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USAID SRI LANKA

PL-480 TITLE III PROGRAM

ANNUAL PROGRESS REPORT - 1995

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I SUMMARY:

Over the period 1994-95 Sri Lanka has seen significant change with the completion of democratic elections, an attempted peace initiative, and finally resumption of civil war. Through this time the PL-480 Title III program has continued to play an important role through (a) increasing availability of food by provision of wheat and by promoting reforms to increase agricultural productivity; (b) improving access to food through use of local currency resources for food for refugees and food stamp recipients; (c) funding NGO programs to build democratic institutions; and (d) improving government nutritional programs and monitoring. In 1994 the GDP grew by 5.6 percent in real terms.

The Title III program provided 124,667 MT of wheat which arrived in January, 1995, but was funded in FY94. Policy reform implementation was slowed for 6-9 months during elections and during the initial months of the new government, but progress is now being made on all reforms. The GSL is using local currency resources for feeding approximately 90,000 war victims and 1,193,193 welfare recipients which constitutes aproximately 6% of total population of the country. NGO programs are benefitting 500,000 persons. Lack of funding in FY95 and FY96 jeopardizes the program's ability to meet USAID commitments under the current PL-480 Title III Agreement with the GSL and to contribute to Sri Lanka's sustainable development.

II BACKGROUND:

A. *Program Environment:* Sri Lanka with a population of 17.4 million combines a low per capita income level ($625 annually) with relatively high social indicators for literacy (87 percent), life expectancy (69.8 years), and child survival (mortality of 176/thousand births). These positive social indicators are achievements resulting from social welfare spending based on returns from investments made prior to and shortly after independence in 1948. From the 1960's through the 1980's, state control of the economy reduced and mis-directed investment and threatened the sustainability of existing levels of social spending and the continuation of high levels of social indicators. By the late 1980's, state control of the economy resulted in: slow growth, high unemployment, stagnant incomes, low rates of savings and incomes, disinvestment in the key plantation sector and poor nutritional status of a large part of the population. Restricted growth of the economy and resulting low incomes have not met the expectations of the population, and have been at least part of the reason for civil unrest and

civil war which have plagued the country since the early 1980's. The need for reform was clear and the PL-480 Title III Program became a key element of the USAID/Sri Lanka and GSL strategy for promoting sustainable economic development.

Per capita availability of arable land is 0.11 ha, a figure lower than other Asian countries, except for Bangladesh. This arable land is further constrained, as much of it (24 percent) is in perennial export crops and is not available for food production. The country, therefore, relies on imports for 34 percent of its food supplies. Though infrastructure and food distribution systems are well developed, low consumer incomes and distribution system inefficiencies result in marginal food security.

According to the Human Development Report of 1994, Sri Lanka ranks 92nd of 132 countries in terms of child malnutrition. Of the total population, 70 percent consume below the required level of 2,200 calories per day. Among infants 36.4 percent exhibit stunting and 18.4 percent wasting while child malnutrition at 36.6% is consistent with child malnutrition trends of 38.3% in low income countries. These nutritional indicators show, at best, a marginal nutritional situation that would clearly have been worse, if there had not been existing social programs to meet needs of the poor.

Since 1978, and especially since 1989-90, the GSL has made marked progress with structural reform of the economy. Rationing and absolute shortages of food have not been seen since the mid-1970's. Economic liberalization and reduction in government role in the economy have led to growth rates of GDP in real terms averaging 5.8 percent between 1990 and 1994 and at 5.6 percent in 1994. This reform process, though well begun, is only partially complete and has a considerable way to go, especially in the rural sector, as well as with respect to factor markets particularly labor and land.

Elections in 1994 were widely judged to be free and fair and resulted in a change in the ruling party for the first time since 1977. Following elections, the state of emergency was lifted and a peace initiative to halt the civil war was announced. Moves were also made to reduce corruption and abuse of power and to ensure better protection of human rights. Regrettably in April, 1995, the cease fire broke down and intensified civil war commenced in the North and East.

The elections and change in government in 1994 caused some delays and uncertainty regarding the economic reform program. The government has announced a policy of continuing economic liberalization and private sector led development. It is clear to most in the country that any retreat from free market economic policies would likely have serious effects on investment, incomes and employment. However, implementation of policy reforms and programs has been slow and in some cases policy statements have been contradictory.

B. *Program Rationale*: The PL-480 Title III Program supports GSL moves to liberalize and restructure the agricultural sector economy and addresses food security concerns during the period of economic adjustment. The Title III Program is an integral part of the USAID/Sri Lanka development strategy directed toward the USAID/Sri Lanka Mission goal to "*assist Sri Lanka become a green democratic country with broad-based sustainable development*." This Mission goal adapts a stated GSL objective and, though clearly ambitious, the goal is achievable and a valid developmental objective to which the Title III Program is making a key contribution. The USAID/Sri Lanka's development strategy has three strategic objectives:

- Economic Growth: increased private sector employment and income;

- Protecting the Environment: improved environmental practices to support sustainable development; and

- Building Democracy: greater empowerment of people to participate in democracy.

The Title III Program directly supports the economic growth objective; contributes substantially to the environmental and democracy objectives; and is supportive of the Mission's "strategic opportunity concern" for humanitarian assistance in areas affected by civil war. Improved food security is essential to achieving each of the mission objectives and increased agricultural productivity is important for its broad impacts on equitable development.

The USAID/Sri Lanka program supports efforts to "diversify and commercialize the agricultural sector" as one key element of its economic growth strategy. This strategy was first adopted by the GSL in the 1984 "*National Food, Agriculture and Nutrition Strategy*" (which was completed as a PL-480 Title I self-help measure). The PL-480 Title III Program and other USAID/Sri Lanka bilateral projects in agricultural research, irrigation management, Mahaweli area development, micro-enterprise, and agro-enterprise development support that objective.

The PL-480 Title III Program is d signed for impact at two levels. At the macro-level, the Title III Program provides needed cereal food imports on a grant basis and thereby helps to ensure cereal food availability and to reduce foreign exchange costs for staple food imports. The foreign exchange savings improve the balance of payments position and help make foreign exchange available to fund other imports needed for commercial and economic development. Some of the specific policy reforms also support improved macro-economic management by reducing unproductive and ineffective government expenditures.

At the sectoral level, the Program's policy reforms reduce government control and regulation of the agricultural economy and facilitate market-responsive, private sector investment in agriculture. Such investment is expected to lead to increasing diversification of agricultural production and to greater production of high value and value-added products. This production in turn will generate increased incomes and employment in the rural sector.

Local currency generated by Title III sales addresses problems of food access and availability. Ninety percent of local currency generations fund GSL programs to increase production (agricultural research and irrigation) and to provide food to the poor (food stamps) and to those displaced by civil war (refugee program). Ten percent of the local currency generations fund programs of indigenous non-governmental organizations and cooperatives. These programs too are directed toward increasing agricultural production (improved seed, women's credit programs, etc.), promoting sustainable agricultural production systems (community management of natural resources), and providing relief and assistance to vulnerable groups (rehabilitation of conflict areas, training for plantation laborers, food and relief services for slum dwellers, etc).

The entire Title III Program is closely linked to and mutually supportive of USAID/Sri Lanka development assistance program activities. Over time, as economic reforms take place, increased export earnings and greater employment and incomes will lead to less need for concessional food import programs, "safety net" feeding and assistance programs and foreign assistance for government agriculture sector investments.

