerable to disruption of income sources through illness, family break-up, etc. With food stamps denominated in fixed monetary terms now having replaced physical food rations, and the relatively small unemployment dole about to be eliminated, increases in the cost of living without corresponding increases in incomes could push these groups into acute poverty.

Description of Project: This project would develop and test on a pilot basis an effective mechanishm to (1) identify the poorest 5 to 10 families in each village in 3 to 5 districts; (2) directly involve these families in the identification of their priority needs and opportunities for meeting these needs through income-generating activities; (3) selection of an income generating activity within the aptitude of the given family, the availability of local raw materials and the marketability of the product or services; (4) provision of financial assistance to each family (about Rs.9,000 or $600 per family with one-third grant component); and (5) help in taking advantage of training opportunities and other available services and information. This approach is based on an on-site review by the GSL's National Planning Division of reportedly successful village level anti-poverty program employing the above approach in the state of Rajastan, India.

The intended beneficiaries would be the poorest rural families in Sri Lanka. The 3 to 5 pilot districts would be selected on the basis of geographical balance and strong interest on the part of district officials and local authorities. To ensure that the poorest families are selected, a poverty line of about Rs.2,400 ($160) annual income for a family of 5 would be established. Depending on the size of the GSL contribution (suggested to be two-thirds of total cost), up to 30,000 people a year could be benefitted at a total cost of $3 million a year (at 6 members per family and assistance of $600 per family).

GSL Entities Involved: The new District Development Councils, headed by District Ministers, along with local officials down to the village head-person (Grama Seveka), would be the main implementing entities at the district level. At the national level only the National Planning Division of the Ministry of Finance and Planning has been involved so far. Some line ministry, such as Plan Implementation, Local Government or Public Administration, would have to assume a national coordinating role.

Major Issues: Many design and implementation questions have yet to be worked out, such as implementing responsibility at national and local levels, financial mechanisms, criteria for judging success and deciding replication, etc. Strong interest and commitment, based on the Indian experience, is essential on the part of District leadership. Another issue is the potential high DH staff-intensity of this project and how it could be minimized. The appeal of the approach is that it involves local people, including the beneficiaries, in helping the poorest among them. It corresponds to the GSL's strategy of addressing poverty through income and employment generation rather than subsidies. If the pilot project is successful, it could be replicated with PL 480 Title III assistance since a high proportion of costs would be local.

DECISION PACKAGE NARRATIVES

Minimum Decision Package

The Mission has determined that the Minimum Decision Package requires $38.5 million of new year funding for our development assistance program and $32.4 million for our PL 480 program. This minimum level program totalling $70.9 million will require a direct-hire staffing level of 22 US and 35 FN, the same as in FY 1981. This level would provide the minimum funding required to make an adequate contribution toward achieving the most important goals set forth in our FY 1982-86 Country Strategy Statement (CDSS).

This minimum level program would enable the Mission to continue an effective level of assistance in two of the three major categories of the program strategy: (1) Rural Production and Employment and (2) Human Productivity and Well-Being in the Rural Sector. While direct funding assistance could not be provided to the Planning and Implementation Capacity category, this category would benefit indirectly from funding provided to the other categories since each of the projects funded thereunder have components directed at the GSL's planning and implementation capacity.

In terms of the categories and sub-categories of assistance described in the FY 1982 CDSS, the Minimum Decision Package funding would be allocated as follows (in $ millions):

1. Rural Production and Employment		$35.0
Mahaweli Basin Development	$25.0	
Physical Infrastructure & Water Mgmt.	10.0	
2. Human Productivity & Well-Being in Rural Sector		35.9
Environmental Health (Potable Water)	$ 3.5	
Infant & Maternal Nutrition - PL480 II (MCHP)	3.3	
Child Nutrition - PL480 II (SFP)	6.1	
PL 480 Title I	23.0	
3. Planning & Implementation Capacity		-
TOTAL MINIMUM PROGRAM		$70.9

Recap:	Development Assistance	$38.5
	PL 480 Title I	23.0
	PL 480 Title II	9.4
		$70.9

This funding allocation would provide funding for three development assistance projects as well as for the PL 480 Title I and Title II programs. While the Water Management II project is designated as a new project start, it is in fact an expansion and continuation of Water Management I. Thus, minimum level funding would be allocated entirely to maintain the momentum of Mahaweli Basin development, water management and potable water projects, and the PL 480 programs. These projects and programs are of high priority to the GSL, urgently require additional external assistance, will generate substantial employment opportunities, will benefit large numbers of rural poor, and could be managed without any increase over FY 1981 staffing levels of 22 US and 35 FN direct-hire.

The largest share of the Mission's FY 1982 funding requirement, whatever the Decision Package Level, is $25 million to meet the second-year funding requirements of phase II of the Mahaweli Basin development project. The Mission is fully committed to undertake a substantial component of this massive undertaking. This total program involves the construction of three or more large dams and other irrigation infrastructure which will provide irrigated agriculture on 340,000 acres of land for over 100,000 farm families (almost 600,000 people) in a sparsely settled 1,000 square miles in East-Central Sri Lanka. AID, in cooperation with Canada and the GSL, will be participating in a part of the overall program - the Maduru-Oya Basin which will prepare 120,000 acres to settle 224,000 persons. Canada will finance the dam (to be used primarily for irrigation), A.I.D. will finance the irrigation infrastructure and the GSL will finance the remaining infrastructure (schools, health centers, land clearing and actual settlement). Phase I of this project consists of a $10 million loan to fund the design and supervision of the irrigation network. Phase II will finance the actual construction of the irrigation network.

While the magnitude of multi-year funding allocated to the large Mahaweli Basin development program may appear to allow for some degree of deferred funding, this is not the case. Various components of the program are being funded by different donors and the GSL. Therefore, deferral or delay of one component would have a major adverse effect on other components. For example, an unplanned delay in dam construction will delay benefits in the downstream area while delays in completing a downstream area will diminish returns to investments in headworks. A similar situation exists with regard to activities within project components. AID's contribition has already been programmed to coincide with requirements. Deferrals could well throw the whole program off schedule. Heavy donor and GSL commitments to other project components minimize the availability of funds to replace AID commitments if they should be deferred. Deferral of funding for AID's component will also have broader implications. The GSL is fully committed to this program which has been recast by the GSL and potential donors as an accelerated development scheme. Although this program is in the process of being more realistically phased, any hesitancy on our part to move expeditiously with either our funding commitment or implementation of the AID component would raise serious doubts about the reliability of our commitment. Without the GSL's confidence in our commitment to the accelerated Mahaweli Basin development scheme, our program stands little chance of making a significant contribution toward the major goals of our CDSS since we would be denied an active voice in Sri Lanka's development strategies and programs.

The $10 million allocated to Water Management II constitutes an expansion and continuation of Water Management I. This project, which will build on the experience and work being done under Water Management I, is expected to include: (a) rehabilitation of the Uda-Walawe irrigation scheme, (b) some minor rehabilitation work on the Gal-Oya scheme, (c) modernization and rehabilitation work in five other major schemes, lesser work in fifteen other schemes, and (d) the development of irrigation associations to help rebuild the system followed by operation and maintenance schemes. Direct beneficiaries, estimated at 335,000 will be all the farmers within the irrigation schemes, most of whom are small, poor farmers cultivating 2 acres or less. This continued effort should result in significant measurable impact of AID assistance in the critical irrigation/water management sub-sector.

The remaining $3.5 million development assistance funds are allocated to complete funding of the Market Town Water Supply project which is designed to improve the quality and availability of water supplies in two selected Jaffna Peninsula market towns, expand GSL institutional capacity to plan and implement construction of medium size water supply and drainage systems and prepare a long-range water resources development plan for the Peninsula. This project benefits directly the 90,000 persons living in the two rural market town areas. Most of the Jaffna Peninsula's 800,000 population will benefit over the longer term as the experience gained is replicated in other market towns under the master plan for water resource development.

This minimum decision package level also includes approximately $32.4 million for P.L. 480 programs. The PL 480 Title I program is allocated at $23 million to finance 135,000 metric tons of wheat (the equivalent of 100,000 of wheat flour) which will enhance the nutritional status of the country at large, reduce the burden of significant food import requirements, alleviate serious near-term balance of payment problems and create employment through the small rural development activities financed with local currency generations. PL 480 Title II is allocated $9.4 million. This program, directed at nutritional deficiencies among lactating mothers, infants and primary school children, will provide benefits to an estimated 2 million recipients in FY 1982.

In summary, this Minimum Decision Package Level would enable the Mission to make an adequate contribution to progress towards the objectives of expanding rural production, increasing employment/purchasing power, and improving human productivity and well-being in rural areas. It would not, however, allow the Mission to pursue further, Dryland Agriculture Production/Marketing II, Alternative Energy and PVO Co-Financing projects gear up for future year programs at the proposed AAPL levels, nor undertake any new initiatives such as the Mahaweli Environmental and the Village Low-End Poverty Program projects.

Current Decision Package Level

The Mission has determined that the Current Decision Package level requires $46.5 million of new year funding for our development assistance program (about 1% more than our FY 1981 AAPL) and $40 million for our PL 480 programs. This program level totalling $86.5 million involves an incremental increase of $15.6 million over the Minimum Decision Package program. The main advantages of this decision package over the Minimum Decision Package are that it would provide the mission with the wherewithal to proceed rationally with preparation of projects for "out year" programs, strengthen the GSL's planning and implementation capacity, and provide additional means to assist the GSL with its increasingly serious short-term balance of payment deficits. It is believed that this increase can probably be handled with the same direct-hire staffing level (i.e. 22 US and 35 FN) as that required for the FY 1981 AAPL program and the FY 1982 Minimum Decision Package.

