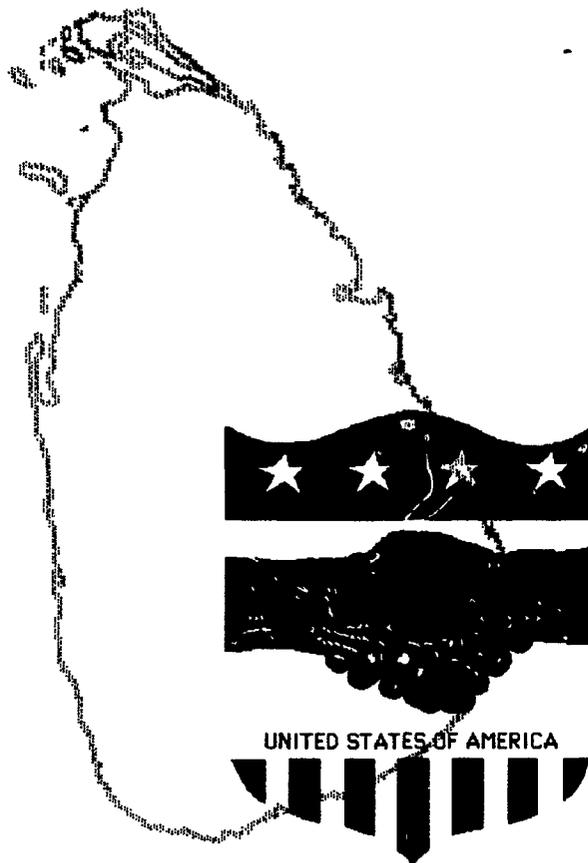


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USAID/Sri Lanka

Strategic Framework FY 1992-1996

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Introduction and overview

Sri Lanka has the potential to become Asia's next "success story." Its resource base includes a rich endowment of agricultural, forest lands and natural resources, a favorable climate, a labor pool drawn from a population characterized by an exceptionally high physical quality-of-life index — out of proportion to per capita income — and good access to major markets. Yet, in spite of significant accomplishments in human development, the economy has failed to bring even modest prosperity to most of the country's citizens. The reasons include to a deep and extended separatist conflict in the northeast and armed insurrection in the south in the late 1980s. But they also include weaknesses in economic policy. In spite of key policy reforms since 1977, the economy remains largely controlled and operated by the state. Its growth performance has been unable to raise income levels or lower unemployment.

While economic performance to date has been disappointing, signs are pointing to change. Despite the continued conflict in the north and east, the economy is responding to new policy initiatives. The Government's renewed commitment to give priority to private initiative in a market economy has produced 6 percent real growth in 1990 — a year that saw several severe shocks, the resumption of fighting in the northeast and the crisis in the Gulf, a region of major importance to Sri Lanka. The economy has shown its best performance since the early 1980s, when growth was fueled by a massive public investment program, largely financed by foreign assistance. The recent gains bode well for the future, as the Government continues to dismantle its system of direct intervention and replaces it with a new partnership between the private and the public sectors.

U.S. assistance can be especially helpful to the Government in managing the transition to a competitive market economy. The U.S. experience in mobilizing private initiative and in developing new forms of cooperation between the private and the public sector offers useful lessons and models. U.S. technology and investment can contribute greatly to the modernization of the Sri Lankan economy. Finally, the focus of the U.S. assistance program, and its reliance on USAID resident technical staff for design and administration, create unique opportunities for brokering new private-public partnerships.

These factors provide the background for the strategic framework for U.S. assistance to Sri Lanka over the next five years, 1992-1996, which is outlined in this paper. The strategic framework builds on extensive analysis and review carried out over the past two years. The USAID Mission has studied a wide range of development options before selecting its present course of action. The resulting strategy defines the focus of planned interventions and their contribution to the achievement of four program objectives. The program objectives in turn derive from a set of strategic goals that flow from a vision of Sri Lanka as a democratic, environmentally sound newly industrializing country (NIC) — "Sri Lanka 2001".

Figure 1 presents the strategic framework in schematic form. This document briefly describes the rationale behind this strategy, highlights accomplishments to date and planned initiatives, identifies the specific measures USAID will use to monitor the impacts of our assistance program, and summarizes the strategic management approach. A companion paper sketches the diagnostic base for this strategic framework.

Strategic vision

**Sri Lanka 2001:
A democratic, "greener"
NIC**

Strategy goal

**Expanding opportunities
through a new private-public
partnership**

Subgoals

**An effective and dynamic
market economy**

**A healthy environment
and productive natural
resource base**

**An active pluralistic
democracy**

Program objectives

**Sound investment climate and
business performance**

**Diversification and
commercialization of
agricultural systems**

**Conservation and shared
control of environmental and
natural resources**

**Citizen participation in
democratic systems**

Program interventions

Cross-cutting themes:

- Sustainability
- Human resource productivity
- U.S. technology, exports and investment
- Policy change
- Regional balance

- Assisting implementation of privatization program
- Fostering an open investment regime and strengthening investor services
- Designing and implementing financial markets reforms
- Working with private sector in market-based technology and skill development
- Modernizing economic infrastructure services

- Integrating farm production and marketing systems
- Reorienting policy to reduce government controls
- Developing and disseminating new production and processing technologies
- Increasing investments in agriculture enterprises and infrastructure
- Expanding "niche" and "boutique" farming systems for export

- Devolving land and water control
- Encouraging private services and technologies in natural resource use
- Supporting efforts to ensure compliance with environmental protection standards
- Improving information systems and analytical capabilities in natural resource management
- Increasing popular awareness and involvement in conservation

- Assisting citizens' organizations and associations
- Promoting increased local and regional governance
- Reinforcing human rights and encouraging peaceful conflict resolution
- Facilitating access to information and expression of opinion
- Providing humanitarian assistance in response to disaster and conflict

Strategic vision, goals, and subgoals

Strategic vision: Sri Lanka as a democratic, "greener" NIC

The Government of Sri Lanka's drive to modernize the economy and enable its citizens to enjoy higher levels of economic prosperity has found its expression in the ambitious target of reaching the status of a "newly industrializing country" (NIC) within the span of less than a decade. This vision entails not just substantially higher per capita income levels, but a dynamic economy, increasingly shaped by a competitive industrial sector, and capable of attracting a flow of foreign investment.

Sri Lanka's unique conditions preclude a simple emulation of the fast-track, growth-at-any-cost path of the existing Asian NICs. With the country's democratic traditions and long emphasis on equity and social progress, the goal is that of sustainable economic growth with emphasis on broad-based human resource development and full participation of its citizens. An appropriate policy framework must ensure growing opportunities for individual initiative, enabling all of Sri Lanka's citizens to contribute to the process of social and economic development. The Sri Lankan approach also seeks to ensure that the benefits of industrialization will not be bought at the price of destroying the environmental and natural resource base. USAID/Sri Lanka subscribes to this vision of Sri Lanka as a NIC driven by the full participation of all and a healthy environment — "Sri Lanka 2001."