C. *Multi-Year Program Structure*: The Title III Program recognizes that significantly impacting employment and income levels and improving food security requires a multi-year commitment Economic reform and commercial development take time and the policy reform process in a democratic society must proceed on a phased and incremental basis. With real GDP growth rates of 5.8 percent from 1990-94, Sri Lanka has begun to reap the benefits of economic liberalization, but real impacts percolating down to the rural sector will be protracted.

The Sri Lankan Title III Program is based on two separate three-year "phases" with separate policy reform programs and agreements for each phase. However, the program is managed by the GSL and USAID/Sri Lanka as an integral program and this report covers progress and activities covering the total program under both phases.

The Title III Program was originally proposed in March, 1990 in a " *Multi-Year Food Assistance Plan,* " which was approved in principle in late 1990. The proposal was for a five year program for provision of wheat to leverage policy reforms in the agricultural sector. With the Agricultural Development and Trade Act of 1990, the Program was authorized as a Title III Program with an amended first phase, three-year program of $150.8 million ($111.7 million of wheat exclusive of shipping) over the period FY91-93. Implementation of the first phase proceeded smoothly with perhaps better than expected progress on the policy reform agenda, and with good progress on liberalizing trade in the food sector. In February, 1994, a second-phase, three-year program was signed for $118.8 million ($89 million of wheat exclusive of shipping) for the period FY94-96. This second phase would essentially complete the program of the original Multi-Year Food Assistance Plan with total funding for wheat grain of $202 million, spread over six rather than the originally proposed five years. However, this second phase is seriously jeopardized by the apparent unavailability of Title III for FY95 & FY96.

Table I presents the status of funding for the total multi-year program. As evident in Table I, the apparent elimination of funding for FY95 and FY96 leaves a large part of the program unfunded. To partially compensate for this, USDA has included implementation of the Title III reform program in the Development Plan for the FY 1995 Title I program, which is expected to be amended for a total allocation of $15 million. USAID/Sri Lanka will continue to seek ways to continue to implement the full reform program.

TABLE I
Status of Title III Program Funding ($ Million)

	Wheat (MT)	Funding for Wheat Grain ($ Million)	Shipping Differential ($ Million)	Funding Total ($ Million)
Phase I: FY 91	254,084	34.04	11.96	46.00
FY 92	227,882	32.80	13.10	45.90
FY 93	315,000	44.90	14.00	58.90
Phase II: FY 94	124,667	19.00	06.00	25.00
FY 95	*	*	*	*
FY 96	**	**	**	**
Total	**	**	**	**

* *No funds have been provided to date though a renewed request has been submitted.*

** *Future funding is unsure.*

III STATUS OF FOOD SECURITY:

A. *Food Availability:* Sri Lanka's basic food supplies derive from local production and imports. The three major sources of caloric food intake are: rice (42 percent), coconut (20 percent), and wheat (13 percent). All wheat is imported; rice is both imported and locally produced; and coconut has traditionally been exported, but is now both exported and imported depending on supplies and specific coconut product requirement.

After independence in 1948, Sri Lanka pursued the goal of rice self-sufficiency. This goal was essentially attained in one year in 1983, before the on-set of major civil war and disturbances. Even then, rice self-sufficiency was contingent on continued import of wheat to provide a major share of cereal consumption requirement.

Domestic rice production has been subsidized and protected from the impact of lower priced foreign imports. With this protection and the traditional and administrative preferences given to rice production, the country averaged approximately 90 percent self-sufficient in rice over the period since 1983.

In 1994, domestic rice production was exceptionally good due to conducive weather conditions and totaled 1,748,000 MT, or 94 percent of total rice consumption. The 1995 Maha season crop (March-April) was very good with an estimated 1,200,000 MT and the Yala season crop (September-October) is estimated at 600,000 MT. Stock levels are high and a small quantity of previously imported rice has been re-exported. Over time, rice production is heavily dependant on weather conditions and has been marginally influenced by civil strife.

Policy reforms are slated to reduce subsidies and government control over agricultural marketing and production. These changes may somewhat reduce incentives for domestic rice production, but are more than balanced by increasing efficiencies in production and marketing. Improvements are expected in some of the key factors affecting rice production. Improved irrigation water management can lead to 10 percent increases in production; and improved land tenure status can be expected to lead to greater investment. Current rice yields of 3.5 MT per hectare are the second highest in South and Southeast Asia.

Coconut is a second major source of dietary energy intake that is domestically produced. Yields are highly dependent on weather with a one year lag in rainfall impact on nut production. Sri Lankan production has been falling due to shift of coconut lands to housing and urban development and low level of management of the crop. Production in 1994 was 2,610 million nuts and in 1995 prospects are for a good crop of 2,700 million nuts.

The GSL is seeking to promote coconut cultivation outside of the traditional coconut growing area. These efforts plus producer response to higher nut prices will likely have some future impact on production, but are not likely to result in significant increases in per capita coconut consumption.

Wheat imports (recently nearly all from US) and previous regular rice imports (from low priced Asian sources) together provide a critical portion (approximately 35 percent) of cereal foods needs. Recent import levels are shown in Table II and Figure 1. Prior to and following elections in 1994, the government instituted a program of substantial subsidy for wheat flour. The subsidy is based on "**bread at Rs.3.50 per loaf**" and represents a very large cost to the Treasury. At a wheat price of $180 per metric ton, the subsidy represents a 40 percent subsidy on wheat flour sales price and a cost to the Treasury of approximately $100 million per year. This does provide important nutritional benefits and relief to the poor, but is not sustainable and is disruptive to orderly functioning of market forces. Donors have engaged the GSL in dialog on this subsidy problem and it is expected that the government will begin to phase it out later in 1995. With world wheat prices increasing to around $200/MT FOB U.S. ports, there is increased pressure on GSL budgets and also a need for some degree of subsidy to provide the consumer some price stability.

Figure 1
CEREAL FOOD IMPORT TRADE
('000 MT)

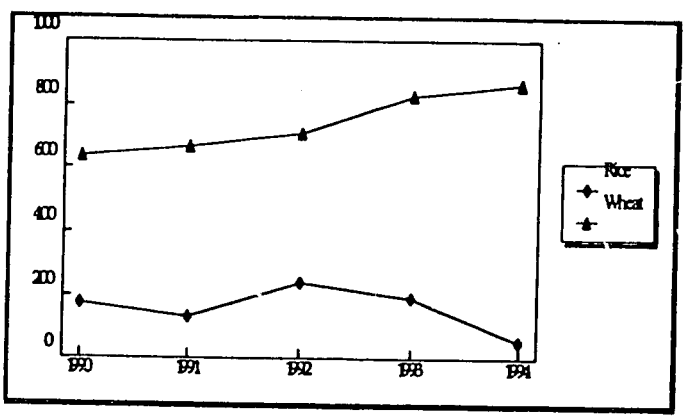

TABLE II
Cereal Food Imports
(000 MT)

Year	Rice	Wheat
1990	172.0	638.7
1991	133.0	667.8
1992	237.0	706.1
1993	194.0	826.3
1994	53.2	864.0
1995(est.)	- 0 -	900.0

Source: Food Commissioner's Department/ Central Bank Annual Reports (various issues)

During 1993, policy changes allowed a shift of rice imports from the government to the private sector. This change was handled in stages and resulted in no market disruptions, with private sector imports reported at lower cost than previous government procurements. USAID/Sri Lanka will review the benefit from this policy reform in a future analysis of the impact of privatizing the food marketing system.