This current level program would enable the Mission to maintain an effective level of assistance in all three major categories of the program strategy. In terms of the categories and sub-categories of assistance described in the FY 1982 CDSS, the Current Decision Package level of funding would be allocated as follows (in $ millions):

1.	Rural Production and Employment		$38.0
	Mahaweli Basin Development	$25.0	
	Physical Infrastructure & Water Mgmt.	10.0	
	Rainfed Agriculture Production	3.0	
2.	Human Productivity & Well-Being in Rural Sector		43.5
	Environmental Health (Potable Water)	$ 3.5	
	Infant & Maternal Nutrition - PL480 II (MCHP)	3.3	
	Child Nutrition - PL 480 II (SFP)	6.1	
	PL 480 Title I	30.6	
3.	Planning & Implementation Capacity		5.0
	TOTAL CURRENT PROGRAM		$86.5

Recap:	Development Assistance	$46.5
	PL 480 Title I	30.6
	PL 480 Title II	9.4
		$86.5

In addition to the projects and program activities provided for in the Minimum Decision Package this funding allocation would provide funding for three additional projects and an increase in the PL 480 Title I program. In addition to maintaining the momentum of Mahaweli Basin development, water management and potable water projects and the PL 480 programs, this

Current Decision Package would permit the funding of one new project (Program/Project Preparation Studies) and one follow-on project (Development Services & Training II) directed at the GSL's planning and implementation capacity, continuation of the Agricultural Production/Marketing II project, and an additional 45,000 metric tons of wheat to assist the GSL with its serious near-term balance of payments problems.

The highest priority among these additions is funding for the Program/Project Preparation Studies project which is urgently required to enable the Mission and the GSL to prepare rationally the projects required for AAPL level programs in the "out year" programs. Continuation of the Development Services and Training Project (phase II) is required to strengthen the GSL's planning and implementation capacity. Continuation of the Dryland Agricultural Production/Marketing II project is required to bring the endeavor to improve and increase the production and marketing of rain-fed crops to a successful conclusion.

The incremental increase in the PL 480 Title I program will assist the GSL with its widening balance of payments deficits which are expected to remain serious over the next several years when major expenditures for the GSL's public investment plan are scheduled. The lag time between these expenditures and the return on these investments has created serious short-term balance of payment problems which this increase in PL 480 Title I will assist in alleviating. This increase in PL 480 Title I will also provide additional means for reducing the nutritional gap and supporting employment and equity-oriented development at the local level (see PL 480 narrative for justification).

In summary, this Current Decision Package level would enable the Mission to make a significant contribution to program objectives. It would not, however, allow the Mission to continue with the new FY 1981 initiative in alternative energy technologies and PVO activities nor would it enable the launch of the proposed new FY 1982 initiative in Mahaweli environmental protection.

AAPL Decision Package Level

The Approved Assistance Planning Level of $52 million in new year funding for our development assistance program and $40 million for PL 480 programs is the only option which would enable the Mission to fully maintain program momentum, contribute significantly to all of the major categories of assistance prescribed in the CDSS and undertake the new initiatives sponsored by AID/W and IDCA. The main advantage of this decision package over the others is that it would enable the launch or continuation of three new initiatives in areas of prime importance to the GSL, AID and US policy and would enable continuation of PVO activities.

This program level totalling $92 million involves an incremental increase of $5.5 million in development assistance funds over that of the Current Decision Package program. It also requires an incremental increase of three USDH and three FNDH over both the Minimum and Current Decision Packages.

In terms of the categories and sub-categories described in the "Assistance Strategy" of the FY 1982-86 CDSS, the AAPL Decision Package Level funding would be allocated as follows (in $ millions):

1.	Rural Production & Employment		$43.0
	Mahaweli Basin Development	$25.0	
	Physical Infrastructure & Water Mgmt.	10.0	
	Rainfed Agriculture Production	3.0	
	Rural Energy & Environment	4.0	
	Rural Enterprise	1.0	
2.	Human Productivity & Well-Being		44.0
	Environmental Health (Potable Water)	$ 3.5	
	Infant & Maternal Nutrition - PL480 II (MCHP)	3.3	
	Child Nutrition - PL480 II (SFP)	6.1	
	PL 480 Title I	30.6	
	PVO Support for Rural Dev.	0.5	
3.	Planning & Implementation Capacity		5.0
	TOTAL CURRENT PROGRAM		$92.0

Recap:	Development Assistance	$52.0
	PL 480 Title I	30.6
	PL 480 Title II	9.4
		$92.0

In addition to the projects and program activities provided for in the Minimum and Current Decision Packages this allocation would provide funding for continuation of the new FY 1981 initiative in alternative energy and a new FY 1982 project initiative in environment, both of which are sponsored by AID/W and IDCA. It would also provide funding to launch our first project in the area of rural enterprise and to enable continuation of the PVO Co-Financing project. Although these projects are assigned the lowest priority in the USAID's project profile, they are considered to be highly important to our development assistance program, U.S. policy and the GSL. Their rank in our decision packages is predicated more on their direct-hire staffing implications than their importance to the program.

This ranking of project priorities has been absolutely essential in view of potential staffing constraints. The two new initiatives will require technical expertise not presently available in the Mission and which are not likely to be used for design/implementation of other projects (i.e. one-project persons). Both are also likely to be very staff intensive. The two continued projects are also so very staff intensive that they are likely to require one person full time for each. In addition to direct project management, the cumulative effect of these four projects on the Mission's total program would result in the need for two more people for the support staff. Therefore, additional staff is more critical than additional funding if we are to continue or undertake these projects.

Continuation of the Alternative Rural Energy Technology project is especially important to both GSL needs and U.S. policy to accelerate the development of renewable energy resources world-wide. Over 98 percent of Sri Lanka's rural households (comprising 80% of the country's population) use wood for cooking and kerosene for lighting. With the rapid depletion of forests and the ever increasing cost of petroleum products, the GSL must find economically feasible technologies that can tap alternative, local sources of energy. This project will assist the GSL to develop, manufacture, install and maintain such technologies. Without adequate funding and staffing, however, it will not be possible to even initiate this project in FY 1981 let alone provide for its continuation in FY 1982.

Of near equal importance is the FY 1982 initiative of the Mahaweli Environmental Protection project which is designed to mitigate possible negative effects of the Accelerated Mahaweli Program on the environment. The substantial changes in land and water use in the Mahaweli Basin will have a significant impact on both the physical and social environment of the area. This project will finance important interventions needed to mitigate any negative impacts.

Another new initiative of this decision package will be the Village Low-End Poverty Program which is designed to identify the poorest families in villages of several districts and to assist them with loan and grants to establish short-term gestation, income-generating activities. This is a pilot project which could prove worthy of substantial expansion and possible conversion into a PL 480 Title III program.

Finally, this AAPL Decision Package would permit the continuation of the PVO Co-Financing project. While the Mission continues to believe that PVOs provide an unique mode of delivering assistance more directly to Sri Lanka's poor rural majority, PVO activities have proven to be so highly staff-intensive that the Mission can afford no further increases in the number of these activities without additional staff.

In summary, the AAPL Decision Package with both its funding and staffing levels will enable the Mission to pursue a program which significantly addresses the main lines of strategy and the near-term goals of the CDSS. It would enable the launch or continuation of three new initiatives in areas of prime importance to the GSL, AID and US policy. It would also enable continuation of PVO activities which have a distinctive place in the development process. To undertake and maintain this program, however, will require both the funding and direct-hire staffing levels requested (i.e. 25 USDH and 38 FNDH).

Bureau Code: Decision Code:

TABLE V - FY 1982 PROPOSED PROGRAM RANKING

DECISION UNIT
USAID/SRI LANKA

RANK	DECISION PACKAGES/PROGRAM ACTIVITY		TERM/ NEW/ CONT.	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING ($000)		WORKFORCE (Number of Positions)			
		DESCRIPTION				INCR	CUM	USDH INCR	USDH CUM	FNDH INCR	FNDH CUM
	DECISION PACKAGE MINIMUM										
	Pipeline Projects										
	383-0040	Rice Research	P	L	FN	(1,021)	(1,021)				
	383-0041	Paddy Storage & Processing I	P	L	FN	(350)	(1,371)				
	383-0043	Malaria Control	P	L	HE	(3,800)	(5,171)				
	383-0044	Development Services & Training	P	G	FN	(310)	(5,481)				
	383-0045	Agricultural Base Mapping	P	L	FN	(745)	(6,226)				
	383-0048	On-Farm Water Management	P	G	FN	(160)	(6,386)				
	383-0049	Agricultural Education Dev.	P	G	EH	(3,285)	(9,671)				
	383-0055	Reforestation & Watershed Mgt.	P	G/L	FN	(2,400)	(12,071)				
	383-0056	Mahaweli Basin Dev. I	P	L	FN	(6,900)	(18,971)				
	383-0057	Water Management I	P	G/L	FN	(4,150)	(23,121)				
	383-0058	Dryland Agric. Prod/Mktg. I	P	G/L	FN	(5,500)	(28,621)				
	383-0062	Kalutara Inst. of Health Scs.	P	G	HE	(300)	(28,921)				
	383-9996	Potable Water Sector Loan	P/C a/	L	HE	(10,000)	(38,921)				
		Sub-Total (Non-Add)					(38,921)	22	22	35	35
	New & Continuing Projects										
1	383-0073	Mahaweli Basin Dev. II	C	L	FN	25,000	25,000				
2	383-0074	Water Management II	N	G/L	FN	10,000	35,000				
3	383-0063	Market Town Water Supply	C	G/L	HE	3,500	38,500				
4		PL 480 Title I	C	G	FN	(22,950)	38,500				
5		PL 480 Title II	C	L	FN	(9,441)	38,500				
6		Basic Workforce						-	22	-	35
		Total Min.Package & Related Workforce				38,500	38,500	-	22	-	35

a/ While there is no FY 82 funding requirement, additional funds are required in FY 83