Sri Lanka's greatest promise appears to lie in a strategy of "agricultural development-led industrialization." That growth path builds on the rapid improvement in agricultural productivity through diversification and increased market orientation to establish a basis for accelerated industrialization. Rising incomes in agriculture create both the demand for industrial products, and provide financing for increased investment. This approach calls for incentives and support to mobilize the country's natural, human, and financial resources and to ensure their most productive use. It encourages preservation and strengthening of the country's important but fragile natural resource base. The priorities emerging from this development strategy shape the structure and approach of U.S. assistance to Sri Lanka.

Strategic goal: Expanding opportunities through a new private-public partnership

Our strategic vision places private initiative at the center of development. To thrive, private initiative needs new opportunities — newly created or newly accessible because of increased ability. That translates into a dynamic Sri Lanka, characterized by *expanding opportunities for all its citizens on a sustainable basis*. Achieving that goal will require mobilizing the best of both the private and the public sector. It will require close cooperation based on mutual trust and respect, in the form of new private-public partnerships. USAID's strategic goal combines these two elements —

Sri Lanka 2001

The 1990's: a decade of social and economic progress

COLOMBO, 1 January 2001 — Over the last decade, Sri Lanka has achieved a remarkable record of economic growth. Driven by sustained gains in agriculture and exports, per capita income increased by more than half between 1990 and 2000. With narrowing fiscal and external deficits, relative price stability, rising private investment, and rapid growth in employment and incomes the economy responded better than expected to the economic policy reforms that strengthened open markets and created new opportunities for all segments of the population.

To be sure, success would have proved elusive without the emergence, at last, of relative domestic tranquility and a resumption of economic growth worldwide. Even so, the credit for sustained growth in the 1990's must go to a renewed policy commitment to open the economy fully and stress competition and competitiveness, and to develop a new partnership between the government and the private sector, business as well as civic institutions. The Government dismantled remaining controls over the economy, direct and indirect, and waged a successful campaign to boost public sector performance, enabling and prodding civil servants to facilitate and promote private initiative, and to protect competition from the myriad of forces seeking to restrain it. In response, Sri Lanka's economy — which had proved its resilience in most difficult conditions during the 1980's, but had nonetheless fallen far short of expectations — surged ahead.

Growth and structural change

Growth during the 1990's is both cause and consequence of a structural transformation toward an export-oriented economy that built on a solid performance of the agriculture sector as a basis for rapid industrialization. Accelerating agricultural diversification into higher-value crops, especially "niche" products, raised agricultural incomes, boosting domestic demand, and provided the raw materials for export-oriented manufacturing.

Stronger private investment, both domestic and foreign, account for part of the growth in aggregate output. But increased productivity of both capital and labor provided the real impetus to sustained growth. While Sri Lanka clearly still has a long way to go toward a fully competitive economy, fewer controls and greater reliance on market forces have created incentives and opportunities for more productive use of the country's resource base. Rapid growth in selected industries clustered either around products able to compete effectively in international markets, or around product lines that met emerging domestic demand.

An exemplary environmental record

During the 1990's, Sri Lanka has managed to stimulate faster economic growth while arresting the depletion of its natural resources. Sri Lanka has increasingly relied on incentives rather than punitive approaches to promote the productive use of all natural resources,

making preservation and reinvestment economically attractive. While the new policies have been unable to reverse the effects of decades of neglect and abuse of the environment, faster industrial growth has not precipitated the kind of wholesale environmental destruction that has accompanied growth in other countries.

Many of the benefits of sustainable development will accrue to future generations; but more enlightened environmental policies have proved their worth even in the short term; safeguarding Sri Lanka's beauty and natural variety has been a major factor in the strong performance of the tourism industry.

A new emphasis on investing in people

The open economy, by rewarding performance and discounting privilege, has created new opportunities. The Government and the private sector worked together to build the knowledge and develop the skills to enable people to take advantage of these opportunities. Investing in people — helping them acquire the skills and technical and managerial knowhow, providing them access to and control over resources, and ensuring that individual initiative was free to reap the rewards of success as well as bear the consequences of failure — paid off handsomely. Productivity rose overall, but especially among small enterprises adapting to an increasingly competitive environment.

The emphasis on investing in people and stressing their own initiative also brought a growing number of women into the process of social and economic development. While female unemployment still exceeds that of men, the gap has narrowed.

In spite of all the gains made, poverty is still with us. But the strategy of investing in people has proved effective in promoting income growth among the not-so-poor, allowing the Government to concentrate its resources on helping the poorest of the poor, those at the greatest risk of malnutrition and ill health.

Prospects for the 21st Century

The turnaround in Sri Lanka's economic and social fortunes in the 1990's has been remarkable. Today, Sri Lanka is poised to join the ranks of the newly industrializing countries, quite possibly without having to pay the price of the kind of environmental degradation or weakening of democracy that has turned growth into a Pyrrhic victory elsewhere. The challenge for the future is to build on this record and continue the process of structural transformation needed to sustain economic and social progress.

One area of concern will be the effects of continued population growth in a country with the third-highest population density in the developing world. With increasing density, Sri Lanka must begin to adjust, to create the social and physical infrastructure to facilitate higher-density arrangements for living and working. The (land-extensive) lifestyles of the past will place too great a strain on limited biological resources.

expanding opportunities through new private-public partnerships in select areas which are key to improving the management of national productive resources.

In the ideal state, private enterprise and the government will work together in novel forms to establish proper incentives and ensure that people are aware of opportunities *and* have the ability to pursue them. The new partnership will take many forms, but will always involve greater access to and control over resources by the private sector, combined with appropriate mechanisms to establish accountability.

The Government recognizes the potential contributions of the private sector to expanding opportunities for growth and improving resource productivity. The ruling party's election manifesto reflects that conviction in calling for "a new public-private partnership... (and) a productive cross-fertilization of innovative minds from the two sectors." However, the framework for private-public cooperation has been slow to develop.

USAID, as a lead donor in Sri Lanka, is well placed to broker private-public partnerships in key development sectors by virtue of its strong ties with both sides. These partnerships will emphasize the role of market forces, the primacy of the private sector in economic decision-making, and the importance of an active democratic system to ensure accountability. USAID's program aims at moving development leadership to the private sector and creating a supportive policy framework for private initiative to prosper.

Subgoals: An effective market economy, an active pluralistic democracy, and a healthy, productive environment

The strategic goals highlights three motifs — expanding opportunities, sustainability and a new partnership between the private and the public sectors in a democratic context. To provide further focus, USAID/Sri Lanka has defined three subgoals:

- ① an effective, dynamic market economy,
- ② a healthy environment and productive natural resource base, and
- ③ an active, pluralistic democracy.

An *effective, dynamic market economy* represents an essential goal as well as the only path to rapid, sustainable development. Only a functioning market economy can ensure continued expansion of opportunities for individual initiative. It embodies an optimal partnership between the private and the public sectors. The private sector will take the lead in pursuing opportunities, with the public sector making sure of a level playing field, promoting open and fair competition, restraining the concentration of economic power by either public or private institutions, and facilitating the development of competitive sectors.

USAID regards this subgoal as the key to expanding economic opportunities. We will contribute to Sri Lanka's efforts to build and strengthen a

market economy by providing technology and skills, increasing information flows and professional exchanges, assisting in policy formulation and implementation, and ensuring adequate risk-sharing arrangements for the transition period.