Sri Lanka has been hard hit by reduction in level of wheat food aid (mostly PL-480). Even though wheat consumption has increased by 40 percent from the 1992-94 level (703,000 MT) to 1995 (987,000 MT estimated), the level of food aid commitments for the same period has fallen by 80 percent (from 313,000 MT/year to 63,000 MT).

Food supplies are widely available throughout the country, though distribution system efficiency will be improved when the system is fully privatized. The GSL also ensures that staple food supplies reach population centers in the North that are controlled by the rebel Tamil Tigers. In general food availability is not a serious concern, as local supplies are supplemented by imports.

B. *Food Access*: Food access is constrained mainly by incomes and purchasing power. The low nutritional indicators for the country reflect mainly the low wages and high levels of unemployment. Sri Lanka has a highly skewed income distribution which results in about 70% of the

population consuming less than the required calorie levels and the poorest 20% of the population consuming far below recommended levels.

Economic growth and increased employment are the only means to ensure sustainable access to adequate food supplies for the population. In 1994, real GDP grew by 5.6 percent and per capita incomes increased by 11.0 percent from $526 to $584. These increases in incomes have a significant impact on food consumption, as studies show an income elasticity of .63 in demand for staple food commodities.

The current low real income levels for a large portion of the population caused by a skewed income distribution and persistent high inflation have meant that many people have not had access to adequate food intake. A significant proportion of the population consumes less than 80% of recommended daily caloric intake. The GSL has attempted to address this problem through the Food Stamp Scheme, which has been replaced with a retargetted program called the **Samurdhi** (Prosperity) program.

In 1994, the GSL welfare programs provided the equivalent of $108.2 million in food stamps and other food assistance to around 6 million people (34% of total population). This level of expenditure was unsustainable and it was recognized that the food stamp beneficiary roles had been inflated by poor targeting of beneficiaries. The GSL has improved targeting which previously provided $3.37 of food stamps per household monthly to 5.4 million beneficiaries (31 percent of the population). The level of assistance per beneficiary had been severely eroded by inflation and, though supplemented by assistance under eight other welfare programs, was woefully inadequate for the truly needy. Title III local currency generations funded 22 percent of this program in 1994, equivalent to assistance to 1,193,193 individuals. A Title III reform measure has assisted the GSL to reform and better target this program.

A temporary problem of food access is caused by the displacement of people and the economic dislocation resulting from the civil war. Approximately 157,517 refugees live in camps and another 357,912 displaced persons live outside of camps within areas of conflict. Economic activities and trade disruption have affected income and employment for approximately two million persons in the North and East. Fishing and agriculture, two major occupations, are completely disrupted in some areas.

The GSL relief program provides minimal food requirements for refugees and others affected by hostilities. Title III local currency generations provide partial funding for these relief programs and Title III local currency grants to NGO's have assisted 66,000 persons with war rehabilitation programs and with restarting economic activities.

A solution and settlement of the civil war is not yet in sight and relief programs will likely continue. If the civil war is resolved, very large investments in rehabilitation and resettlement will be needed.

C. *Food Utilization*: Food utilization is also a food security issue. Nutrition, education, and health programs are important means of improving utilization. Even though, human development indicators such as literacy, school enrolment, etc., are relatively good, nutrition is a major problem in Sri Lanka. Sri Lanka ranks 92nd out of 97 countries in nutritional status in the world. Malnutrition amongst children is around 30% and iron deficiency, which is one of the three important micronutrient the human body needs, is around 45% overall in the country.

On the individual nutrition basis, Sri Lanka's generally high quality-of-life indicators do not carry over to nutritional indicators. A high percentage of the population has an inadequate food intake and a poor nutritional level. Continued supply of adequate food, reform of food and agricultural programs, and maintenance of social safety net programs are necessary to improve the precarious nutritional status of much of the population.

Results of the October-December, 1994, national nutritional surveillance survey revealed that 38.6 percent of the adult population is under-nourished (under-nourished as indicated by a low body mass index of under 18.5). The same survey revealed that 31.4 percent of children are underweight. These figures are "national" but do not include the North and East which are home for 15 percent (2.5 million persons) of Sri Lanka's population and which is affected by a 12 year civil war. The nutritional status in this area is worse than the rest of the country.

The October-December, 1993 national nutrition surveillance survey (the latest for which all analyses are published) showed a high incidence of 36.4 percent of children affected by stunting (low height-for-age) and 18.4 percent by wasting (low weight-for-age). These findings are consistent with other survey data. Recent surveys indicate some improvement in

nutritional status, but this is preliminary and a fragile beginning for an area needing serious improvement.

IV ECONOMIC GROWTH REFORM PROGRAM

A. *Overview*: The Policy Reform Program consists of two groups of policy reforms. The first group, which is identified as the FY 91-93 program, consists of seven reform actions. The general thrust of these reforms was to reduce government control over the agricultural economy and to increase the private sector's role in agriculture and food markets. This was a serious need as government control of the economy had been in existence for over twenty five years and had stifled private initiatives and resulted in inefficiencies and slow growth. The FY 91-93 reforms moved the economy towards a demand-driven, market-oriented and competitive entity. The reforms provided a basis for agricultural diversification with a view toward exporting high value agricultural products, thereby increasing farmer incomes. They also provided increased ability to import and efficiently distribute a basic food of the poor, namely wheat.

The second group of reforms is identified as the FY 94-96 Program and completes the minimal reform agenda necessary to ensure sustainable economic growth and improve food security. These reforms are specifically directed at increasing agricultural productivity and improving nutrition. This reform group also has seven reforms. The reform action "streamlining of poverty alleviation and nutrition programs" impacts directly on household nutrition and improves the "safety net" for the poor. The balance of six reform actions directly enhance agricultural productivity and environment protection.

The two programs (FY 91-93 and FY 94-96) are different stages of achieving a single purpose, namely increasing the real incomes of the poor. The first program was an essential pre-requisite to the second program of increasing agricultural productivity and nutrition. Agricultural productivity will increase production and improve efficiency leading to a downward movement of prices. It will also increase the competitiveness of agricultural commodities, enabling enhanced export earnings that can be used to increase import of wheat, a basic food of the poor. These reform actions can lead to a sustainable and food secure economy and would not be possible in a closed government controlled agricultural system.

The FY 91-93 program is progressing very satisfactorily. Five of the seven reforms have been completed. The land titling program is the major on-going activity under this program and is progressing well. Final reforms related to food trade have been slowed due to holding of three major elections in 1994.

The FY 94-96 program has seven policy reforms that are in various stages of implementation. Progress is good under five reform areas; adequate for the accelerated land reform and titling; and slow on reform of the Department of Wildlife Conservation. Table III presents a summary of the status of the program.

TABLE III
Summary Status of Policy Reform Measures

Policy Reform Program	Status
FY91-93: Elimination of Export Tax on Plantation Crops	Complete
Land Survey and Titling Program	Ongoing
Fisheries Harbor Corporation Privatization	Complete
Plant Quarantine Regulation	Complete*
Agricultural Insurance Board Restructuring	Complete
Private Importation & Trade in Food Commodities	81% Complete
Review of State Agricultural Agencies	Complete*
FY94-96: Strengthening Poverty Alleviation & Nutrition Program	15% Complete
Restructuring of the Mahaweli Dev. Program	14% Complete
Private Sector Management of Plantations	38% Complete
Institutional Reform for Participatory Management of Irrigation Systems	16% Complete
Reform of the Dept. of Wildlife Conservation	Ongoing
Accelerated Land Survey & Titling Program	Ongoing
Privatization of the Ag. Input Supply System	15% Complete

** Documentation yet to be fully completed.*

B. *Policy Reform Program - FY91-93*: During the past year the Sri Lanka PL-480 Title III program has leveraged a series of significant institutional and policy reform benchmarks designed to enhance overall food security.