AID 1330-9 (5-79)

Bureau Code: Decision Code:

TABLE V - FY 1982 PROPOSED PROGRAM RANKING

DECISION UNIT
USAID/SRI LANKA

RANK	DECISION PACKAGES/PROGRAM ACTIVITY — DESCRIPTION		TERM/ NEW/ CONT.	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING ($000) INCR	PROGRAM FUNDING ($000) CUM	WORKFORCE (Number of Positions) USDH INCR	USDH CUM	FNDH INCR	FNDH CUM
	DECISION PACKAGE CURRENT										
7	383-0064	Prog./Proj. Preparation Studies	N	G	SD	3,000	41,500				
8	383-0076	Development Services & Training II	N	G	FN	2,000	43,500				
9	383-0065	Dryland Agric. Prod/Mktg. II	C	G/L	FN	3,000	46,500				
10		PL 480 Title I	C	L	FN	(7,650)	46,500				
		Workforce Increment Cur. Package						–	22	–	35
		Total Cur.Package & Related Workforce				7,000	46,500	–	22	–	35
	DECISION PACKAGE AAPL										
11	383-0075	Mahaweli Environment	N	G	FN	2,000	48,500				
12	383-9997	Alternative Rural Energy Tech.	N	G	SD	2,000	50,500				
13	383-0077	Village Low-End Poverty Prog.	N	G	FN	1,000	51,500				
14	383-0060	PVO Co-Financing	C	G	b/	500	52,000				
15		Workforce Increment AAPL Package						3	25	3	38
		Total AAPL Package & Related Workforce				5,500	52,000	3	25	3	38

b/ Mixed FN, HE & SD

AID 1330-9 (3-79)

OPERATING EXPENSE NARRATIVE

Increasing Unit Costs:

Increases in costs per unit for all categories are not considered excessive and are mostly the result of inflationary trends. Increases in housing expenses are attributable to expiration of older low-cost leases and the necessity of renegotiating these leases at higher costs or entering into other new leases which invariably are more expensive and require extensive renovations of the newly leased residences.

Office operations costs increases are necessary to furnish offices and services for a total USDH, FNDH and PSC increase of nine persons in FY 81 and an additional nine more in FY 82 (AAPL). The net office cost per employee declines from $5,141 in FY 80 to $4,467 and $4,427 in FY 81 and FY 82 (AAPL) respectively.

The dramatic overall increase in Mission allotment requirements for the FY 82 AAPL level results from the inclusion of three U.S. PSC's in FY 82. These individuals are included at an estimated cost of $75,000 each. The justification for their inclusion is contained in the decision package narratives.

Other items which cause budget increases are the provision of R&R travel to the U.S. in lieu of Hong Kong, and the provision of $100,000 in operational travel funds; part of which would be used to fund AID/W travel. The additional USDH staffing requirements also impact greatly on both total budget and Mission allotment requirement.

TABLE VI
PROJECT SUMMARY

NUMBER OF PROJECTS

	FY 79	FY 80	FY 81	FY 82 MIN	FY 82 CURR	FY 82 AAPL
IMPLEMENTATION AT BEGINNING OF YEAR..	9	11	15	18	18	18
MOVING FROM DESIGN TO IMPLEMENTATION DURING YEAR......................	2	5	4	1	3	5
DESIGN FOR FUTURE YEAR IMPLEMENTATION................................	5	4	5	–	2	3
SUBTOTAL..........	16	20	24	19	23	26
NUMBER OF NON-PROJECT ACTIVITIES....................................	22	27	30	30	30	30
TOTAL.............	38	47	54	49	53	56

NUMBER OF PROJECTS MOVING FROM DESIGN TO IMPLEMENTATION BY PROJECT SIZE

AID'S CONTRIBUTION TO LIFE OF PROJECT COST	FY 79	FY 80	FY 81	FY 82 MIN	FY 82 CURR	FY 82 AAPL
LESS THAN $1 MILLION............................		1				
$1 TO $5 MILLION................................	1	1	1		2	4
$5 TO $15 MILLION...............................	1	3	1			
$15 TO $25 MILLION..............................						
MORE THAN $25 MILLION...........................			2	1	1	1

TABLE VII
OPERATING EXPENSE FUNDED PERSONNEL
YEAR END POSITIONS

FUNCTIONS	FY 79				FY 80				FY 81			
	USDH	FNDH	US CONT	FN CONT	USDH	FNDH	US CONT	FN CONT	USDH	FNDH	US CONT	FN CON
Executive Direction	3	3			5	4			5	4		
Program Planning	2	2			2	3		2	2	4		1
Project Design	4	2			4	3		1	4	4		1
Project Implementation	6	6			7	8		2	8	11		1
Financial Management	1	4			1	6		1	2	7		
Mission Support		3		1	1	4		9	1	5		12
Non Mission Specific	1				1				1			
TOTAL...........	17	20		1	21	28		15	23	35		15
PLUS: PASAs (OE & Program)												
LESS: JAO Details		IDIs			1	IDIs			1	IDIs		
MODE Required	17				20				22	1		

TABLE VII

FUNCTIONS	FY 82 MINIMUM				FY 82 CURRENT				FY 82 AAPL			
	USDH	FNDH	US CONT	FN CONT	USDH	FNDH	US CONT	FN CONT	USDH	FNDH	US CONT	FN CON
Executive Direction	5	4			5	4			5	4		
Program Planning	2	4		1	2	4		1	3	4		1
Project Design	4	4		1	4	4		1	5	5	1	1
Project Implementation	8	11		1	8	11		1	9	12	2	1
Financial Management	2	7			2	7			2	8		
Mission Support	1	5		12	1	5		12	1	5		12
Non Mission Specific	1				1				1			
TOTAL............	23	35		15	23	35		15	26	38	3	15
PLUS: PASAs (OE & Program)												
LESS: JAO Details	1	IDIs			1	IDIs			1	IDIs		
MODE Required	22	1			22	1			25	1		

TABLE VIII

OPERATING EXPENSE SUMMARY

COST SUMMARIES	FY 1979			FY 1980			FY 1981		
	($000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost
US Direct Hire	653	12.1	54.0	1,019	17.0	59.9	1,310	22.0	59.6
FN Direct Hire	18	11.7	1.5	46	28.0	1.6	70	31.5	2.2
US Contract Pers.	-	-	-	-	-	-	-	-	-
FN Contract Pers.	1	2.0	.5	10	10.0	1.0	15	15.0	1.0
Housing Expense	224	17	13.2	189	21	9.0	246	22	11.2
Office Operations	353	xx	xx	329	xx	xx	326	xx	xx
Total Budget	1,249	xxx	xxx	1,593	xx	xx	1,967	xx	xx
Mission Allotment	710	xxx	xxx	650	xx	xx	803	xx	xx
FAAS	25	xxx	xxx	102	xx	xx	113	xx	xx
Trust Fund	-	xxx	xxx	-	xx	xx	-	xx	xx

TABLE VIII

COST SUMMARIES	FY 1982 MINIMUM			FY 1982 CURRENT			FY 1982 AAPL		
	($000's)	Related Workyear	Unit Cost	(000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost
US Direct Hire	1,392	22.0	63.3	1,392	22.0	63.3	1,579	25.0	63.2
FN Direct Hire	82	33.5	2.4	82	33.5	2.4	88	36.5	2.4
US Contract Pers.	-	-	-	-	-	-	225	3.0	75.0
FN Contract Pers.	17	15.0	1.1	17	15.0	1.1	17	15.0	1.1
Housing Expense	260	23	11.3	260	23	11.3	293	26	11.3
Office Operations	348	xx	xx	348	xx	xx	363	xx	xx
Total Budget	2,099	xx	xx	2,099	xx	xx	2,565	xx	xx
Mission Allotment	881	xx	xx	881	xx	xx	1,204	xx	xx
FAAS	133	xx	xx	133	xx	xx	133	xx	xx
Trust Fund	-	xx	xx	-	xx	xx	-	xx	xx

TABLE IX - SUPPORTING DATA ON PROPOSED PROGRAM RANKING
POSITION REQUIREMENTS - FY 1980 - 1982
(By Function, Organizational Unit, Position Title and Professional Speciality)

DECISION UNIT
USAID/SRI LANKA

DECISION PACKAGE

FUNCTION/ORGANIZATIONAL UNIT/ POSITION TITLE/PROFESSIONAL SPECIALITY	NUMBER OF POSITIONS									
	FY 1980		FY 1981		FY 1982					
					Minimum		Current		AAPL	
	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH
EXECUTIVE DIRECTION										
Director's Office										
Director	1		1		1		1		1	
Assistant Director	1		1		1		1		1	
Executive Assistant	1		1		1		1		1	
Lawyer	1		1		1		1		1	
Political Specialist		1		1		1		1		1
Economic Specialist		1		1		1		1		1
All Other (Non-Professional)	1	2	1	2	1	2	1	2	1	2
Subtotal Executive Direction	5	4	5	4	5	4	5	4	5	4
PROGRAM PLANNING										
Program Office										
Program Officer	1		1		1		1		1	
Assistant Program Officer	1		1		1		1		1	
Program Economist/Evaluation Officer	-		-		-		-		1	
PVO Specialist		1		1		1		1		1
Evaluation Specialist		1		1		1		1		1
All Other (Non-Professional)		1		2		2		2		2
Subtotal Program Planning	2	3	2	4	2	4	2	4	3	4

AID 1330-18 (3-79)

TABLE IX - SUPPORTING DATA ON PROPOSED PROGRAM RANKING
POSITION REQUIREMENTS - FY 1980 - 1982
(By Function, Organizational Unit, Position Title and Professional Speciality)