The singleminded pursuit of greater economic prosperity often has come at the cost of rapid depletion of the natural resource base and environmental degradation, destroying rather than creating opportunities. Such mismanagement and inefficient use of resources robs future generations and worsens the quality of life, diminishing or offsetting gains in economic prosperity. Given the potential of Sri Lanka's land, water and biological resources, protection of the environment and sustainable use of its natural productive resources can and must be compatible with economic development. *Preservation of a healthy environment and a productive natural resource base* therefore define a second subgoal for the USAID program.

The strength of an *active pluralistic democracy* in the context of a strategy of accelerated development lies in its ability to provide citizens the opportunity for both political and economic participation. Mobilizing individual initiative requires assurances of civil liberties and free choice. The drive to realize the "Sri Lanka 2001" vision will be strengthened by open debate, decentralization, and full civic participation. Sri Lanka is justifiably proud of its democratic traditions. However, ethnic and social strife have tested the resilience and efficacy of its democratic institutions. Sri Lanka is determined to meet these challenges and U.S. assistance will support these efforts.

The three subgoals reinforce each other and cannot be viewed in isolation. A well-functioning market economy creates the incentives for the most productive use of all natural resources, in turn a condition for growing economic prosperity. An active democracy, again a goal in its own, is also an essential complement to a functioning market economy, ensuring full participation of all population groups as well as accountability of private and public institutions. Democracy also provides the means for making concerns other than maximum growth heard in the development policy debate.



Program objectives

The subgoals define the key elements of "Sri Lanka 2001," a democratic, "greener" NIC. U.S. assistance can contribute to realizing this vision by focusing on selected operational program objectives. The difference between these two levels is one of degree: USAID expects that its interventions will have a direct impact on the program objectives; these accomplishments will combine with other factors to produce changes at the goal level. Attribution of any changes at the goal level to our support is difficult, but indicators at the program objective level are appropriate for monitoring program performance.

To contribute to the subgoal of an effective, dynamic market economy, USAID will focus on two specific program objectives:

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- ① a sound investment climate and competitive business performance; and
 - ② diversified and commercialized agricultural systems.

The first program objective defines the core of a successful market economy. Its litmus test is the economy's ability to create attractive investment opportunities and stimulate and support competitive performance.

Increased productivity in agriculture is central to a strategy of agricultural development-led industrialization. In the context of an effective, dynamic market economy, higher total factor productivity means agricultural diversification and reorientation to domestic and international markets. Our research and experience demonstrate that diversification and commercialization can work well in the Sri Lankan environment, yielding not only higher incomes, but also creating new employment opportunities in agriculture. This program objective also captures some of USAID's strategic subgoal of a productive natural resource base.

The subgoal of a healthy environment and a productive natural resource base, in conjunction with the basic theme of new private-public partnerships for more productive resource management, defines a third program objective:

- ③ conservation and shared control of environmental and natural resources.

This objective reflects a major conclusion from the analysis conducted in the strategy development process: common (public) ownership of resources, combined with weak administrative and enforcement capabilities, allows and sometimes encourages less productive uses and unsustainable exploitation of natural and environmental resources. The private and the public sector roles in managing these resources need to be redefined to create new partnership arrangements to ensure productive use and preservation.

The final program objective supports an active pluralistic democracy, focusing on the active participation of all population groups:

- ④ citizen participation in democratic systems.

Sri Lanka's democratic institutions will benefit most from active use. Working with citizen groups to help them take advantage of the opportunities offered in the democratic system therefore contributes directly to USAID's overall strategic goal.

A sound investment climate and competitive business performance

Liberalization since 1977 has improved the climate for business and has allowed private business to expand, particularly in export markets. Significant impediments to investment and enterprise, however, still remain. Although privatization is underway and accelerating, the majority of larger-scale enterprises remain in government hands. Ambiguities and disincentives in investment and tax codes, and other regulatory or procedural constraints to business persist. The ability of the financial system to channel savings to productive investments is inhibited by the limited range and

acceptance of equity instruments in the capital market, by distortions in the banking system that limit the availability of medium- and long-term debt, by numerous subsidized targeted credit programs, and by government absorption of savings to finance its deficit.

These structural impediments complicate the already difficult task that a private sector — conditioned by decades of uncompetitive practices in an inward-looking environment — faces as it attempts to respond to market signals. Weaknesses in management, production and marketing technology, as well as economic infrastructure (transport, telecommunications, and energy) impair the ability for private firms to thrive in competitive markets.

A recent series of strong reform measures demonstrate the Government's renewed commitment to market-oriented development. These actions include promulgation of a market-oriented, outward looking *Strategy for Industrialization* and establishment of an Industrialization Commission in

Bullish on York Street

Business confidence in Sri Lanka has increased dramatically over the last year, despite the Gulf crisis and a serious insurgency problem in the north and east. An index of this can be seen in the Colombo Stock Exchange (the CSE, located on York Street in Colombo's downtown), where capitalization has doubled to \$1 billion over the last year, making it one of the fastest growing equity markets in the region. This new confidence in Sri Lanka's economic future is beginning to be shared by overseas investors as well, with regional funds investing in local stocks, and private companies investing in new starts. In a piece on emerging equity markets, *Euromoney* (December 1990) called Sri Lanka a "high flyer in the making" and continued: "Sri Lanka seems a prime contender among countries whose stock markets could begin to attract foreign investors in the early 1990s."

1990. A Presidential Commission on Finance and Banking has launched the first systematic review of the financial sector in nearly 60 years. A structural adjustment program, outlined in a Policy Framework Paper developed in collaboration with the IMF and World Bank, has continued successfully even in the face of serious external and internal shocks. The private sector is responding to the new opportunities that liberalization has created. For example, the Colombo Stock Exchange (CSE) has turned in a fairly impressive performance. While USAID cannot claim full credit for this performance, our technical assistance has helped raise investor confidence and the ability of the CSE to cope with the increased activity. At the same time the Government, with donor support, is strengthening the economic infrastructure with invest-

ments in telecommunications, transport, port development, and energy to support future economic growth.

Program interventions

USAID's private sector program in Sri Lanka, drawing on an increasingly wide range of U.S. and local business contacts, has focused on key barriers to a better investment climate and stronger business performance. Building on these accomplishments and in line with A.I.D.'s "Partnership for Business and Development" initiative, our strategy will expand our work in financial markets to improve further the performance of equity markets, and to strengthen the medium and long-term debt markets.

We will continue our support for initiatives to liberalize interest rate structures, building on our work to date with Housing Guaranties. This work has focused on developing a viable housing finance system, in particular for low-income households. It seeks to establish market rates in savings and lending for housing, to increase private lenders' participation in housing finance, and, ultimately, to increase the flow of household savings to the financial banking sector for lending according to market demand. Our relatively small Loan Portfolio Guaranty and PL 480 Section 108 lending programs are helping to address the shortage of medium and long-term

loan capital that constrains business in Sri Lanka.

USAID will complement these efforts to strengthen financial markets with both technical assistance and performance funds to improve services to investors, and to encourage increased U.S. investment.

Our interventions will also aim at improving overall business performance. One critical obstacle to faster growth has been the sluggish performance of state-owned enterprises. Better performance following privatization is likely to spur overall growth. With strong USAID support, the Government has begun to privatize these entities. Seven state enterprises have already been privatized from an original target list of 24. USAID will continue to support this process through technical assistance and performance-based disbursements. We will also increasingly encourage U.S. businesses to participate in the competition for privatized firms.