The 1994 Annual Report highlighted the fact that out of the seven identified policy reforms, three policy reforms (Privatization of the Fisheries Harbor Corporation, Phasing Out Export Taxes on Tree Crops, and Restructuring of the Agriculture Insurance Board) had been completed in full, while significant progress had been made in achieving benchmarks in the other reforms.

During the course of the past year (1994-95), one additional reform measure (Review of State Agricultural Agencies) has been completed in full, but not fully documented. One other reform (Reform of Plant Quarantine Regulations) has been completed, but still not formally documented; and one reform (Private Importation and Trade on Food commodities) is to be completed in full in 1996. The policy reform that deals with land titling is ongoing, and though time consuming to implement, is making good progress.

1. <u>Elimination of Export Taxes on Plantation Crops</u> The tree crop sub-sector of Sri Lanka's economy has performed poorly for over twenty years. In 1980, tea, rubber and coconut produced nearly a quarter of the national income and over half of the total export earnings. By 1990 this sub-sector's contributions to total revenue and export earnings had dropped to one-twentieth and one quarter, respectively. During this period of decline the tree crop sub-sector was heavily taxed, through a combination of export and ad valorem taxes. This heavy taxation left little or no surpluses for maintenance and investment. The result was a fall-off in investment and declining productivity and under-utilization of labor. Through the phase out of these taxes, surpluses will be increased and production will be intensified through increased investment, increased cultivation of under-utilized lands, and adoption of improved technologies. Overall productivity in three sub-sectors, i.e., tea, rubber, and coconut, will increase. This reform is essential to make tea and rubber estates financially viable operations.

Removing export taxes and moving to privatization are crucial steps towards a more rational development strategy for the tree crop sub-sector which occupies nearly one-quarter of Sri Lanka's agricultural land and employs nearly one-half of all agricultural workers employed.

Policy Reform *Phase out export taxes on tea, rubber, and coconut.*

STATUS Completed. Elimination of export taxes on plantation crops provides a basis for profitable operation of plantations and for private sector investment and management of this sector. This in a pre-condition for establishment of a healthy plantation economy.

2. Implementation of Extensive Land Survey/ Titling Program Sri Lanka's land market is highly distorted because of the absence of titles. Land fragmentation is a problem and consolidation cannot occur because market forces cannot operate. These factors encourage (a) subsistence crop monoculture (particularly in paddy and coconut sectors); (b) low returns to scarce resources (i.e., land, water, and capital); and (c) under-utilization of labor. Through this reform measure, the creation of a competitive land market will be facilitated, thereby satisfying a major requirement for agricultural transformation. Holdings will be consolidated into economically viable units through market mechanisms; marginal producers and subsistence farmers will move off the land, and the use of factors of production will be optimized through diversification of production and improved allocative efficiency of resources and overall productivity should increase.

Policy Reform *Implement an intensive land survey and titling program.*

STATUS Ongoing. As stated in last year's annual report, the pace of land titling has increased and Polonnaruwa District has issued 3,778 titles during this year. Work in the Galle District has begun, with a team of officials with necessary supporting staff, equipment and vehicles working in the district issuing 2,412 titles.

The GSL ministers and officials now realize the importance of secure land titles to increase efficiency and enhance competition in the

agricultural sector. They have adopted the innovative and cost effective methodologies under this program to accelerate the pace of land titling programs in other areas. Lessons learned under the accelerated program have been utilized by the GSL in implementing land titling efforts outside the program area. The significance of this "spread effect" can be gauged by the fact that nation-wide 34,000 titles that have been granted under the GSL program during the year to-date, as seen in Table IV:

TABLE IV
NUMBER OF LAND TITLES ISSUED

Year	Titles
1990	20,000
1991	22,280
1992	13,560
1993	7,914
1994	34,000

Source: Land Commissioner's Department.

These represent more than a doubling of the previous average rate of issuance of titles.

3. Restructuring and Privatization of Ceylon Fisheries Harbor Corporation The Ceylon Fisheries Harbor Corporation (CFHC) was a government corporation that was established to operate harbor facilities, but that became more and more involved in operation of production and marketing facilities. Public ownership and the administrative structure were not conducive to efficient management. The CFHC operated at a loss and controlled assets (land, storage facilities, cold rooms) that were denied to the private sector. Privatization of facilities could reduce GSL expenditures and increase productivity. Fisheries are an important productive sector and an important protein source for the population.

Policy Reform *Restructure and privatize the Ceylon Fisheries Harbor Corporation.*

STATUS: Completed. An important step in restructuring and privatizing GSL parastatals was achieved with the downsizing and asset divestiture to the private sector of the Ceylon Fisheries Harbor Corporation (CFHC), an organ of the Ministry of Fisheries and Aquatic Resources. The CFHC retrenched its redundant employees (over two hundred) and divested to the private and cooperative sector nearly fifty percent of assets such as cold storage facilities, workshops and offices and fuel sales operations in six harbor sites. This divestiture of the CFHC has resulted in significant reduction in expenditure used to finance the Corporation's uneconomic activities (down by a third in FY92) and has produced substantial revenue from the lease of land and buildings and the sale of machinery (equal to fifty percent of FY92 expenditures). The utilization of assets by the private sector (especially cold room facilities) would reduce the considerable wastage and spoilage of fish now prevalent in the private trade. Rationalization of the CFHC provided an opportunity to build a constituency for a privatization, to make concepts and mechanics of public sector rationalization more widely accepted and to build the momentum for further, more complex restructuring and divestiture programs.

4. **Review and Revise Plant Quarantine Procedure:** Strict government controls and complicated procedures hamper the entry into Sri Lanka of planting material and discourage the transfer and diffusion of improved seed technology, thus inhibiting commercialization of agriculture. Through this reform, quarantine procedures will be rationalized, thereby facilitating and accelerating technology transfer and dissemination while at the same time protecting the country against introduction of pests and diseases. Greater incentives will be created for commercial agriculture leading to increased production of non-traditional agricultural crops.

Policy Reform: *Review the present plant quarantine procedures with a view to streamlining, to the extent possible, commercial and farmer access to improved planting materials, while ensuring protection against the introduction of pests and diseases.*

STATUS: 95% completed. Benchmarks 1, 2, and 3 of this reform measure addressed the need to review the existing plant quarantine policies and prepare recommended revisions. This was accomplished

by the GSL and supported work under USAID's **Diversified Agriculture Research Project.** The Ministry of Agricultural Development and Research completed its review and revision of relevant plant and planting material policies and regulations but has not yet completed the required publication, as specified by benchmark 4. The USDA's regional APHIS inspector visited Sri Lanka in 1993 to review the status of the plant quarantine policy and regulation revision. Based on his site visits and discussions with Department of Agriculture and National Planning Department officials, it was agreed to complete a listing of pests and diseases currently in Sri Lanka, as an additional requirement for the policy reform. All actions under this reform have been completed, except for the submission of the lists of pests and diseases.

5. Liberalize Importation and Trade in Food Commodities: The complex set of benchmarks under this broad policy reform measure are key for food security. They aim to promote a private sector-led food import and distribution system with greater efficiency and lower overall economic costs. Prior to 1991, the GSL was the sole importer of rice, wheat, lentils, onions, and chillies. The GSL also controlled wheat flour distribution to the retail level. With benchmarks 1 and 4, detailed economic and financial analyses and recommendations provided additional information on the existing food system and the GSL's food import and distribution parastatal (CWE). Opening of the domestic wheat flour wholesale distribution system to the private sector is important to improve food security through a more efficient food system.