DECISION UNIT
USAID/SRI LANKA
DECISION PACKAGE

FUNCTION/ORGANIZATIONAL UNIT/ POSITION TITLE/PROFESSIONAL SPECIALITY	NUMBER OF POSITIONS									
	FY 1980		FY 1981		FY 1982					
					Minimum		Current		AAPL	
	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH
PROJECT DESIGN										
Project Design & Support Office										
Chief, PD & S	1		1		1		1		1	
Agricultural Development Officer	1		1		1		1		1	
Behavioral Science Advisor	1		1		1		1		1	
Engineer	1		1		1		1		1	
Capital Development Officer/Environment	-		-		-		-		1	
Capital Development Specialist		1		1		1		1		1
Training Specialist		1		1		1		1		1
Capital Project Assistant		-		-		-		-		1
All Other (Non-Professional)		1		2		2		2		2
Subtotal Project Design	4	3	4	4	4	4	4	4	5	5
PROJECT IMPLEMENTATION										
Rural Development Office										
Chief Rural Development	1		1		1		1		1	
Agricultural Development Officer	1		1		1		1		1	
Dryland/Reforestation	1		1		1		1		1	
Water Management Officer	1		1		1		1		1	
Irrigation Engineer	-		1		1		1		1	
Agricultural Economics Specialist		1		1		1		1		1
Agricultural Marketing Specialist		1		1		1		1		1
Program Specialist		-		1		1		1		1
Irrigation Engineer		1		1		1		1		1
All Other (Non-Professional)		2		2		2		2		2

AID 1330-18 (3-79)

DECISION UNIT
USAID/SRI LANKA
DECISION PACKAGE

TABLE IX - SUPPORTING DATA ON PROPOSED PROGRAM RANKING
POSITION REQUIREMENTS - FY 1980 - 1982
(By Function, Organizational Unit, Position Title and Professional Speciality)

FUNCTION/ORGANIZATIONAL UNIT/ POSITION TITLE/PROFESSIONAL SPECIALITY	NUMBER OF POSITIONS									
	FY 1980		FY 1981		FY 1982					
					Minimum		Current		AAPL	
	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH
Mahaweli Development Office										
Chief Mahaweli Development	1		1		1		1		1	
Engineer	1		1		1		1		1	
Environmental Officer		1		1		1		1		1
All Other (Non-Professional)		–		1		1		1		1
		1		1		1		1		1
Human Resources Office										
Chief, Human Resources	1		1		1		1		1	
Health & Family Planning Development Officer	–		–		–		–		1	
Public Health Specialist		1		1		1		1		1
Family Planning Specialist		–		–		–		–		1
All Other (Non-Professional)				1		1		1		1
Subtotal Project Implementation	7	8	8	11	8	11	8	11	9	12
FINANCIAL MANAGEMENT										
Controller's Office										
Controller	1		1		1		1		1	
Assistant Controller (IDI)	–		1		1		1		1	
Accounting Specialist		1		1		1		1		1
Accountant		1		1		1		1		1
Supervisory Voucher Auditor		1		1		1		1		1
Voucher Examiners		1		2		2		2		2
Financial Analyst		1		1		1		1		1
Assistant Accountant		–		–		–		–		1
All Other (Non-Professional)		1		1		1		1		1
Subtotal Financial Management	1	6	2	7	2	7	2	7	2	8

AID 1330-18 (3-79)

TABLE IX - SUPPORTING DATA ON PROPOSED PROGRAM RANKING
POSITION REQUIREMENTS - FY 1980 - 1982
(By Function, Organizational Unit, Position Title and Professional Speciality)

DECISION UNIT
USAID/SRI LANKA
DECISION PACKAGE

FUNCTION/ORGANIZATIONAL UNIT/ POSITION TITLE/PROFESSIONAL SPECIALITY	NUMBER OF POSITIONS									
	FY 1980		FY 1981		FY 1982					
					Minimum		Current		AAPL	
	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH	USDH	FNDH
MISSION SUPPORT										
Administrative Office										
JAO Detail	(1)		(1)		(1)		(1)		(1)	
C&R Assistant		1		1		1		1		1
All Other (Non-Professional)		3		4		4		4		4
Subtotal Mission Support	(1)	4	(1)	5	(1)	5	(1)	5	(1)	5
NON MISSION SPECIFIC										
Regional Malaria Officer	1		1		1		1		1	
Subtotal Non-Mission Specific	1		1		1		1		1	
Total Increment	20	28	22	35	22	35	-	-	3	3
Cumulative Total	20	28	22	35	22	35	22	35	25	38

AID 1330-18 (3-79)

AUTOMATIC DATA PROCESSING (ADP) WORD PROCESSING (WP) REPORT

Many lengthy documents produced each year within the Mission must go through several drafts before being typed in final. The USDH drafting officer must proofread the entire document after each retyping. This frequent proofing is quite time consuming and disruptive of other work, particularly when errors in the retyping must be corrected. Since most typing is done by FNDH for whom English is a second language the error rate is quite high, even by the best of secretaries. Often the proofing of the documents described below comes at times when the drafting officer is extremely pressed for time. Therefore, savings in time is more valuable here than for other work.

The justification for a word processer (WP) is not in the savings in FN secretarial typing time -- which would be substantial and beneficial since there is a ceiling on local staff -- nor in FN pay as FN salaries are very low. The justification is in the improvement in efficiency of the USDH drafting officer who has to spend considerable time proofing and checking each typing. A WP would enable high-cost USDH personnel to work more efficiently in a period when it is necessary to "do more with less" in the overseas missions.

Some types of lengthy documents which require several typings and much time in proofreading include:

1. Project Identification Document (PID) - About four to six PIDs, which often are 6-10 pages long, are prepared each year.

2. Project Paper (PP) - Each of the four to five PPs written each year is about 40-60 pages of text with annexes of 50-100 pages.

3. Project Agreement - This is required for each approved PP. It is usually about 16 pages long and must be letter perfect.

4. Request for Proposals, Request for Bids, PIO/T and PIO/C - Several of these somewhat lengthy documents must be prepared for each project during early implementation stage.

5. Country Development Strategy Statement (CDSS) - Although this document is supposed to be only updated each year, even the updating can run to 20 pages or more.

6. Annual Budget Submission (ABS) - The narrative section, and often the tables, have to be revised and retyped several times, often only to reflect minor changes. This is always done under great time pressures when accuracy in numbers and tables is critical.

7. Lengthy internal memoranda, USAID Orders and Notices, letters and reports - Many of these documents go through two or three drafts before being typed in final.

For the reasons stated above, the Mission plans to buy one new Wang Word Processor as described in State 125120 (May 11, 1980, "Mission Automation") as early as possible in FY 82. Since there is a dealer in Colombo who handles Wang products, local maintenance should not be a problem. The WP would be used by several secretaries as a part of their regular duties, so no additional staff or personnel costs are involved. The funding priority is for the "Minimum" package. Based on the best information available in Colombo, the estimated cost for the WP is $8,000. This would be a one-time capital investment cost.

(note: Page 39 of the ABS instructions calls for detailed information being provided in Table VIII. Since Table VIII is for other purposes, these instructions appear to be in error. The above information should be sufficient to complete any tables which AID/W might require but which weren't included in the ABS package of materials).

TABLE X

SPECIAL CONCERNS

(To be inserted by AID/W)

P.L. 480 Narrative

A. Introduction

In response to the AID/W CDSS issues cable (State 067409) the following PL 480 narrative presents a more extensive analysis than in previous years. Significant changes in the policy and program environment for PL 480 assistance to Sri Lanka over the last year have also highlighted the need for a more extensive analysis. This analysis endeavors to demonstrate the Mission's belief that a strong developmental case can be made for sustained, relatively high levels of PL 480 assistance over the next three years (FY81-83). These levels form part of a reasonable plan that will complement the GSL's goal of becoming self-sufficient in basic food grains. After FY 1983, it is proposed that PL 480 levels decline with Title I phasing out entirely by 1987-88 when development efforts now getting underway should yield self-sufficiency in basic food grains.

A major determinant of the kind and amount of commodity most appropriate for Title I assistance is the demand for imported rice and wheat (all wheat must be imported). Current consumption of imported rice and wheat flour has apparently dropped sharply owing to a current bumper rice crop and recent major policy changes, such as elimination of the food ration system and the domestic subsidy on wheat flour and bread. Therefore, while a range of other factors favor a high level of PL 480 Title I assistance, the recommendations of this narrative must be viewed as tentative and subject to revision, based on changes in consumer demand over the next few months.

Title II programs, which are intended to reduce directly malnutrition of mothers, infants and children, will remain at about the same levels (adjusted for cost changes). The Mission recommends further analysis and assessment of the nutritional impact, cost effectiveness, and logistical aspects of Title II programs in Sri Lanka.

B. Rationale

There are four basic rationale for PL 480 food aid to Sri Lanka: (1) to support employment and equity-oriented development at the local level; (2) to meet a continuing nutritional gap; (3) to reduce the economic burden of food import requirements; and (4) to help cover serious near-term balance of payment deficits.

The first Sri Lanka PL 480 rationale is to support employment and equity-oriented development at the local level. The local currency generated by the sale of Title I wheat flour through the GSL Food Commission goes into a GSL Counterpart Fund Account from which the local cost component of the GSL's capital expenditure budget is financed.[1] Title I proceeds are, according to the Title I agreement with the GSL of March 18, 1980, to be used fo finance the agreement's self-help measures to: (1) improve agricultural production and consumption forecasting; (2) improve storage and warehouse facilities for food commodities; and (3) upgrade reforestation, dryland and watershed management programs. Proceeds are also to finance development efforts in the agriculture, water resources and population planning sectors, emphasizing "directly improving the lives of the poorest of the recipient country's people and their capacity to participate in the development of their country." A major share of proceeds under previous agreements has gone for such activities as: construction and maintenance of farm-to-market roads, rehabilitation of minor irrigation tanks and associated canal and drainage systems, and construction of village and town agricultural market places. This Counterpart Fund has become critical to the continued pursuit of small-scale, quick-yielding rural development projects at the local level, given the fact that inflationary pressures are forcing regular budgetary resources to be increasingly focussed on major, but longer-gestation projects, such as the Accelerated Mahaweli Development Program. A shortfall of $65 to $100 million a year is estimated to still exist in the Capital Development Budget for the 1980-84 period.