Support for the upgrading of managerial and technical capabilities in private businesses complements our assistance to privatization. USAID will be looking for opportunities to encourage evolving market-based mechanisms for technology and skills development through temporary cost (and risk) sharing, or provision of appropriate incentives.

USAID is exploring opportunities to support improvements in the provision of infrastructure services, particularly in identifying ways to promote private sector investment in and management of economic infrastructure. Potential areas of investment can include telecommunications, energy, transport, and urban infrastructure. The Mission will consider new A.I.D. private-sector mechanisms to support this intervention.

Performance indicators: A sound investment climate and competitive business performance

While annual indicators are currently under preparation, illustrative measurements of program progress will include: (1) numbers of state-owned enterprises privatized, (2) accomplishments in policy changes in serving and encouraging investments and industrialization, (3) adoption of new financial market mechanisms that result in increased resources and (4) increased productivity from USAID supported technology interventions.

Diversification and commercialization of agricultural systems

Agriculture's importance to Sri Lanka's economy goes well beyond its 26-percent share of GDP. Services and industry directly related to agriculture account for a major portion of levels and growth of GDP and employment. Yet, after a history of successful export tree cropping and encouraging gains in rice production in to the early 1980s, growth in the agriculture sector has leveled off. The sector is characterized by large public institutions, numerous controls and traditional cultivation patterns in both smallholder

Rapid growth is feasible

Our vision of Sri Lanka as a newly industrializing country by the year 2001 may be optimistic, but this optimism is not unfounded. The actual growth of industrial production in Sri Lanka gives an indication of the underlying strength of the economy. During 1989, a year in which widespread disruptions and sabotage in the major industrial areas of the country led many observers to write off the first half of the year, the output of private sector industry rose by 15 percent (while that of the public sector declined by 21 percent). Results for 1990 will be even stronger, and as our assistance to the privatization effort results in more private sector productive activity, the healthy rates of growth will improve.

subsistence (paddy) farming, and in state-owned tree crop plantations producing for export markets. Although these traditional systems have produced slow but steady growth with considerable year-to-year fluctuations, the limits of current biological technologies, of arable land, and of central planning and services have been reached. The lack of variety in Sri

Lanka's agricultural "product line" is not only inconsistent with the potential of its agro-ecological diversity but also makes the economy dependent on a limited number of commodity markets.

Without a major structural change to encourage new, higher-income production systems, agricultural growth will remain inadequate. Such structural change is critical to raising productivity, enhancing competitiveness, and boosting incomes of small farmers and workers. It can capitalize on existing advantages: ecological diversity (agroclimatology, soils), counter-seasonality with some important markets, an educated, low-cost agricultural labor force and competitive advantages in specialized "niche" products. The increasingly global market and the growing demand for non-traditional agricultural products present a major opportunity for rapid growth in the sector.

Existing policies have retarded this structural transformation. To create opportunities for private initiative, these policy restraints —

export taxes, import controls, administrative biases, etc. — need to be lifted. New forms of cooperation are called for, between the government and private farmers, especially commercial farmers, and between larger investors and small farmers, to provide access to new technologies and information, mobilize venture and risk-sharing capital, and improve the supporting infrastructure. The Government has begun a process of agricultural policy change towards diversification of agricultural production. To accelerate the structural transformation, further support will be necessary to encourage technology transfer, private investment and entrepreneurship in diversified, commercially viable agricultural production particularly in the processing and marketing of new export crops.

Program interventions

USAID assistance has contributed to the steps being taken towards agricultural reform, in particular the articulation of policy changes, reduction of subsidies, and the development of a better knowledge base for diversification and commercialization. Boosting the role of private initiative and changing the relationship between the private and the public sectors have been central to our existing program. These accomplishments provide the basis for a three-pronged approach in the future.

First, USAID will continue to support the Government's efforts to assess and remove policy constraints. Possible changes in national agricultural policies include the reduction of public and expansion of private sector involvement in seeds production and sales, revisions in the plant quarantine

Mahaweli food platter for Singapore

The MARD (Mahaweli Agricultural and Rural Development) Project has signed an agreement with a Singaporean import firm to provide 1,000 tons of fresh fruits and vegetables, mainly to be sold in Singapore.

According to Henry Harman, a marketing consultant with MARD, this marks the first time that a systematic export order has been secured for Mahaweli agricultural products.

The products, all grown in Mahaweli System B, will include salad onions, sweet corn, zucchini, okra and tomatoes. Other products may be added on to the list later, Harmon said.

Said he: "Farmers of System B have spent the last season producing trial quantities of these crops. This agreement represents a significant accomplishment for the farmers of Mahaweli."

The MARD Project is funded by the US Agency for International Development and the Government of Sri Lanka.

Daily News (Sri Lanka), November 23, 1990

service, and the responsiveness of research services. The most substantial support for policy and institutional changes will be the new, multi-year PL-480 Title III program which will link local currency use to progress on implementation of major policy changes, such as the reduction of export taxes and downsizing of agricultural bureaucracies.

Second, U.S. assistance will add further to the knowledge base to lower the risk to individual farmers and investors of shifting to new products or production and marketing arrangements. Research on these issues and dissemination to private producers will help reduce uncertainty and provide stronger incentives.

Third, USAID will provide direct support to farmers and investors in the agriculture and agribusiness sectors by promoting the integration of farm and marketing systems, and by providing funds and assistance needed to launch new enterprises in this sector. A new agro-enterprises project is expected to provide the principal mechanism for developing and testing new partnerships between the private and public sector through which interested agriculturalist-entrepreneurs can obtain information, technical assistance and access to grants and loans. USAID may also add to its investments in infrastructure needed for agricultural development. While these investments in the past have focused on new and rehabilitated irrigation infrastructure, or water supply systems in market towns, we may support regional market development through capital cost-sharing. USAID assistance will again focus on promoting new forms of sharing ownership and management between the private and public sector to improve services.

Performance indicators: Diversification and commercialization of agricultural systems

The performance indicators for this program objective will involve the following: (1) increased farmer incomes from diversified cropping in Mahaweli System B; (2) increased number of new/expanded agro-enterprises and outgrower schemes established (with USAID support); (3) increased hectareage planted in subsidiary field crops; (4) reduced government involvement in agricultural systems (seeds, insurance, plant quarantine, etc.); (5) increased value of exports of non-plantation crops; and (6) preparation of new national agricultural strategy.

Conservation and shared control of environmental and natural resources

Sri Lanka's population density and the importance of highland agriculture, irrigation, fisheries and tourism to its economic growth make sound management of its environmental and natural resources vital to its future. At this point, incentives for productive management and conservation are often lacking, and enforcement of standards is weak. Although the importance of natural resources is well understood, as evidenced by a tradition of irrigation, tree cropping and the protection of large areas, population and economic pressures are leading to encroachment into reserves, annual cropping on marginal or reserve lands, over-irrigation, urban-industrial pollution, and monocrop disease problems. Deteriorating air and water quality, loss of forests and biodiversity, soil depletion and erosion, and other long-term detrimental impacts jeopardize growth prospects.