Policy Reform: *Liberalize importation and trade in food commodities.*

STATUS: This program consists of eleven benchmarks, which provide for private sector import and distribution of rice, private sector import of lentils, chillies, onions, and potatoes, and private sector distribution of wheat flour. Of the eleven benchmarks, eight have been completed to date.

Private Sector Import and Distribution of Rice: Completed. Earlier, both import and local distribution of rice were a vertical state monopoly. In July 1993, the GSL undertook to liberalize the

importation of rice, the country's primary staple food commodity. In an earlier step toward a liberalized market, the GSL had allowed three private sector firms exclusive import rights. A Cabinet Paper removed that restriction and now allows for broad private sector participation in a more competitive import market (Benchmark #8).

The GSL completed an analysis (Benchmark #9) of tariffs for rice imports. The GSL reviewed the tariff structure and the legitimate needs of Sri Lankan rice producers in setting a revised import tariff. The new tariff was included in the GSL's 1994 budget and was gazetted in mid-November, 1993 (Benchmark #10). During 1994, eleven private sector firms imported rice (Benchmark #11). Following these reforms, rice/paddy distribution is completely open to the private sector and rice imports are completely conducted by the private sector, subject to timing and import quantities determined by the Food Department based on internal supply and demand conditions and availability of rice stocks in the country. These reforms have completed the restructuring of the rice trade.

Private Sector Import of Lentils, Chillies, Onions, and Potatoes: Completed. This reform also addresses the liberalization of trade in additional important commodities in the food system. A September, 1993 Cabinet Paper opened importation of lentils, chillies and onions to the private sector on a tender basis. Further import liberalization of these commodities and of potatoes was included in the late November, 1993 official gazetting of the GSL's new budget (Benchmark #7). Private sector import of these commodities is fully authorized, except for potatoes. Seed potato import is authorized, but controls remain on table potatoes to avoid import of pests and disease. Import of table potatoes is not likely to be commercially viable.

Private Sector Distribution of Wheat Flour: In the area of wheat import and distribution, though not a Title III reform, imports have now been opened to the private sector and the first shipment of wheat has been received. The private sector imported 250,000 MT in 1994. In September, 1993, the cabinet approved wholesale private sector distribution of flour. Private sector firms were to receive flour directly from the Prima Mill in Trincomalee and lease existing stores in twenty-two Food Department districts for wholesale distribution.

The GSL tender committee reviewed plans for appropriate retail mechanisms and recommended that the private sector initially take over distribution of 50 percent of total flour. This presented a problem for the Food Department, which may not be able to compete price-wise in distribution of the balance 50 percent. Licenses were issued to private traders and the first private sector flour wholesale purchase from the mill (Benchmark #3) was anticipated in mid 1994. However, this internal distribution of wheat by the private sector was delayed, as its implementation coincided with the run-up for the parliamentary elections in the country and this may have been a political issue. Licenses were cancelled by the new government. This reform implementation became more complicated with the outbreak of hostilities in the North and East. Private sector flour distribution may be expected by early 1996.

Elimination of Unprofitable CWE Operations: Reorganization and elimination of unprofitable CWE operations has also been addressed and the C.W.E. is taking action to set up private sector owned franchise agencies in order to gradually eliminate unprofitable C.W.E. owned retail units. The GSL has requested CWE to identify unprofitable operations and provide accounting data to support their proposals for reform. A study of options for CWE restructuring is planned for August-September, 1995.

USAID/Sri Lanka with the assistance of the Global Field Support funded Food Security and Nutrition (IMPACT) project plans a study in 1995 to assess the impact of food system reforms on reducing food prices to consumers and a study to assist in the reorganization of CWE's management information system and setting up of franchised agencies.

6. <u>Restructuring of the Agricultural Insurance Board</u>: Since Sri Lankan farmers are not adequately insured against crop losses, they often adopt conservative risk-minimizing strategies. In an attempt to provide crop insurance, the GSL established the Agricultural Insurance Board. Under this agency, the state bears high transaction costs in administering the existing but inadequate insurance system. Farmer complaints and system abuse are well documented. A restructuring will provide better and more reliable service for progressive farmers, and will reduce GSL budget expenditure. A sound and reputable crop insurance program will create a better

environment for investment, and lead to an increase in national rice yields. Beneficiaries include the 230,000 farmers obtaining insurance under a sustainable program. This reform supported policy work under the **Agricultural Planning & Analysis Project.**

Policy Reform: *Restructure the Agricultural Insurance Board to reduce operating deficits and improve services to farmers.*

STATUS: Complete. The first proposal submitted for restructuring by the Ministry of Agricultural Development & Research was rejected both by the Ministry of Planning and USAID as it envisaged a significant fiscal "cushion" to be provided by the Treasury. The proposal was revised by the Ministry of Agricultural Development & Research and has been accepted. The new proposal was oriented toward cutting cost and improving management controls and envisages progressively reducing budgetary allocation with budgetary provision for recurrent expenditure being completely eliminated by 1996.

7. Review of State Agricultural Agencies: This reform envisages the review of agricultural programs and state agencies and corporations with a view towards reducing government expenditure, increasing efficiency and expanding the role of the private sector. It consists of four benchmarks for review of state agencies and programs.

Policy Reform: *Review agricultural programs and structure of state agencies and corporations with a view toward reducing Government expenditures, increasing efficiency, and expanding the role of the private sector in all areas of the agricultural sector, including the seed industry.*

STATUS: Substantially complete. Under this reform measure, major institutional analyses have been accomplished which address the commercialization of state-owned and managed tea and rubber estates, reform of the Agrarian Services Department program, rationalization of the GSL's agricultural extension programs and comprehensive review of the operations, size and structure of the Mahaweli Authority of Sri Lanka. The World Bank has funded an Agricultural Extension Project, which implements key reforms of the extension system and expands a mass media extension strategy developed under USAID's **Diversified Agriculture Research Project.**

The state-owned plantations are now under private management, with sharply reduced losses and increased productivity and output. The GSL has decided to move ahead with restructuring of the Mahaweli Authority in line with recommendations of this study and with support from a new Title III benchmark. A study on restructuring of the farmer organizations under the Agrarian Services Department was completed in July 1995, and government response to the study and official submission of the report remain pending.

C. *Policy Reform Program - FY94-96:* The Title III Agreement covering this phase of the reform program was signed in February, 1994, and these reforms have been revised by Program Implementation Letter No.7 of February 23, 1995. Implementation work has begun on all policy reforms, but the 1994 Parliamentary, Presidential, and Provincial Council elections and escalation of the civil war in the North & East distracted attention from institutional and policy reform and planning. The government is now moving ahead on long-term planning and policy formulation. This delay was expected and was noted in the Title III proposal for this reform. Status of individual reforms are as follows:

1. <u>Strengthening of Poverty Alleviation and Nutrition Programs</u>
Various studies in Sri Lanka indicate that per capita income is highly skewed and that households at the lower income range have per capita energy intake levels well below accepted norms. The incidence in young children of both stunting and wasting is high and iron deficiency anemia levels are among the highest in the world. Poverty on a level with anywhere in Asia persists among much of Sri Lanka's population and underscores the necessity for targeted food transfers and poverty alleviation program for those who have not yet benefited from the economic reforms being implemented.