The second rationale is to meet a continuing nutritional gap. The recent ASIA Bureau Health/Population/Nutrition (HPN) Sector Review Team to Sri Lanka concluded that under-nutrition and malnutrition remain at significant and in some cases serious levels (see Sri Lanka HPN Sector Review Draft Report, April 1980). One study reviewed by the team finds that the gap between recommended and available calorie levels widened between 1959/60 and 1973, particularly at lower income levels.[2] The most serious problem exists among children. The roughly 41% of primary school children who suffer from some degree of Protein Calorie Malnutrition (PCM) experience a shortfall estimated at 300-400 calories and 5-10 grams of protein a day. About 43% of pre-school children in 1975-76 suffered from second and third degree PCM.[3] While more recent systematic evidence is not available, spot

---

1 See Canadian International Development Agency (CIDA), A Review of Canadian Food Aid and Commodity Loans to Sri Lanka (Ottawa: draft, April 1980), p.20, -- and Colombo 2885, of June 6, 1979. The CIDA study recommends that CIDA approve in advance the projects to be financed from local currency proceeds. CIDA is in a strong position to do this, as all Canadian food aid, including shipping costs, is on a grant basis.

2 James Gavan and Indrani Sri Chandrasekera (Monograph on Food Production and Consumption Policies in Sri Lanka), International Food Policy Research Institute, Washington, D.C, 1979.

3 GSL, Ministry of Health, Sri Lanka Nutrition Status Survey, 1975-76, prepared with assistance of U.S. Center for Disease Control, Atlanta, Georgia.

checks and other evidence suggest the problem has not significantly improved and may have become worse.[4] Wheat flour and such other food aid commodities as corn and soybean can fill these nutritional gaps.[5] Moreover, wheat flour has been consumed over the last 30 years by an increasingly broad segment of the population, both in terms of income level and geographical locations.[6] The convenience of wheat flour for baking and widespread availability of commercial bakery-produced bread have been cited as factors encouraging wheat flour consumption.[7]

A third rationale for PL 480 to Sri Lanka is to reduce the economic burden of its substantial food imports, which during the years 1972-79 averaged about 40% of the annual value of total imports (unweighted annual average; see Table A at the end of PL 480 narrative). In 1979 total food imports amounted to about $310 million or about 21% of total 1979 imports. Rice, wheat, and wheat flour, which have constituted the bulk of grain imports, averaged about 68% of the value of total food imports during 1972-79. In 1979 total imports of these 3 commodities amounted to about $166 million or 54% of total 1979 food imports.

In physical terms, rice, wheat and wheat flour imports during 1970-79 averaged about 872,000 metric tons (MT) a year or about 46% of the total availability of these commodities (see Table B). Given difficult growing conditions in Sri Lanka, all wheat grain has been and continues to be imported; however, with the completion of the new Prima flour mill

---

4 See Nutrition section of draft HPN Report as cited in text above.

5 The recent USAID supported Kansas State University report, "Recommended Support for Grain Policy Development and Implementation in Sri Lanka," Food and Food Grain Institute Report No.78, March 1979, indicates: "A pound of milled rice has about 99% as many calories as a pound of wheat flour and approximately half as much crude protein" (p.37).

6 The Survey of Sri Lanka's Consumer Finances, 1973 prepared by the Central Bank of Ceylon indicates that during the two sampled months in 1973 expenditure on wheat flour in rural areas at Rs.1.86 per capita exceeded that in urban areas at Rs.1.53 per capita. Even more striking, rural expenditure per capita for the lower middle income categories of Rs.100-200 and 200-400 monthly income per spending unit exceeded the overall rural average. Even at Rs.50-100 monthly income, per capita spending on flour was Rs.1.68. While expenditure on bread in urban areas at Rs.4.12 per capita exceeded that in rural areas at Rs.2.38 per capita, expenditure in lower income categories was significant (Rs.2.18 per capita for the Rs.50-100 monthly income rural spending unit.) See tables S609 and S610, pp. 518-19, Part II. Also see CIDA Review, op. cit., (Ottawa: draft, April 1980), pp.15&17.

7 See CIDA op. cit., p.14.

in Trincomalee during the latter half of 1980, no more wheat flour will be imported. Wheat flour and wheat (measured in terms of wheat flour equivalent) averaged 506,000 MT a year (1970-79) or 58% of total rice and wheat flour (and wheat) imports; in 1979 wheat flour and wheat imports were 590,000 MT or 68% of total rice and wheat flour (and wheat) imports. Rice imports averaged 346,000 MT a year during 1970-79 or 26% of total rice availability; in 1979 rice imports were 273,000 MT or 17% of total rice availability.

It will be noted from Table B that wheat and wheat flour imports declined in 1979 from 1978 and that rice in 1978 and 1979 were significantly lower than in most previous years of the decade. Owing to a bumper "Maha" (major season) paddy harvest and plentiful domestic rice available at a reasonable price in the local open market, the monthly draw-down of imported rice stocks in 1980 has declined to a level which, if continued through 1980, would indicate a significantly lower level of rice imports than the previous low point of 169,000 MT reached in 1978. This same factor plus the elimination of the domestic subsidy on wheat flour and bread in February 1980, has resulted in a significant decline thus far in the monthly wheat flour off-take (see further discussions below in Sections D and F). The third major food import, sugar, has continued to increase, reaching 177,000 MT in 1979 or 92% of total availability.

A range of coarse grains, pulses and root crops have served as partial substitutes in varying degree in human consumption for rice and wheat flour (with the latter two commoditeis in turn being partial substitutes for each other). Table C (at the end of PL 480 narrative) groups the major crops into 3 categories: (1) coarse grains — maize, sorghum, kurakkan or finger millet and meneri —; (2) pulses -- green gram, black gram, dhal, cowpea, soya beans, and ground nuts —; (3) and root crops — manioc or cassava (as well as sweet potatoes, not shown in the table). Some of these crops, such as the grams, cowpea and dhal, are widely used with curries; soya has only recently been intorduced into Sri Lanka; maize is used more for animal than human consumption; finally, such crops as sorghum, finger millet, cowpea, manioc and sweet potatoes are generally viewed as "poor man's" foods or elements in the diet of low income families, particularly when they cannot afford rice or wheat flour (or bread). There is no systematic analysis of consumption patterns of these crops by income group of which the Mission is aware. A comparison of Tables B and C (end of PL 480 Narrative Section) shows that the production of coarse grains and pulses in 1978 at 56,000 MT and 51,000 MT, respectively, were each about 4% of rice production at 1,288,000 MT and 10% of wheat flour imports at 664,000 MT. Manioc production, largely home consumed, has been estimated at much higher levels — 637,000 MT in 1978 or about 49% of rice production and 96% of wheat flour imports.

A final rationale for PL 480 assistance is widening balance of payments deficits which are expected to remain serious over the next three to four years. The current account deficit more than trippled between 1978 and

1979, from $97 to $320 million, and is expected to almost double again in 1980 (to $438 million), notwithstanding continued expected growth in export earnings from such "traditional" exports as rubber, gems and minor export crops, as well as a doubling of industrial exports, including garments (to $184 million) and over a 20% growth in earnings from tourism. This situation continues to reflect a massive increase in import expenditures (with about two-thirds of the increase being for capital and intermediate goods) stemming from import liberalization, accelerated economic growth and development programs, and world inflation of the prices of petroleum and other imported raw materials. In fact, even with an expected increase by over 30% in official loans and grants (to about $480 million in 1980) and similar relative increases in foreign private investment and worker remittances (to $65 million and $78 million, respectively), the overall balance of payments in 1980 could, in the absence of additional capital inflows, reverse from a 1979 surplus (of $46 million) to a deficit ranging from $65 to $125 million.[8] This situation is expected to prevail during the next 3 to 4 years when the major expenditures for the 1980-84 public investment plan are scheduled but before their contributions to domestic production and foreign exchange saving and earning are fully realized. PL 480 food aid, in addition to AID development assistance, can make a significant contribution to covering these near-term balance of payments gaps. The fact that the share of investment and intermediate goods in total imports has increased from 48% in 1975 to 65% in 1979 suggests that foreign exchange released by financing through PL 480 the importation of food commodities will be used primarily to support Sri Lanka's development efforts. In the absence of additional balance of payments assitance, Sri Lanka's development programs could be curtailed and accomplishment of development objectives, as detailed in the FY 82 CDSS, jeopardized.

C. Instrument Mix

The Mission recommends a combination of Title I and Title II to meet the above objectives. Title I food aid contributes to all 4 objectives: (1) support of rural development and employment at the local level; (2) improved nutrition; (3) reduced economic burden of food import requirements; and (4) coverage of balance of payments gaps. Wheat flour milled from PL 480 Title I is distributed by the Food Commission to cooperatives, bakeries and other registered retail outlets. These outlets are the sole sources of commodities, including wheat flour and bread, covered under the GSL's Food Stamp Plan which is restricted to families in the lower half of the income distribution. For further discussion of future likely levels of demand for wheat flour, see Section F.