Root causes of poor land and water management are insecure land tenure, lack of water rights, and predominant public ownership of land. These patterns distort incentives to land-use and water resource planning and investment, and encourage extensive subsistence production systems and inefficient use of water and destruction of bio-resources. Current patterns of land and water use are usually the result of administrative fiat, consequent rent-seeking and highly distorted markets. In many coastal areas, coral reefs and estuaries are also suffering from the disposal of untreated waste, coral mining and overfishing, and the effects of waterborne and urban and industrial pollutants. Without changes in resource management patterns, population growth and accelerated industrialization will aggravate these and other environmental problems.

Sri Lanka has a heritage of appreciation of its natural endowments and the GSL is increasingly taking action to develop coherent and consistent national policies. These policies will need to recognize that management by administrative fiat and enforcement of comprehensive regulations are unlikely to solve the problem. In the Sri Lankan environment, better management of natural and environmental resources is critically dependent on institutional arrangements that provide proper incentives and rely

increasingly on the self-interest of resource users. Shared control of these resources through new private-public partnerships in planning and implementation offers the most promising opportunity to develop effective solutions.

Popular awareness and appreciation of environmental values and costs is critical to making such arrangements work. Informed public policy and investment criteria must be based on accurate information and include consideration of environmental costs. Local ownership and control of land, water and bio-resources will place accountability and costs with the users themselves. New technologies can improve control and conservation of environmental resources. Better manage-

ment will also require more reliable and accessible information, from analysis to comprehensive, timely data.

Program interventions

U.S. assistance to efforts to develop new, market-based approaches to improving natural resource management and encouraging conservation can draw on an active environmental community in the U.S. and a rich experience in natural resource management through private-public partnerships. Moreover, USAID is well regarded for helping Sri Lanka to protect its forests, wildlife areas and manage its water resources.

USAID's assistance strategy in this area will revolve around two major foci. First, we will continue our support to initiatives to devolve control over land and water resources, through improved land titling and transfer of management rights to water user groups, respectively.

USAID has been supporting the Government on the critical issues of land titling and water-user policies largely on a pilot, area-specific basis. It has employed both project support and self-help measures under the PL 480 program. In the water use area, we expect to extend this support to include

Pricing a natural resource

A.I.D. assistance has dramatically improved the financial viability of the National Water Supply Board. In 1990, for the first time ever, collections by the Board covered 100 percent of operating costs, compared to 12 percent before USAID-funded technical assistance began in 1984.

The National Water Supply Board, with USAID assistance, has changed from a highly centralized, capital project-oriented organization to one that has now decentralized into five Regional Support Centers with an emphasis on cost-effective operation and consumer service.

performance grants in support of the formulation and implementation of formal water-rights agreements between farmer groups and irrigation agencies, and the organization and formalization of water-user groups. Other program elements will stress support for more focused and concerted actions on expediting land titling. For example, future PL-480 Title III policy implementation benchmarks may include progress in land titling and agreements with water user associations.

A second focus will be on support to efforts to develop a market-based institutional framework to raise compliance with environmental standards and encourage conservation. USAID assistance will emphasize the active involvement of the private sector in new forms of cooperation at the national and especially at the local level. Cooperation may include the use of private services and technologies in natural resource and environmental controls, as well as building the necessary analytical capabilities in the private sector. Our assistance will also seek to facilitate local and joint ventures in transferring or developing new technologies or services to resolve natural resource and environmental problems.

The development of market-based solutions for environmental resource management will also require stronger capabilities on the public side of the partnership. USAID assistance will therefore support the articulation of market-oriented incentives and disincentives by public sector institutions, including the establishment, monitoring, and enforcement of environmental protection regulation, or the imposition of appropriate pricing and user fees. USAID has been instrumental in the establishment and protection of several wildlife reserves within the large Mahaweli development area. New program elements will accentuate policies relating to broader protection and pricing issues, strengthening capabilities to understand and calculate environmental costs as well as the national policy and regulatory framework necessary to make the abuser or polluter pay.

Better natural and environmental resource management depends on a clear understanding of issues and options, and on adequate public oversight. USAID assistance will therefore also look to establish accessible information systems and increase popular and private sector involvement in environmental issues. We expect to provide considerable support to large and small PVOs to carry out demonstration projects, educational activities, or publish newsletters on environmental and natural resource issues. It will also support improved analysis and the conduct of public hearings on potential environmental impacts of new investments. USAID will also support the development of a better and more accessible knowledge base on questions of organic farming, integrated pest management, and tree crops, as well as the establishment of "user-friendly" databases and information systems on natural resource supplies, quality and uses.

Pachyderm protection

Under the Mahaweli Environment Project (\$5 million), the Government of Sri Lanka developed seven new wildlife reserves which expanded protected national parkland by 30 percent. These reserves conserve a major habitat for seven endangered and two threatened species, including the elephant. Elephants have been a central feature in Sri Lankan culture for over 2,500 years. In the last 90 years, the elephant population had dwindled from 12,000 to 2,500 largely because of increasing pressures for arable land. Recently, the USAID-financed project received national attention for its efforts in moving elephants out of areas where they were causing major crop damage to the new reserve areas. The project has been instrumental in establishing and training four conservation units which are charged with monitoring and preserving the national herd. Project financing has also enabled Sri Lanka to bring its long and unique experience with elephants into the international arena.

Performance indicators: Conservation and shared control of environmental and natural resources

Some of the performance indicators for this program objective will include: (1) increases in the number of newly formalized, cost-sharing water-user groups; (2) increased hectares of cultivated land registered and titled to the cultivators; (3) increased percentage of listed private investments meeting Environment Impact Assessment criteria; (4) establishment and implementation of a National Water Policy; and (5) number of public hearings on environmental issues.

Citizen participation in democratic systems

Severe challenges to democratic traditions and practices in recent years have contributed to economic vulnerability and intermittent political instability that undermine development progress. Global and U.S. concern about the erosion of human rights in Sri Lanka could, if unallayed, further damage the country's development prospects as well as curtail donor support for much-needed foreign assistance and investment. The special challenges associated with Sri Lanka's ethnic, religious, linguistic and cultural diversity require increased efforts to find peaceful solutions to the long-standing conflicts among different groups in the societal and political body. An active democracy is also an essential complement to strengthening private-public sector cooperation in the management of the nation's resources.

Opportunities in democracy

USAID assistance over the last ten years has reached over 500,000 individuals who would not have had the opportunity to participate in and directly influence their own development through strictly government-to-government programs. Assistance to about 100 voluntary organizations, chambers of commerce or trade and associations has moved activities from a welfare orientation to more sustainable development efforts, and increased significantly the level of informed debate and inquiry in the critical areas of human rights, environment and private sector policies. And, these debates have made a difference. Environmental groups have been so effective that environment is now high on every politician's agenda. Human rights groups have aggressively pursued legal avenues in locating missing persons.

The country's high literacy rate, political awareness and citizen involvement in development-related activities provide a unique opportunity for maintaining and improving citizen participation. The importance of democracy as a strong foundation for an open-market

economy — and for A.I.D.'s capacity to produce effective, sustainable results in its programs — has been underscored by the A.I.D.

Administrator's new Democracy Initiative. The U.S. interest in supporting a friendly democratic government has always provided a fundamental political framework and justification for the A.I.D. program in Sri Lanka.