Approximately 30 percent of the population (5.4 million individuals) receive food stamps, under the Poor Relief Food Stamp Program until July, 1995. However, the food stamp allowance of Rs.167 ($3.37) per month per household had been severely eroded by inflation over the past fifteen years. Savings from better targeting and elimination of the better-off recipients have been used to increase assistance to the needy.

The Title III program has supported review of the GSL's various nutritional and poverty relief programs and initiated, and developed a new program to target cost effective interventions.

National data on nutrition status is lacking and has not been collected on a standard sample basis. The GSL conducted a national nutrition survey in 1993 and has, as a Title III policy measure, repeated this semi-annually since 1994. The GSL is also reviewing the feasibility of addressing iron deficiency through iron fortification of wheat flour.

Policy Reform: *Plan and implement a program to eliminate ineligible households from the Poor Relief Food Stamp Program and other poverty alleviation programs and increase benefits to the most needy.*

STATUS: Ongoing. In August, 1995, Youth Affairs, Sports and Rural Development Ministry has reviewed options for implementing a program named **Samurdhi** for consolidating poverty alleviation programs to reduce administrative costs and provide more substantial assistance to the needy.

The **Samurdhi** program is to be implemented in two stages. The first stage, which has been completed already, carried out a baseline survey of the 1.02 million food stamp recipient households to identify the most needy families and eliminate the families above the poverty line. The implementation of the **Samurdhi** first round commenced on August 1, 1995. The second stage baseline survey, which has commenced already, will identify families receiving benefits under other programs, and review new applicants and appeals by rejected food stamp recipients. This is scheduled to be implemented by the first week of September, 1995.

A total of 825,038 families are eligible to receive benefits under the **Samurdhi** first round program. This is down from the 1,012,343 families under the food stamp program -- a reduction of 18.5%. All provinces recorded a reduction under this new program. The highest reduction was in the North-Central (26%) and in the Western, Uva, Sabaragamuwa, and North-Central provinces, where the number of households contracted by around 20-23%. The Central Province recorded the least reduction (2%) which could be attributed to the restructuring of the plantation sector and the poor performance of

the spice farmers. The Southern Province recorded the second lowest reduction of 13%.

As originally envisaged, benefits were planned for 100,000 families to receive Rs.1,000 ($20) and 1.1 million families to receive Rs.500 ($10). This has been further broken down to levels of Rs.200 and Rs.100. The number of beneficiary families too has been less than the envisaged amount. Only 5% (43,933 families) of the total beneficiary families will receive Rs.1,000 ($20); 63% (520,217 families) will receive Rs.500 ($10); 15% (128,217 families) will receive Rs.200 ($4); and 135,420 families or 16% will receive Rs.100 ($2) under the first phase of the **Samurdhi** program. Consequently, there has been a substantial reduction in the number of beneficiaries as well as the cost of implementing a safety net program in the country.

The benefits under the program levels of Rs.200 and Rs.100 are only in the form of food stamps which can be exchanged for consumer goods at a cooperative store. The Rs.1,000 and Rs.500 transfers will entail a compulsory saving of Rs.200 and 100 respectively to be used as capital in a microenterprise later on. The balance is given equally as cash and food stamps.

USAID/Sri Lanka has requested and USAID/Washington approved technical assistance under the **Food Security and Nutrition (IMPACT) Project** to assist the GSL with analysis and research needed to prepare a proposal for further retargetting of poverty alleviation programs. This request is pending further funding.

Policy Reform: *Implement simplified health and nutritional surveys semi-annually to capture seasonal variations in nutritional status and improve monitoring of existing programs for the poor.*

STATUS: Ongoing. The first of four benchmarks under this reform is complete; the second benchmark is substantially complete; and the GSL continues to make very good progress on this reform measure. This progress would indicate a serious commitment to an improved system for monitoring national nutritional data. The nutritional report from the first survey (September-October, 1993) and second survey (March-April, 1994) are completed. The third survey (October-November 1994) is largely completed with report completion expected by the end of September, 1995. The third

survey obtained data on prevalence of anemia and wheat flour consumption for the iron fortification program of wheat flour. The fourth survey, which is the final survey under PL-480 support, is scheduled to begin in September, 1995. This reform is receiving support from the Global Bureau IMPACT Project for data analysis.

Policy Reform: *Determine feasibility for fortification of wheat flour to improve nutritional levels, especially for pregnant and lactating women.*

STATUS: Ongoing. The first of four benchmarks is completed and the second is substantially complete. The GSL is proceeding with a very participatory approach to review feasibility for the iron fortification program. This is necessary and appropriate because of the frequently contentious scientific and medical establishment within the country. Two workshops and a series of consultations helped to develop an action plan for the program and a wide consensus in support of the program.

The project was arbitrarily divided into three phases; **Phase I** was designated as the initial evaluation of feasibility and of need; **Phase II** as the period for evaluating the effectiveness and acceptability of iron fortified wheat flour and; **Phase III** as the implementation, scaling-up, and advocacy portion.

Phase I - 1994: This stage has been completed with a final report expected soon. Several critical, simultaneous activities were worked through. These included selecting the most appropriate iron compound, identifying the fortification level, and the method of incorporating iron into the flour. Both fortified flour and the products from that flour (bread and other foods) had to be evaluated after storage and transport because quality parameters and final product acceptability would impact on the project's success. Prima Ceylon Ltd., was responsible for fortifying the flour and the Ceylon Institute of Scientific and Industrial Research (CISIR) was responsible for preparing and evaluating the fortified test products. Prima Ceylon Ltd., also conducted tests on the physical properties of bread.

An equally important activity during Phase I was establishing both the patterns of wheat flour consumption and baseline hemoglobin (iron status) measurements. The Nutrition and Poverty Policy Unit,

Ministry of Finance, Policy, Ethnic Affairs, and National Integration (MFPEANI) obtained these data at the end of 1994 as part of the Third National Nutrition and Health Survey. The Nutrition Division of the Medical Research Institute were instrumental in collecting the recipe data needed for determining wheat flour consumption levels.

Phase II - 1995 (1 Year): Preparation of the Phase II activities has begun. Field trials to establish the efficacy of the iron compounds will start mid-1995. Identifying and evaluating the flour distribution system was part of selecting the trial test site(s). Both the flour distribution system within the market and the processes of business and managerial control influence how the project will establish the required monitoring and control components in the field trial. After considering a number of alternatives, the field trial will be carried out in the estate sector. The mechanics of adding the selected iron compounds will be refined and scaled up during the early period of this phase.

The benefits of the iron fortification program relative to its cost is vital, and will depend on the results of Phase II. While the unit cost of fortification (cost per kg) is small and the cost is recoverable through price adjustments, the volume multiple is large and relies on foreign exchange. The benefits accruing to the costs must be identified and measured so that these data can be used in the public debate, which will precede and policy change.

Phase III - 1996 (Onwards): One fortificant will be selected and scaled up to the national level if the second phase results prove effective.

Technical support for this project was made available through USAID's globally funded Opportunities for Micro-Nutrient Intervention (OMNI) Project. Financial support for the Phase I activities was provided by both the Government of Sri Lanka and USAID.