---

8 Based on discussions with GSL officials and joint Embassy/AID assessments.

Although the subject has not been raised in recent months, the GSL is presumably still interested in a Title III program. The Mission is continuing to consider possibilities, but has simply not been able to devote the considerable staff time required to develop and obtain approval for a Title III program that might have a reasonable chance for acceptance by all parties involved in the review process. An expanded version of the "Village Low-End Poverty Program" described elsewhere in the ABS as a pilot DA project for FY 82 could be developed into a Title III program beginning in FY 83. This program should lend itself to Title III in view of the fact that it seeks to generate increased income and employment among the poorest rural families who have a high income elasticity of demand for food. But implementation of this program even on a DA pilot basis by FY 82 depends, as discussed elsewhere, on the Mission being able to expand its DH staff.

The Mission proposes continuation of a Title II grant program to address the nutritional improvement objective. The program is administered through CARE which acts as the cooperating sponsor in collaboration with the Ministry of Education for the School Feeding (SF) program and the Ministry of Health for the Maternal Child Health (MCH) program and other smaller programs (Thriposha Commercial Market and Other Child Feeding). The MCH program addresses the three predominant nutritional problems in Sri Lanka: Protein Calorie Malnutrition (PCM), Nutritional Anemia and Vitamin A deficiency. Through the monthly issuing of a nutritional food supplement (through some 2,000 social service units) to medically selected pregnant and lactating mothers and pre-schoolers, the MCH program seeks to reduce third degree malnutrition by 75% and second degree malnutrition by 50%. It is estimated that a 4 month Thriposha program for pregnant women should result in a 20 lb. gain and babies with a "normal" 5-1/2 lb. birth weight. The nutritious food supplement provided through this program is a blend of instant corn soy milk (70%) and local cereals (30%) called "Thriposha".[9] A factory constructed under this program began production of Thriposha in January 1980 and is now producing 42 tons per day. Thriposha (under the Thriposha Commercial Market Program) is being market tested for sale commercially at low cost.

Approximately 41% of Sri Lanka's primary school children suffer from PCM. The nutritional shortfall for primary school children is estimated at 300-400 calories and 5-10 grams of protein per day. The primary school feeding program, through the delivery of a daily 50 gram (238 calories and 7.5 grams of protein) nutritious ration to primary school children in some 8,000 targeted schools, seeks to maintain and improve the nutritional status of primary school children in these schools. Nutrition education and a primary school nutritional surveillance system are integral parts of this program.

---

9 Beginning in March 1981 the proportions will change to 60% ICSM and 40% local cereals; in FY 1983, to 50-50; and in FY 84 to 40% ICSM and 60% local cereals.

D. Food Self-Reliance

Sri Lanka's historically high food import requirements have been described in Section B. However, with the expansion of irrigated acreage, the development and spread of high-yielding varieties and other inputs, and the increasing effectiveness of the Guaranteed Price Scheme, domestic rice production has accelerated from an annual growth rate of 3.5% over the last 10 years to 5.25% over the last five years.[10] The share of rice imports in total availability declined markedly to 12% and 17% in 1978 and 1979, respectively, compared to an annual average of 29% for the 1970-77 period. The GSL's policy is to reach self-sufficiency in rice production as soon as possible. The Ministry of Agricultural Development and Research has suggested a 1981 or 1982 target. This could be achieved if the Ministry's "high projection" for yield growth and a relatively low growth of demand are assumed. More conservative (and probably more realistic) Mission assumptions would result in self-sufficiency being achieved between 1985 and 1990.[11] It is during this period that increases in rice production from the country's major development schemes, including those receiving substantial USAID assistance, should be realized (see discussion in Sri Lanka FY 82 CDSS, pp.26-27).

At least one GSL official has defined "total" basic food self-sufficiency as the point at which Sri Lanka will earn enough foreign exchange from the export of surplus rice to pay for its wheat requirements. Achievement of so-called "total" self-sufficiency, as defined above, will thus depend not only on the growth of rice production and demand, but also on projections of Sri Lankan demand for wheat flour and the international prices of rice and wheat flour (or the wheat grain equivalent). Utilizing a range

---

10 These compound annual growth rates are based on 5-year average initial and terminal production for the 10-year comparison (1965-69 and 1975-79, respectively) and 3-year averages for the 5-year comparison (1972-74 and 1977-79, respectively). Averages were employed in order to smooth out the effects of such annual influences as variations in weather.

11 "Low" demand growth is the 2.17% compound annual growth of total availability of rice (production plus imports) between 1965/69 and 1975/79. In the less optimistic projections, a higher rate of demand growth (3.35%) is assumed, based on the growth of population (1.7%), and per capita income (3.3%) as well as the income elasticity of demand for rice (0.5). A lower growth of production (5.25%), based on compound annual growth from 1972/74 to 1977/79, is also assumed in one of the projections.

of reasonable assumptions about these parameters, the Mission estimates that "total" self-sufficiency might be achieved sometime between 1987 and the year 2000.[12]

The GSL has no quantified production targets for coarse grains, pulses or root crops. The current Dryland Agriculture Production/Marketing I project proposed for USAID support and currently in preparation may lead to the GSL's adopting targets for eight commodities. The project aims to double yields by 1990 of each of the folloiwng commodities: maize, sorghum, finger millet, meneri, black gram, green gram, cowpeas and groundnuts. The GSL has recently increased floor prices for several of these crops. Proposed USAID assistance to the GSL Marketing Research Unit and for Dryland Production/Marketing I and II will further improve marketing of these crops.

E. Other Policy Considerations

The domestic price of wheat flour, which less than three years ago was pegged at 40% of landed cost, has been progressively raised until, on February 23, 1980, it was increased by 58% to Rs.2.37 a pound. The price of bread was raised accordingly. This bold and politically risky measure completely eliminated the domestic subsidy to wheat flour and in the Mission's judgement greatly weakens any disincentive the importation of wheat/wheat flour might have on domestic production of rice and subsidiary coarse grains and pulses (in fact the new price was set slightly above the landed cost of imported wheat flour in order to anticipate possible world price increases during 1980).[13] The announced policy of the GSL is to permit the domestic price of wheat flour to move with the world price.

The Mission believes the receiving, storage and distribution capacity of Sri Lanka are adequate to handle the levels of PL480 imports recommended in the following section. See also Colombo 1935 (April 22, 1980) for

---

12 It was assumed that wheat flour consumption will either remain constant from 1981 at 420,000 metric tons a year, or increase as a result of per capita income and population growth at about 3 percent a year. It was also assumed that the ratio of international rice to wheat (wheat flour equivalent) price ratios (c.i.f. Colombo) will range between the values experienced between 1970 and 1978, 0.60 to 0.85 (see Kansas State University, op,cit., p.55). These assumptions yield amounts of rice exports ranging from 250 to 500,000 metric tons by 1990 required to pay for estimated wheat import requirements.

13 In fact, the February action brought the retail price ratio between rice and wheat flour below 1 for the first time. For an earlier study which concluded that the 60% subsidy on wheat flour which prevailed in 1977 and earlier did have a disincentive effect on coarse grains and yam production, see P.A.S. Dahanayake, "Disincentive Effects of Food Aid on Food Production in Sri Lanka", Central Bank of Ceylon, August 1978.

additional information and judgement on Sri Lankan storage and handling capacity. The recent CIDA Review of Canadian Food Aid and Commodity Loans to Sri Lanka (see note 5) found GSL performance in unloading, storage and distribution to be adequate, with losses reported between one and two percent. The CIDA review team also concluded that the GSL National Food Policy Committee (NFPC), established in early 1979, should result in an improvement of demand forecasting.[14] The recently established GSL Marketing Research and Assessment Unit, which is about to receive technical assistance from the Mission's Development Services & Training Grant, will provide the NFPC with analytical support in coordinating grain production, import and distribution policies.

F. Recommended Levels of Title I Assistance

The U.S. is providing the wheat equivalent of 107,300 MT of wheat flour (145,000 MT of wheat) under PL 480 Title I to Sri Lanka in FY 1980. This level includes an amendment for an additional 28,100 MT of wheat flour (38,000 MT of wheat) authorized in April for negotiation in response to the Mission's request, which was in turn based on the GSL's urgent need for additional balance of payments financing in support of its development efforts beset with inflation, in the cost of imported raw materials and capital goods and in view of its steps to eliminate the subsidy on wheat flour as well as to reduce other subsidies. The Mission believes the foregoing analysis of needs and objectives of food aid to Sri Lanka, as well as the discussion of self-sufficiency efforts and pricing and other policy measures, justify a continuation of Title I assistance at a level of 100,000 MT of wheat flour, or 135,000 MT of wheat, a year for the fiscal years 1981-83. If total demand for wheat flour in Sri Lanka remains constant at 420,000 MT a year, this level of Title I support would provide about 24% of total wheat imports (see Table D at end of PL 480 narrative).

The Mission further believes that particularly in view of the large balance of payments deficits which are expected to continue over the next three to four years when the import requirements of the GSL's development programs will be particularly heavy (see "Rationale" section above), additional annual Title I support above 135,000 MT of wheat could be justified. Therefore, a total of 180,000 MT of wheat, or 133,200 MT of wheat flour, a year is recommended for 1981-83. This would represent slightly less than a third (31.7%) of total wheat flour demand if the latter remains at 420,000 MT a year (see discussion below on this point). For the ABS year, FY 82, Tables I and V rank the first 135,000 MT of wheat in the "Minimum" category and the next 45,000 MT in the "Current" category.

As indicated in previous sections, by 1984 Sri Lanka's need for extraordinary balance of payments support should begin tapering off. Self-sufficiency in rice production should also be imminent if not already achieved.