In Sri Lanka, long-term sustainability of economic progress can only be assured through protection of long-standing democratic values. USAID is ready to respond to such opportunities flexibly and effectively. Already, we are helping to promote democratic traditions and peaceful, pluralistic solutions to national problems through a variety of activities. Building on this experience, we will combine support to private voluntary organizations and their public-sector counterparts to open new opportunities for citizen participation. USAID will continue to respond quickly and effectively to disaster and conflict with humanitarian assistance.

Program interventions

USAID has provided direct assistance to a broad range of citizens' organizations through a variety of project and program mechanisms. The activities

supported represent citizen initiatives aimed at promoting economic development through grass-roots cooperation, and reach individuals who would not otherwise have the opportunity to participate in and directly influence their own development through a strictly government-to-government program. USAID expects to continue and expand its direct support for these organizations, broadening the scope of eligible organizations (including research institutions and advocacy groups) and by using apex or intermediary organizations to reduce USAID's administrative burden.

On the administrative side, the Government has made major strides toward devolution of authorities to local and regional organizations, such as the newly-created Provincial Councils. Such institutions will play an increasingly important role in creating and working through new private-public partnerships. So far USAID assistance has focused on building an analytical base for future activities. We can build on this work, focusing on the relationships between subnational administrative units and private enterprise in their regions. These efforts will complement support for new private-public partnerships in natural resource management and support for investment.

Human rights concerns have begun to affect development work. USAID has supported efforts to increase the general awareness of human rights, to promote informed debate on human rights issues, and to strengthen the court system. Related activities receiving support include improving the data and analysis needed for informed Parliamentary debate, and strengthening the Sri Lankan media through training and technical assistance and the creation of a journalism chair at the University of Colombo. In addition to possible continued

support for local human rights advocacy and educational groups, the Mission may support cooperative activities between U.S. institutions with particular expertise in such areas as conflict resolution (such as the Carter Center or the National Endowment for Democracy) and appropriate local institutions. We may also provide support to establish a Parliamentary Research Service, along the general lines of the U.S. Congressional Research Service. Another program element now under consideration would seek to complement our support for improving the investment climate by a mechanism to enable the country's large informal sector to make its concerns heard in the economic policy debate.

In addition to assistance to meet urgent needs caused by floods, droughts, riots and civil war in recent years, A.I.D.'s Office of Foreign Disaster Assistance has provided technical assistance to help the Government improve its disaster preparedness capability. USAID recently reprogrammed some funds for the support of reconstruction and rehabilitation in the north and east into a specialized relief program aimed at helping farmers in that conflict area to cultivate much-needed food crops and thereby lessen the Government's relief burden in trying to feed the one

Productive relief for Jaffna

In the summer of 1989, the resumption of fighting between separatists in the north and east and government forces brought reconstruction and rehabilitation activities, including those funded by USAID, in those areas to a halt. Some basic food supplies find their way to the area, largely by sea, but shortages exist and prices have surged. Searching for ways to address the mounting problems, we welcomed an initiative from citizens' groups representing Jaffna farmers: they asked for help to be able to plant crops for local consumption in the current growing season. Government officials, understandably, had their hands full managing the basic relief operations and had little time to consider even modest development efforts. But they were receptive when we asked them to find cargo space on the coastal relief ships for vegetable seeds, fertilizer, water pumps and kerosene — commodities that have virtually disappeared from the markets of the North. With procurement and logistical support from CARE and delivery assistance from the local organizations, we have now supplied 15,000 farmers with inputs. When the harvest begins next month, we expect to see a marked increase in food supplies in the normal markets of the region and a reduction in the super-inflated prices now prevailing there. The International Committee of the Red Cross regards this initiative as one of the most innovative relief efforts.

million currently displaced persons in that region. Further funds may be reallocated to support humanitarian assistance. Primary emphasis will be on "productive relief." These activities that help displaced and affected persons meet their own needs through income-generating activities and contribute to the regeneration of local economies. One such option is the Refugee-Affected Area Program being considered for an area where a large population of displacees are concentrated; it would promote local public works employment activities and provision of mobile productive assets that could be transported back to the refugees' home areas when the conflict ends.

Performance indicators: Citizen participation in democratic systems

USAID proposes to prepare an annual report on its democracy program to serve as the principal vehicle for assessment of program effectiveness. Illustrative indicators include the following: (1) Numbers of USAID-supported citizen organizations achieving public recognition and/or contributing in demonstrable ways to legislative or policy change. (2) Establishment or improvement of functioning mechanisms for informed public debate and expression of opinion. (3) Progress toward peaceful resolution of conflict, such as (but not limited to) ethnic or regional violence.



Cross-cutting themes

In identifying, designing, and implementing USAID interventions to address the four major program objectives, the strategy involves the following important cross-cutting themes:

- ensuring that the project activity or the change initiated by the USAID intervention is *sustainable*;
- emphasizing efforts to improve *human resource productivity*, encompassing efforts to upgrade skills to support the private-public partnership for development and to increase the participation of women in the process and benefits of development;
- drawing on and creating opportunities for *U.S. technology and investment*;
- advocating a clear *policy reform agenda* in selected areas to facilitate development and the functioning of an open market economy; and
- striving for supporting a better *regional balance* through our relevant interventions, with particular emphasis on disadvantaged regions with growth potential (such as the north-eastern and southern provinces).

Sustainability

Sustainability is a primary consideration in the design and implementation of USAID-financed activities. Our emphasis on private-public partnerships

explicitly recognizes that the sustainability of economic growth requires commitment and cooperation from both government and private organizations.

In addressing the sustainability issue across our portfolio we intend to: (1) increase the share of USAID resources directed to the private sector where profits can be generated for supporting technological, institutional, and financial sustainability; and (2) assist Government to expand users fees and develop more efficient and cost-effective delivery mechanisms for public goods and services.

Choosing interventions that will lead to sustainable change is essential for USAID. Careful monitoring and evaluation of USAID-supported activities will provide the basis for assessing whether they meet this criterion. Activities that fail the test will not be continued.

Human resource productivity

As a result of past investments in human capital, Sri Lankans are better educated and healthier, and enjoy more social amenities, than people in other South Asian countries. In other respects, however, the return on this investment has been disappointing. The national economy has proven unable to employ large numbers of literate and educated citizens productively and fully. Women have made some progress, but are more than twice as likely as men to be unemployed. They face particular problems in agricultural and micro-enterprise activities, and lack full opportunity to participate in and benefit from economic progress.

USAID has contributed much to human resource development in Sri Lanka through training components in virtually all our projects. It has also provided support for health and population activities, for activities implemented by private voluntary organizations, and for responses to emergency needs. While our earlier focus on health has been replaced with our current priorities, future human resource development efforts will be directed largely to the private sector. The new program thrusts will emphasize more effective incentives for private investment in human resources and initiatives to address specific skill gaps, increase access to new technologies for private firms, and rely more heavily on private initiatives and market mechanisms for provision of social services.

To enhance women's participation in development and its benefits, USAID will devote sufficient resources in all our interventions to understand and strengthen the role of women, including their role in the family unit as producers, educators, financial managers and care-givers. It will take the necessary steps to meet specific needs of women and create better opportunities for them. We will also continue to develop gender-disaggregated performance indicators.