2. Restructuring of Mahaweli Development Program: The Mahaweli Irrigation Scheme has been the centerpiece of Sri Lanka's agricultural development program for the last two decades and accounted in some years for up to 80% of all public investments in agriculture. The project has been successful in constructing irrigation and other

infrastructure and resettling farmers in the newly irrigated lands, but investments in infrastructure are largely completed and are not yet producing optimal returns. Recurrent costs remain high; infrastructure facilities are not optimally utilized and maintained; water often is not used or controlled properly; the farming system continues to be dominated by rice, with little diversification into higher value crops; and development of private agribusiness has been limited. The "Review of the Operations, Structure and Size of the Mahaweli Authority," completed as a Policy Reform Measure for the Title III Agreement in 1992, provided a base for the GSL decision to restructure the Mahaweli Authority. This reform will cap and provide institutional/financial sustainability for the large investment (over $1 billion) the GSL has made in the Mahaweli. Current USAID bilateral projects with the Mahaweli Authority, though nearing completion, are contributing to the reform/reorganization process.

Policy Reform: *In accordance with the action plan to be recommended by the Task Forces on Mahaweli Restructuring, implement a program to restructure MASL organizations and programs.*

STATUS: Ongoing. Following the study reviewing the Mahaweli Authority, USAID/Sri Lanka held discussions with the World Bank and the GSL regarding reform of the Mahaweli agencies. The World Bank is interested and willing to fund a Mahaweli Restructuring Project. However, reorganization and reform is politically difficult as the Mahaweli is a very large agency and the Mahaweli program has been a high profile development effort for seventeen years. Although significant change will not come easily, there is a growing awareness that reform is needed to make the Mahaweli program in its entirety sustainable and fully productive and that the restructuring/reorganizational effort will need to include: reducing governmental recurrent costs; promoting private sector investment and production; transferring control and responsibility from government to users and private entrepreneurs; establishing essential organizations to manage and maintain headworks and main canals; and integrating the Mahaweli systems with national programs.

In early 1994, the GSL established seven task forces to review different aspects of Mahaweli Program restructuring. These were: agricultural extension; irrigation management; business promotion;

private sector enhancement; headworks; infrastructure, land, and social services; and staffing and finance. The task forces completed work, but did not reach consensus and more work was required to prepare an acceptable restructuring plan. In early 1995, the GSL again requested World Bank assistance for restructuring and a workshop to review plans was held with participation by the GSL, MASL, World Bank and USAID. There appeared to be concensus on retrenchment of staff, need to transfer responsibilities to farmer organizations and line agencies, and potential for privatization of assets. There remain differences on the pace of reform and no action plan has yet been finalized. The GSL has submitted a revised plan for World Bank consideration and awaits further discussions.

Policy Reform: *Improve land policy implementation and transfer of tenure for state-owned assets to private sector, as key requirements for increase in private investment and productivity in Mahaweli area.*

STATUS: Ongoing. This reform somewhat parallels land titling efforts by the Land Commissioner outside of the Mahaweli. It expands on work done under USAID's **Mahaweli Enterprise Development Project (MED)** to facilitate the issuance of land title and lease documents for micro-enterprise and larger commercial investors. Secure tenure status is necessary to enable investors to invest in and develop businesses needed to create employment for the second generation in the settlement areas. Land titling, surveying and leasing procedures are notoriously lengthy and complicated, but a series of small changes in policy and procedures have led to the issuance of the first land documentation. To-date there have been 200 land grants issued to small scale entrepreneurs and three leases/titles to medium and large enterprises.

Policy Reform: *Accelerate turnover of O&M responsibilities for Systems and Distributory Canals to newly formed Distributory Canal Farmer Organizations (DCFOs) in the Mahaweli Restructuring Project.*

STATUS: Ongoing. The first benchmark has been completed in the form of an action plan for implementation of this reform. This reform parallels reform of irrigation system management by the Irrigation Department outside of the Mahaweli areas. In 1993, the Mahaweli Authority stated an objective of promoting farmer

organizations and participatory management of irrigation. Implementation of this policy is just beginning. The USAID **Mahaweli Agriculture and Rural Development (MARD)** Project has developed a model program for development of farmer organizations. To-date 701 farmer organizations have been established in Mahaweli areas. Of these 568 are registered; 388 have taken over partial responsibility for distribution work, and 65 have taken over complete control.

3. Private Sector Management of Plantations: The large plantation sector is a major factor in the economy of Sri Lanka, but its poor performance under parastatal operation resulted in a declining contribution to the economy and threatened the livelihood of the one million people employed by the industry. Prior Title III reforms have helped to eliminate export taxes on plantation crops and to complete a review (since implemented) of options for transferring estates to private management. However, past management contracts were short-term (5 years). Extending the term of management contracts/usufruct agreements is required if the plantations are to attract investment and be economically viable. This reform commits the GSL to institute more independent management arrangements and establish private management of those estates remaining under parastatal authority. Such reforms are necessary to spur investment and long-term environmentally sound management of plantation land and their forest resources.

Policy Reform: *Expand role of private sector plantation management.*

STATUS: Ongoing. The first benchmark was completed when the GSL approved a plan that would transfer the management of estates to private companies with equity ownership split between private management companies (51 percent), the government (19 percent), estate workers (10 percent), and the balance (20 percent) to be sold on the Colombo Stock Exchange. Management control is provided through leases for a period of 50 years. Implementation is pending, but planned to start in August, 1995.

4. Institutional Reforms for Participatory Irrigation Management: Sri Lanka has about 600,000 hectares of paddy land, 80% of which is under irrigation. Irrigation has been a major focus of investment since Sri Lankan independence with goals of achieving self-

sufficiency in food production and reducing unemployment. The GSL currently has responsibility for the operation and maintenance (O&M) of larger systems but government management is inefficient and not responsive to farmer needs. In 1988 the GSL adopted a new management policy for the irrigation sector designed to increase the role of the farmers and reduce the role of the public sector, a policy predicated on Farmer Organizations (FOs) assuming their share of O&M costs. Implementation of this policy has started with critical elements defined with help from USAID's **Irrigation Management Policy Support Activity (IMPSA)**.

Progress, however, has been slow. Policy reform measures in this sector will strengthen institutional support for farmer-managed irrigation systems and provide adaptive research on crop diversification. These are critical to the success of the ongoing irrigation projects, but inadequately covered within the parameters of those projects.

Policy Reform: *Institute improvements in irrigation management responsibilities for engineering, construction, operation and maintenance.*

STATUS: Ongoing. USAID has received an Action Plan for improvement of co-ordination between the Irrigation department and the Irrigation Management Division.

Policy Reform: *Accelerate turnover of Operations and Maintenance (O&M) responsibilities for tertiary irrigation systems to Distributory Canal Farmer Organizations (DCFOs).*

STATUS: Ongoing. The GSL accepts the policy of participatory management of irrigation systems. Individual projects are proceeding to strengthen DCFO's, of which 695 have been established and 525 have taken over responsibility for operation and maintenance of D-canals. The Ministry of Irrigation, Power & Energy submitted an action plan for this reform, but the plan lacked essential details for some activities. A comprehensive plan for national level action can be expected later in 1995.

5. <u>Reform of Department of Wildlife Conservation</u>: A 1993 study highlighted weaknesses in the **Department of Wildlife Conservation**

(DWLC) program and the need for changes to enable the department to manage national parks and bio-diversity to provide more scientific research on species and bio-diversity and derive more economic benefit for the communities surrounding the parks through eco-tourism and other forms of sustainable usage of the parks.

Policy Reform: Restructure Department of Wildlife Conservation (DWLC) organization and program to respond to issues raised in the 1993 review of the DWLC program.

STATUS: Pending. The Ministry previously responsible for the DWLC held several review meetings to discuss options for re-organization. No decisions were taken, but some concensus was forming on the changes needed. Following elections, the DWLC was shifted to the Ministry of Public Administration, Local Government & Plantations. Progress on this reform may be expected in late 1995. A new director has been appointed to DWLC and a workshop is being planned to prepare an action plan for reform. The USAID/Natural Resources and Environment Policy Project (NAREP) is assisting the DWLC planning efforts.