---

14 CIDA, op. cit., pp. 15-19.

Over the years 1984-87, as major agricultural development projects assisted by AID and other donors for the Accelerated Mahaweli Program, Rice Research, Water Management, Paddy Processing & Storage, and Dryland Agricultural Production/Marketing continue or begin to make substantial contributions to food production (see FY 82 CDSS, pp.26-27), and as Sri Lanka approaches the point of earning enough foreign exchange through rice exports to pay for its wheat imports ("total" self-sufficiency), Title I assistance is projected to decline, as shown in Table 1. By 1986, Title I is projected to decline to about 14,000 MT of wheat flour equivalent or slightly less than 10% of 420,000 MT estimated total flour demand. By 1987 a further decline to about 11,000 MT or about 2-1/2% of total demand is projected. (See Table D) Unanticipated adverse circumstances, such as drought or external (world market) shocks beyond GSL control, would force reconsideration of these projections.

One important consideration in recommending Title I levels is the likely effect on the demand for wheat flour and bread following the February 1980 flour price increase of 58%, which eliminated the domestic subsidy. The flour off-take from Food Commission stocks declined to 22,000 MT in March from the monthly average of about 45,000 MT during the previous six months. As reported in Colombo 1935 (April 22, 1980), this decline was believed to somewhat overstate the true decline in consumption, owing to release of private stocks hoarded in anticipation of the price increase. Poor quality of then available EEC wheat and seasonally low rice prices reflecting the record "Maha" paddy harvest were also believed responsible. While official figures have not been released, the Food Commission indicates that the April off-take remained, at least in part for the two last-mentioned factors, near the March level. Although Mission assessment of the elasticity of consumer substitution between wheat flour and domestically produced grains suggests a low responsiveness to relative price changes, the current existing price ratios between rice and other domestic grains on the one hand, and wheat flour on the other, are lower than ever before experienced.[15] Thus, while wheat flour consumption may recover from the March and April lows, it is <u>not</u> likely to return to pre-1980 levels. The Food Commission estimates that a new "normal" consumption level of 35,000 MT a month will be reached over the next few months, resulting in an annual consumption of 420,000 MT beginning in 1981. Other GSL officials believe it will not increase much above 25,000 MT a month or 300,000 MT a year.

---

15 Assessment of low substitution elasticity based on review of KSU report, <u>op. cit.</u>, p.57, and on Mission regression analysis of rice-flour price and consumption ratios for the 1961-77 period. The latter analysis showed a statistically insignificant degree of association between the two ratios.

It is even more difficult to project what might happen to flour demand in the longer run. The rice-flour price ratio might decrease even further over the long run, if -- as it seems plausible -- the growth of world-wide demand for wheat outstrips supply at a faster pace than will occur for rice. On the other hand, increasing population and per capita income would, other things being equal, increase the demand for flour. In the absence of information on world-wide long-run commodity price projections, the Mission assumes a constant level of flour demand of 420,000 MT a year. A more definitive projection cannot be made until flour off-take is observed for the next few months. As rice stocks are worked down the resulting increase in price may shift some consumption towards wheat flour. If flour consumption were to remain as low as 300,000 MT a year, the recommended "Current" Title I annual level of 133,000 MT of wheat flour would amount to 44% of total demand. It could be difficult to negotiate a UMR ("Usual Marketing Requirement") in circumstances that would permit 133,000 MT of Title I plus another 15 to 30,000 MT of concessional wheat flour equivalent from other countries, given that the FY 1980 UMR alone requires 300,000 MT to be purchased on commercial terms.[16] At a total annual demand level of 330,000 MT, it may not be possible to negotiate a level of Title I wheat in excess of 100,000 MT. In these circumstances additional Title I assistance would have to consist of another commodity, such as, cotton. Sri Lanka imports most of its cotton with about 15 to 20 % coming from the U.S. in recent years, so this could be a possibility. In the absence of firmer information on future wheat flour demand, the Mission has not pursued this possibility further.

A related issue concerns the impact of elimination of the wheat flour subsidy on the consumption of flour and bread by low income groups. Rations of rice, paddy, sugar and milk foods restricted to the lower half of the income distribution in 1977 were in turn eliminated completely in October 1979 when the food stamp plan took the place of the ration program. An authorized holder of stamps may exchange them at market prices at outlets authorized by the Food Commission for any combination of the above commodities as well as for wheat flour, bread, and available pulses (a few stamps are ear-marked for kerosene also). The stamps are denominated in monetary terms, so that when market prices of the covered commodities increase, purchasing power of the food stamps declines -- unless additional food stamps per capita are issued. The latter does not yet appear to be in the offing. Casual reports from the countryside (e.g., field trip discussions held by the AID/W HPN Review Team) suggest that rural families with access to food stamps reduced substantially their use of stamps for flour and bread after the February price increase. On the other hand, it should be noted that the total rupee amount of the food stamp allocation per family was designed to be larger than the prevailing value of the ration by an amount calculated to compensate for the anticipated elimination

---

16 Non-U.S. concessional figures based on recent experience and GSL projections. The major non-U.S. source of food aid is Canada.

of subsidies on covered commodities, including flour and bread. Moreover, stamp allocations vary by family member, with a larger amount for children. As in the case of the 1977 ration reform, food stamps are restricted to the lower half of the income distribution. Plans to restirct coverage further appear to have been shelved in view of concern over hardship caused by inflation. Families recently forced below the median income because of unemployment or other hardship have reportedly not been able to get access to stamps, however. Finally, the cost of fuel has been cited as a factor encouraging bread rather than flour or grain consumption.[17] A study of how food stamps are being allocated would provide valuable information for planning related to food production and imports as well as assessment of the impact of inflation on the nutrition of lower income groups. The GSL Food Commission is considering such a study towards the end of 1980, after, according to the Food Commissioner, "Adjustments to the new price structure have been made."

Although the Mission believes the foregoing, which draws on recent studies such as the KSU Report, CIDA Review, and HPN Review, represents a fairly comprehensive analysis, there are refinements which should be made. These include more thorough investigation of possible production dis-incentive effects and consumption substitution between wheat flour and domestically produced grains, pulses and root crops; improved world commodity price projections, drawing on work done by the World Bank and elsewhere; and at least a sample survey of the allocation of food stamps by families. The GSL Ministry of Finance and Planning, with the assistance this summer of consultants from the Harvard Institute for International Development has initiated studies on basic food production and consumption policies as well as on improving the food stamp program. A study of the nutritional impact of food stamps may also be done as part of a June-July 1980 AID/W-funded consultancy by Dr. James Levinson to the GSL's Food and Nutrition Policy Planning Unit. The Mission is therefore recommending three to four person months of consultancy during summer or early fall 1980 from PD&S funds to conduct further analysis of Title I assistance, drawing on recent studies.

G. Recommended Levels of Title II Assistance

In accordance with the approved CARE Multi-Year Plan, Title II assistance having an estimated cost of $9.4 million is proposed for FY 1982 (see Table I). This represents an increase from $7.5 million in FY 81, reflecting both an increase in cost factors and a relatively small net increase in Title II-funded recipients of 26,000 -- from 1,712,000 to 1,738,000.

---

17 See CIDA Review, op. cit., p.14. Although the baking of bread in commercial bakeries also requires fuel, larger operations may be able to take advantage of economies of scale.

There are four components of the CARE FY 82 Title II program proposed for Sri Lanka: (1) School Feeding with 1.35 million recipients; (2) Maternal/Child Health with 354,000 recipients; (3) Thriposha Commercial Market program with 24,000 recipients; and (4) Other Child Feeding with 10,000 recipients.[18]

The entire Title II request is placed in the minimum cateogry in Table I. The Mission believes the overall Title II program, or at least certain elements of it, has potential (see p.10 on intended Thriposha impact on birth weights) for a significant positive impact on the problems of maternal and child malnutrition in Sri Lanka. However, in the absence of comprehensive nutritional impact evaluation data which do not exist for the CARE/Sri Lanka programs, the Mission is not able to rank the various components and place them into different ZBB categories.

The nutritional impact of school feeding (SF) programs has been the subject of continued debate among experts, as noted by the HPN Review team. The team observed that CARE/Sri Lanka believed the SF program at least stabilized deterioration in children's nutritional status. However, since it was believed not feasible to select children for feeding from within a given school, entire schools were selected instead, based on the criterion of greater than 40% prevalance of malnutrition in 1973. The HPN team questioned the continued validity of this approach which discriminates against malnourished children in non-participating schools.

Under the MCH-Thriposha program 80% of the recipients have received a take-home portion. The HPN Review team noted that maximum nutritional impact has been prevented by the "common practice of recipients sharing the Thriposha with non-target family members". To redress this problem the GSL has recently decided to shift where feasible to an on-site program. For a number of reasons based on negative experience elsewhere, including strain on administrative capacity, difficulty of food preparation, and inter-cultural barriers to common feeding, the HPN team advises a scaled down pilot test for this new approach. A number of logistic problems in the existing MCH-Thriposha program, including inadequate storage, handling, inspection and monitoring, which prevent Thriposha from reaching its intended beneficiaries were observed by the team. Concern over the cost-effectiveness of the MCH program in reaching its intended beneficiaries was expressed by health officials to team members on several occasions during their visit.

---

18 The MCH and Thriposha Commercial Market programs will use 40% local cereals in FY 82, a proportion expected to increase over the next few years. Thus, the total number of FY 82 MCH recipients will be 600,000 compared to 354,000 Title II recipients and the total number of Thriposha recipients will be 40,000 compared to 24,000 Title II recipients.

In view of these concerns, the Mission recognizes the need for an intensive review of these problems with CARE, as well as the initiation of systematic impact evaluations with the objective of improving the cost-effectiveness of Title II-assisted programs. Unfortunately, as noted in the long-range plan narrative section of the ABS, the Mission is in an extremely poor position to devote the USDH staff time required to initiate and guide such a review process.[19] The Mission has just received a draft summary of a 1979 Nutrition Status Survey of the School Feeding Program undertaken with the assistance of CARE but has not yet been able to review the survey or its implications.