U.S. technology, exports and investment

USAID/Sri Lanka's program will continue its emphasis on U.S.-based technology (both for the private and the public sectors) for solutions to development problems. U.S. expertise and training are highly valued in Sri Lanka.

USAID is looking increasingly for opportunities to forge stronger links between U.S. business and the Sri Lankan private sector. These links

permit improved channels of communication and flow of technology, and can further develop local markets for U.S. goods and services.

Stronger technology linkages can also create better investment opportunities for U.S. firms in Sri Lanka. Private U.S. companies providing technical advice and commodities will have an opportunity to work with Sri Lankan private businesses and to assess potential for joint-venture relationships. USAID assistance to the Government's privatization drive will also highlight investment opportunities created by the divestiture process, and individual U.S. companies will be approached to explore potential interest in these ventures. Increased U.S. investment can clearly benefit both sides economically while strengthening U.S.-Sri Lankan bilateral relationships.

Policy change

Promotion of policy and administrative changes important to the creation of a viable market economy is an integral part of all USAID/Sri Lanka program interventions. Thus, each program objective is accompanied by a set of policy initiatives. A major share of total assistance resources will be earmarked for supporting policy reforms.

Regional balance

Much of USAID assistance in the 1980s focused on the Mahaweli development area. Future activities will look increasingly at a better regional balance. Some regions, such as the Northeastern and Southern Provinces, are recognized as being severely underdeveloped. The southern economy, for example, primarily agricultural and predominantly rural in character, has stagnated. Agriculture, industries and infrastructure have been particularly neglected. The area does offer some advantages in labor, access to ports, favorable agro-climatic conditions and tourism growth potential. The lack of economic opportunity has been identified as a major cause of the past insurrection in the south. The Mission, through its program and project interventions, will include activities in these areas which will lead to increased employment, income and productive enterprises.

In the Northeastern Province, USAID will continue its effort — reduced and modified as a result of ongoing separatist violence — to improve conditions for a resumption of development. This region has suffered severe economic setbacks as a result of the conflict since 1983, and like the south would require special initiatives to catch up with the remainder of the country. Our initial efforts will likely be limited to humanitarian assistance with a focus on helping displaced people provide for their own needs to the maximum extent possible. A more substantial involvement in the region's recovery and development remains a contingency element of the program requiring a political settlement as a precondition for major investment.



Managing USAID/Sri Lanka's assistance program

A strategic management vision for 1996

We fully support the strategic management goals as outlined by the A.I.D. Administrator. Our management strategy for 1992-1996 will involve important elements of the Agency's new initiative.

We intend to restructure the USAID Sri Lanka program to achieve the following goals by the end of the strategic framework period.

1. *Reduction of portfolio to eight program/project interventions.* The Mission has successfully responded to many opportunities presented in the course of program development and has been responsive to many Agency initiatives, thereby developing a diverse program portfolio consisting of more than 20 projects. We also are implementing a number of centrally funded activities. The Mission has numerous separate management units to implement these activities. Over the course of the planning period, we plan to consolidate program units (such as merging closely related projects) and focus on core programs that offer greatest impact and results.

2. *Increased share of the DA resources delivered directly to the private sector.* The USAID/Sri Lanka program has largely provided assistance to the Government for its programs. And while the Government has gradually recognized the usefulness of allocating resources to the private sector and has identified it as an important engine of growth, the level of direct assistance has been less than 15 percent. We would like to work with the Government in increasing the share of the USAID program for private sector use and expect to increase this share through new program elements.

3. *Increased emphasis on policy performance-based disbursement and other innovative program mechanisms.* The current USAID program is composed largely of technical assistance activities. Major contributions are through technical consultancy contracts, construction activities, commodity procurement and training. Management and oversight of these technical assistance activities is highly staff-intensive and tends to focus staff attention on operational issues. We propose a greater allocation of resources for program assistance interventions that would stimulate important policy changes, provide much-needed foreign exchange and reduce staff oversight requirements.

4. *Further integration of such activities as the PL 480 and Housing Guaranty programs into the Mission strategy.* The PL 480 program has been an important assistance resource for Sri Lanka. Food aid has encouraged useful policy changes through self-help measures that have complemented and reinforced project-level interventions. The recently-developed multi-year food program and the planned Title III program provide new opportunities to structure a longer-term policy agenda relating closely to the Mission's policy focus. Similarly, the HG program is a central part of our financial markets initiatives.

5. *Reduction of pipeline level to two years' planned expenditure.* The USAID Mission has consistently met Agency requirements for timely obligation of its resources over the past decade. Most projects have been fully obligated

during the initial few years, a practice partly responsible for an unacceptably large pipeline. This pipeline problem was further exacerbated by delays in project implementation due to security problems. Projects have been frequently extended to accommodate these delays. In the short term, the Mission is endeavoring to consolidate projects, change implementation mechanisms to those which will promote quicker disbursement, and place "sustainable tails" on projects near completion. In the future, projects will be incrementally funded throughout their terms and will compete for available resources.

6. *Program/project mechanisms to support and facilitate U.S. exports and investment.* The project portfolio is weighted towards the use of U.S. business linkages to achieve accelerated economic growth. Both existing and planned projects include large components for stimulating new enterprises through trade and investment between Sri Lanka and U.S. agribusiness, and provide opportunities for U.S.-Sri Lanka joint ventures. Our industrial support projects rely on U.S. financial and industrial advisors and linkages to improve Sri Lanka performance. They also contain activities which entail identifying and soliciting U.S. business interests in working in Sri Lanka.

Over the next five years, USAID's goal is to improve the economic and regulatory climate for U.S. trade and investment to the point where U.S. interests are both familiar and comfortable with doing business in Sri Lanka. Two recent investments by U.S. companies in a merchant bank and a venture capital company (both directly assisted by USAID) indicate that our strategy is beginning to work. As more and larger state-owned enterprises are privatized, our continuing efforts in that area can provide improved opportunities for U.S. business.

7. *No centrally-funded project activity unless it complements a bilateral activity.* The Mission has been successful in mobilizing considerable centrally funded resources and has been responsive to many A.I.D./Washington initiatives. While this responsiveness has widened the range of development interventions, these activities have required extensive staff involvement for programs which are not central to USAID/Sri Lanka's program objectives. In the short term, we are looking at ways to externalize implementation of these activities through appropriate PVOs and to permit only those new activities that complement our strategic framework.

Screening program interventions: a checklist of criteria

Consistent with the Administrator's desire to focus A.I.D.'s program strategy, we intend to allocate financial and staff resources for project and program interventions according to how well they rate according to the following criteria:

- the expected impact of the intervention on one or more of the strategic framework program objectives;
- the growth potential of the subsector in which the intervention will operate;
- the rate of economic and financial return;
- the participation of the private sector and an adequate level

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- of resources provided to support private initiative directly;
 - relevant experience, good knowledge of the subsector, and an established leadership role for USAID;
 - opportunities for U.S. investment, technology, products or business interests;
 - the management, oversight, technical and support requirements; and
 - the competing claims of other programs and projects, existing or planned, in the Mission portfolio.