---

19 Dr. James Levinson, AID/W-funded consultant to the GSL's Food and Nutrition Policy Planning Unit, has proposed a GSL impact evaluation of the Thriposha program. This would help, but is only one element of a comprehensive review of the Title II program.

Table A

Value of Major Food Imports into Sri Lanka, 1972-79
$ Million 1/

	Rice	Wheat Flour 2/	Sugar	Total Food	Total Imports
1972	9.2	14.1	16.5	9.2	133.2
1973	20.8	29.5	21.5	91.9	175.2
1974	51.5	60.5	14.9	137.9	293.9
1975	62.2	66.1	17.3	171.0	338.8
1976	46.7	50.4	8.3	111.7	300.3
1977	59.2	55.4	12.8	140.7	387.5
1978	44.5	133.8	40.0	266.3	947.5
1979	57.0	109.1	59.9	310.1	1455.5

1/ Converted from rupee figures at 1979 exchange rate RS 15.5 = $1.00

2/ Includes imported wheat converted into wheat flour equivalent.

Source: GSL, Central Bank, Customs Department

TABLE B

Availability of Major Food Grains, Sri Lanka 1970-79
(000 Metric Tons)

	Rice (milled) production	Rice Imports	Wheat Flour Imports [1]	Total Availability [2]
1970	1106	534	432	2072
1971	956	339	437	1735
1972	896	266	400	1562
1973	899	343	436	1678
1974	1097	308	488	1893
1975	790	459	528	1777
1976	857	425	476	1758
1977	1140	542	610	2292
1978	1288	169	664	2121
1979	1308	273	590	2171

[1] Includes wheat flour equivalent of wheat grain imports.

[2] Sum of first 3 columns,

Sources: GSL Food Commission, Ministry of Agricultural Development and Research

Table C

Production of Major Coarse Grains, Pulses and Root Crops, Sri Lanka, 1973-78
(ooo metric tons)

Coarse Grains

	Maize	Sorghum	Meneri	Finger Millet	Total
1973	13.6	1.1	0.2 a/	19.4 a/	34.3
1974	23.8	3.1	0.5	15.6	43.0
1975	34.5	6.5	0.5	20.6	62.1
1976	31.0	1.7	0.9	15.6	49.2
1977	41.9	2.0	1.1	22.7	67.7
1978	36.8	1.4	1.0	17.1	56.3

Pulses

	Green Gram	Black Gram	Dhal	Cowpea	Soyabeans
1973	3.2	0.4	0.1	0.6	0.2
1974	5.9	0.7	0.8	2.0	1.3
1975	6.3	1.1	0.2	7.6	1.2
1976	4.6	2.3	0.1	11.9	0.8
1977	7.8	11.7	--	21.1	1.1
1978	10.8	7.9	0.4	21.4	2.1 b/

a/ Yala (minor) season only
b/ Maha (major) season only

Table C (cont'd)

(ooo metric tons)

	Pulses, continued		Root Crops
	Ground Nuts	Total Pulses	Manioc (Cassava)
1973	9.2	13.7	661.5
1974	7.4	18.1	849.6
1975	7.6	24.0	766.7
1976	6.1	25.8	682.8
1977	6.6	48.3	547.3
1978	8.4	51.0	636.8

Sources: GSL Central Bank, Ministry of Agricultural Development and Research, Department of Census and Statistics

TABLE D

PL 480 Title I Projections Employed in ABS Narrative

	Wheat (000 MT)	Wheat Flour (74% of Wheat) (000 MT)	Dollars[a] ($ 000)	Total Demand (000 MT)	Title I % of Dem.
FY79	-	78.7	17,000	500	15.7
FY80	145	107.3	25,000	454	23.6
FY81	180	133.2	29,700	420	31.7
FY82 minimum	135	100.0	22,950	420	23.8
FY82 current (additive)	45	33.2	7,650	420	7.9
FY83	180	133.2	30,600	420	31.7
FY84	140	103.6	23,800	420	24.6
FY85	100	74.0	17,000	420	17.6
FY86	55	40.7	9,350	420	9.7
FY87	15	11.1	2,550	420	2.6

a/ Per STATE 110974, cost of wheat is to be computed at $165 per MT for FY81 and at $170 for FY82 and out years.

FY 1982 ANNUAL BUDGET SUBMISSION

TABLE XI

Country: SRI LANKA

P.L. 480 TITLE I/III REQUIREMENTS
(Dollars in Millions, Tonnage in Thousands)

	FY 1980						Estimated FY 1981						Projected FY 1982					
Commodities	Agreement		Shipments		Carry into FY 1981		Agreement		Shipments		Carry into FY 1982		Agreement		Shipments		Carry into FY 1983	
	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT
Title I																		
Wheat Flour			6.6	30.4														
Wheat	25	145	12.9	75.0	12.1	70.0	29.7	180	31.9	190	9.9	60	30.6	180	29.7	180	10.2	60
Total	25	145	19.5	105.4	12.1	70.0	29.7	180	31.9	190	9.9	60	30.6	180	29.7	180	10.2	60
Of which Title III																		
None																		
Total																		

COMMENT:

FY 1982 ANNUAL BUDGET SUBMISSION

TABLE XII

COUNTRY: SRI LANKA

PL 480 TITLE I/III

Supply and Distribution
(000 Metric Ton)

STOCK SITUATION	FY 1980	Estimated FY 1981
Commodity - WHEAT		
Beginning Stocks	4.4	80.0
Production (None Grown)	-	-
Imports	195.6	380.0
Concessional	(105.0)	(170.0)
Non-Concessional	(90.6)	(220.0)
Consumption (Milled)	120.0	382.0
Ending Stocks	80.0	78.0
Commodity - WHEAT FLOUR		
Beginning Stocks	77.7	217.5
Production (74% of Wheat Milled)	88.8	282.5
Imports	505.0	-
Concessional	(52.7)	-
Non-Concessional	(452.3)	-
Consumption	454.0	420.0
Ending Stocks	217.5	80.0
Commodity -		
Beginning Stocks		
Production		
Imports		
Concessional		
Non-Concessional		
Consumption		
Ending Stocks		

Comment: FY 80 is a year of transition from the importation of wheat flour to the importation of unmilled wheat. The Prima Mill at Trincomalee is expected to begin milling in August 1980. Milling capacity is estimated at 5,000 MT of Wheat in August, 15,000 MT in September, 25,000 MT per month October thru December. The Prima Mill's full capacity of 40,000 MT per month is expected to be reached in January 1981. The GSL has agreed to provide the Prima Mill with 40,800 MT per month. The 480,000 MT milling capacity of the Prima Mill added to the 120,000 MT capacity of the State Flour Milling Corporation will give Sri Lanka a milling capacity of 600,000 MT of wheat and a wheat flour production of 444,000 MT annually.

FY 1982 ANNUAL BUDGET SUBMISSION

TABLE XIII
PL 480 TITLE II

Country SRI LANKA FY 82

Sponsor's Name CARE

A. MATERNAL AND CHILD HEALTH .... TOTAL RECIPIENTS 354

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
354	ICSM	6,375	3,117
TOTAL MCH		6,375	3,117

B. SCHOOL FEEDING .... TOTAL RECIPIENTS 1,350

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
1,350	12% SFF	13,682	4,515
1,350	Veg. Oil	1,824	1,508
TOTAL SCHOOL FEEDING		15,506	6,023

C. OTHER CHILD FEEDING .... TOTAL RECIPIENTS 10

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
10	ICSM	180	88
TOTAL OTHER CHILD FEEDING		180	88

D. FOOD FOR WORK ....TOTAL RECIPIENTS NONE

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
TOTAL OF FOOD FOR WORK			

E. OTHER (SPECIFY) Thriposha Commercial Market...... TOTAL RECIPIENTS 24

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
24	ICSM	435	213
TOTAL OTHER		435	213

FY 1982 ANNUAL BUDGET SUBMISSION

TABLE XIII
PL 480 TITLE II

Country SRI LANKA FY 83

Sponsor's Name CARE

A. MATERNAL AND CHILD HEALTH .... TOTAL RECIPIENTS 295

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
295	ICSM	5,310	2,597
TOTAL MCH		5,310	2,597

B. SCHOOL FEEDING .... TOTAL RECIPIENTS 1,400

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
1,400	12% SFF	14,189	4,682
1,400	Veg. Oil	1,892	1,565
TOTAL SCHOOL FEEDING		16,081	6,247

C. OTHER CHILD FEEDING .... TOTAL RECIPIENTS 10

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
10	ICSM	180	88
TOTAL OTHER CHILD FEEDING		180	88

D. FOOD FOR WORK ....TOTAL RECIPIENTS NONE

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
TOTAL OF FOOD FOR WORK			

E. OTHER (SPECIFY) Thriposha Commercial Market .... TOTAL RECIPIENTS 25

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
25	ICSM	453	222
TOTAL OTHER		453	222

TABLE XIII
PL 480 TITLE II
FY 84

Country SRI LANKA

Sponsor's Name CARE

A. MATERNAL AND CHILD HEALTH .... TOTAL RECIPIENTS 236

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
236	ICSM	4,248	2,077
TOTAL MCH		4,248	2,077

B. SCHOOL FEEDING .... TOTAL RECIPIENTS 1,450

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
1,450	12% SFF	14,695	4,849
1,450	Veg. Oil	1,959	1,620
TOTAL SCHOOL FEEDING		16,654	6,469

C. OTHER CHILD FEEDING .... TOTAL RECIPIENTS 10

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
10	ICSM	180	88
TOTAL OTHER CHILD FEEDING		180	88

D. FOOD FOR WORK ....TOTAL RECIPIENTS NONE

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
TOTAL OF FOOD FOR WORK			

E. OTHER (SPECIFY) .... TOTAL RECIPIENTS 24

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
24	ICSM	435	213
TOTAL OTHER		435	213