Program evaluation and monitoring

Program and project evaluation will also be given increased attention in accordance with the Administrator's directive to measure and to show results. With help from the APRE evaluation officer, the Mission is strengthening the Mission evaluation system and outlining its terms in a Mission Order. We also intend to have a short-term consultant help the Mission to organize and establish standardized forms and schedules which will feed into the Mission management system. To monitor program performance, the Mission will establish and periodically update the program objectives its assistance activities are intended to accomplish. To assess progress toward these objectives, the Mission will select a limited number of indicators to measure annual program performance.

The Mission will conduct annual program performance reviews based on its program objectives and indicators. These reviews will assess where progress is or is not being made, focusing on the factors affecting progress and identifying for Mission management any problems being encountered so they can take appropriate action. In effect, the program performance review constitutes an internal assessment of progress under the strategic framework. The review will thus assist management decision-making, while also communicating to the GSL and AID/Washington the progress and results of USAID's program.



Allocation of resources

USAID's efforts to focus the portfolio, incorporate more private-sector emphasis and opportunities for U.S. businesses will eventually require a different mix of staff and financial resources.

Staff

Our new emphases and more concentrated effort on fewer activities will require significant program development efforts to create new approaches to the chosen subsectors. For example, in the environmental field the Mission will seek opportunities for expanding private-sector participation in industrial waste disposal and will examine opportunities for employing U.S. environmental technologies. Some of these skills are available from

Mission staff. In some cases, however, resources may be required to hire specialist skills.

USAID/Sri Lanka will also launch a concerted effort to strengthen the role and performance of our Foreign Service Nationals. Their skills and dedication are critical to the success of the program. Enhancing their contribution will require further steps to transfer greater management responsibilities and to draw them more effectively into the policy dialogue.

The implementation of our increasingly focused strategic framework will eventually permit reduced numbers of resident USDH staff. USAID/Sri Lanka's current plan is to move from 19 to 18 in FY 91, and 18 to 17 in FY 92.

Financial

While levels of resources will be determined by USAID/Sri Lanka development performance, we foresee financial levels similar to those received in the past. We believe that with the positive results from our programs, we will be able to compete effectively with other Missions for A.I.D. funds. The annual projected levels of funds are the following: \$20 million of Development Assistance, \$35 million of PL 480 Title III (and possible Title I levels), and Housing Guaranty resources (\$15 million in FY 91). Other resources may be available from A.I.D./W to help with humanitarian assistance during disasters or for activities consistent with USAID/Sri Lanka's program objectives.

Table 1 outlines the portfolio plan in our major program areas for 1992-96 including projected financial requirements.

Working with other donors

Donor assistance (commitments) to Sri Lanka exceeds \$1 billion annually. Close working relationships with the donor community, through individual contacts in areas of mutual interest or through coordination under the chairmanship of the World Bank or UNDP, have enabled USAID to assume leadership roles in specific areas (diversified agriculture, environment, PVOs, privatization) and leverage resources for policy change. We have a close working relationship with the multilateral banks in areas of mutual interest, such as privatization, financial markets, and financial assistance arrangements under the rehabilitation program for the irrigation, water supply, commercialization of agriculture, and rehabilitation in the Northeast.

Japan is the largest donor country and has provided assistance mostly for commodity import programs and large infrastructure projects. A draft strategy document (February 1991) outlining the direction of Japanese assistance for the next decade acknowledges the need to participate more actively in donor discussions on aid coordination and Government policies.



Proposed investment plan

(in millions of dollars)

| Active bilateral projects | PACD | Through FY 91 | FY 92 | FY 93 | Obligations | | | FY 92 - |
|--|-----------|------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | | | | | FY 94 | FY 95 | FY 96 | FY 96 |
| <i>Investment climate & business performance</i> | | | | | | | | |
| 1 Private Sector Policy Support | 31-Jul-93 | 10.9 | 3.5 | 0.5 | 3.0 | 3.0 | 3.0 | 13.0 |
| 2 Technology Initiative for the Private Sector | 31-Dec-96 | 4.9 | 4.0 | 4.0 | 2.0 | 1.6 | 0.5 | 12.1 |
| 3 Development Studies & Training | 31-Mar-93 | 7.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4 Economic Infrastructure (to be developed) | n/a | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5 Policy Development & Implementation | n/a | 0.0 | 0.0 | 3.0 | 3.0 | 4.0 | 6.5 | 16.5 |
| Subtotal | | 22.9 | 7.5 | 7.5 | 8.0 | 8.6 | 10.0 | 41.6 |
| <i>Diversified & commercial agricultural systems</i> | | | | | | | | |
| 6 Diversified Agriculture Research | 31-Aug-93 | 14.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 7 Agriculture Planning & Analysis | 31-Aug-93 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 8 Mahaweli Agriculture & Rural Development | 31-Aug-95 | 14.0 | 1.7 | 0.0 | 2.0 | 0.0 | 0.0 | 3.7 |
| 9 Agro Enterprises | 30-Sep-96 | 0.0 | 2.0 | 3.0 | 3.0 | 5.0 | 5.0 | 18.0 |
| 10 Mahaweli Enterprise Development | 31-Mar-95 | 6.6 | 2.0 | 3.0 | 3.0 | 0.4 | 0.0 | 8.4 |
| Subtotal | | 41.8 | 5.7 | 6.0 | 8.0 | 5.4 | 5.0 | 30.1 |
| <i>Environment & natural resources</i> | | | | | | | | |
| 11 Water Supply & Sanitation | 31-Aug-91 | 13.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 12 Irrigation Systems Management | 30-Jun-92 | 18.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13 Mahaweli Downstream Support | 31-Aug-92 | 15.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 14 Land and Water Resources | n/a | 0.0 | 2.0 | 4.0 | 4.0 | 4.0 | 5.0 | 19.0 |
| 15 Natural Resources Environment Policy | 27-Jun-97 | 5.5 | 2.0 | 2.5 | 0.0 | 2.0 | 0.0 | 6.5 |
| 16 Mahaweli Environment | 30-Sep-91 | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subtotal | | 57.6 | 4.0 | 6.5 | 4.0 | 6.0 | 5.0 | 25.5 |
| <i>Democratic systems</i> | | | | | | | | |
| 17 Rehabilitation Assistance | 31-Jul-92 | 25.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 18 PVO-Cofinancing II | 31-Aug-95 | 10.5 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 |
| Subtotal | | 35.5 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 |
| Total projected DA | | 157.7 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 100.0 |
| Housing Guaranty Program | n/a | 40.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 40.0 |
| PL480 Program | n/a | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 | 35.0 | 210.0 |

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Outlook

The strategy outlined in this document is buoyed by USAID's firm conviction that Sri Lanka is at the threshold of a period of sustained and sustainable growth toward NIC status. We believe that the open-market policies pursued by the Government can and will succeed. These policies, with their emphasis on the market economy and the private sector, are very much in line with the A.I.D. position. As these policies prove themselves in the Sri Lankan context and elsewhere, they will be embraced by a broader political spectrum, making persistence and consistency more likely. USAID is well positioned to support the transition process, both with the impetus of new initiatives introduced by the Agency leadership, and its own experience in working with policy reform as well as the private sector in Sri Lanka.

USAID / SRI LANKA : STRATEGIC
FRAMEWORK, FY 1992 - 1996
SRI LANKA
PROGRAM DOCUMENT

PD-ABD-598
1 OF 1 (24X)
1991