6. Accelerated Land Survey and Titling Program This reform measure expands action and GSL commitment under the earlier FY 91-93 Title III program. Sri Lanka's land market and the ability of the occupants of the land to sell or mortgage land and their willingness to invest in it are all highly distorted because of the absence of title. The fragmentation of land holdings into small, uneconomic parcels is also a major problem. The normal process of land consolidation cannot occur because market forces are not free to operate. These factors result in: (a) subsistence crop monoculture (particularly in paddy and coconut); (b) inability to diversify into high value crops; (c) low returns to scarce resources (i.e., land, water and capital); and (d) under-utilization of labor. Acceleration of the survey and titling will facilitate creation of a competitive land market, thereby satisfying one of the key requirements for agricultural transformation. Land titling is expected to lead to greater investment from which holdings will be both improved in and of themselves and allocated to more productive use in economically viable units through market mechanisms. The use of land, labor and capital will be optimized through diversification of production and improved allocative efficiency of resources, as a result of which overall productivity is projected to increase.

Policy Reform: *Continue and expand the accelerated land surveying and titling program in two additional districts.*

STATUS: Ongoing. The GSL selected two additional districts (Gampaha and Matara) for accelerated titling programs. They have also developed innovative methodologies and incentive schemes to expedite the issuance of land titling in those two districts. Implementation of these issuances is expected soon.

7. Privatization of Agricultural Input Supply Systems: Until recently the fertilizer industry in Sri Lanka was controlled by the public sector, which held 83% of the market. In 1990, the GSL undertook the first steps to rationalize and privatize the fertilizer industry: subsidies on fertilizer were removed and other measures taken to reduce existing barriers and facilitate entry by the private sector. By 1992 the three parastatals (Janatha Fertilizer Enterprise Ltd., Colombo Commercial Fertilizer Ltd., and Ceylon Fertilizer Company Ltd.,) were incorporated as wholly owned public limited liability companies, in order to facilitate their subsequent privatization. The Ceylon Fertilizer Corporation was then split into five companies (Ceylon Fertilizer Company Ltd., Ruhunu Agro Fertilizer Company Ltd., Rajarata Agro Fertilizer Company Ltd., Wayambe Agro-Fertilizer Company Ltd., and Thamankaduna Agro-Enterprize Company Ltd.). The opening up of the industry resulted in a number of new private companies entering the market; and the public sector market share declined to 63% in 1992. The sale of shares for Colombo Commercial Fertilizer, Ltd. was completed, but the privatization process for the other two companies temporarily stalled. This reform will help complete this reform process and will complement ADB assistance for the fertilizer sector reforms.

In the mid-1980s the Department of Agriculture (DOA) imported, produced, processed, stored, packed and distributed virtually all local improved seeds through its Seeds and Planting Materials Division. Quantities and quality of seed and planting materials distributed by DOA are low compared to the national demand and the required government subsidy for such a system is not sustainable. Under USAID's completed **Diversified Agricultural Research Project (DARP)** the GSL liberalized the seed trade to allow private sector import and production and stated a GSL policy of handing over seed production, distribution and sales to non-

governmental enterprises. The DOA retains roles in quality control and seed certification; supplying basic seed; and maintaining reserve security seed stocks. This reform provides for specific GSL actions to support the private sector and will help the GSL to continue the process of promotion and support for privatization and expansion of this critical private sector activity.

Policy Reform: *Accelerate divestiture of public sector fertilizer companies.*

STATUS: Ongoing. The GSL has sold the Wayamba Agro Fertilizer Company Ltd., to a private sector firm (CIC) in March, 1994 and the Ruhunu Agro-Fertilizer Company Ltd., to Yasodha Enterprise in July, 1994. Re-tendering has been initiated for sale of Rajarata and Thaman Kaduwa Agro-Fertilizer Company Limited. The Ceylon Fertilizer Corporation (including the Head Office) will be privatized in December, 1995.

Policy Reform: *Implement a program to assist private enterprises in seed production and marketing.*

STATUS: Ongoing. The Department of Agriculture has prepared a plan to support private seed enterprise development and has submitted this for Ministry review. The plan was acceptable, with minor modifications, but has not yet been formally approved. This support plan will facilitate seed enterprise development work under a CARE grant for the **Private Seed Enterprise Development Project** funded with Title III local currency and under the USAID-funded Mahaweli projects.

V LOCAL CURRENCY USE

A. *Local Currency Generations:* The status of local currency generation from the Title III program is presented in Table V and Table VI. The total amount of local currency generations were previously based on negotiations with the GSL to determine the market value of wheat, with the negotiated price reflecting the world market price of wheat in the form of cost of alternative commercial imports.

Beginning with the FY 94 shipments, local currency generations are based on the FOB cost of wheat plus the shipping cost at international

commercial rates converted at the rate of exchange on the date of arrival of the shipment. All generations from the FY91-93 imports have been deposited by the Cooperative Wholesale Establishment (CWE) to the Title III Special Account in Sri Lanka's Central Bank. Funds generated from the 1994 tranche is deposited in an interest bearing account of the Nationals Saving Bank and the account is managed by the Central Bank. Of the total generations, ten percent are then transferred to an NGO Special Project Account administered by USAID under a Trust Fund agreement and ninety percent are released by the Central Bank to the GSL Treasury on the completion of Policy Reform Benchmarks. The Treasury releases amounts agreed to by the GSL and USAID to GSL "Recipient Agencies" whose programs are directed at enhancing food security of the poor and increasing agricultural production and productivity.

TABLE V
Local Currency Generation - FY 1991-94 Tranches*

Year	Rs. Million
1991	1,335.6
1992	1,380.4
1993	1,763.6
1994	1,138.7**
Total	**5,618.3**

** Note: Local currency generations do not include shipping differential for use of U.S. vessels.*

*** A minor additional amount due for late payment is still due to be deposited.*

The Title III Program addresses the issue of food accessibility for disadvantaged sections of the population on a short and long-term basis. Over the longer term, the durable solution to food security problems is addressed by economic growth and increases in real income resulting from economic reforms. A short-term intervention strategy to meet immediate needs is through a targeted approach implemented through the food stamp/rehabilitation schemes and the PVO projects. These projects are supported by the bulk of the local currencies that are generated through the program.

GSL Food Stamp/ Rehabilitation Schemes It is now widely accepted that economic development will not remove all people from food uncertainty. Identifying potential food gaps amongst individuals and families lacking purchasing power is important, so that those who are by-passed by development can benefit from a public safety net providing food and/or income transfers. The provision of safety nets to mitigate the potential short-term negative effects of structural adjustments on real incomes of the poor is increasingly being viewed as a necessary pre-requisite.

During 1994, approximately $18 million of Title III of local currency generations were released to fund the food stamp ($10 million) and war relief/refugee rehabilitation schemes ($8 million). These amounted to about 30 percent of the food stamp and 40% of the refugee rehabilitation budgetary allocations. Of the Title III local currency, the food stamp allocation provides services to approximately 1.2 million persons, while the allocation to the rehabilitation scheme provides relief services to approximately 100,000 persons. ***Thus, a total of approximately 1.3 million persons received*** increased access to food from this funding.

PVO Activities: Ten percent of the Title III local currency generations are set aside to fund NGO/PVO activities. Over 500,000 Sri Lankans are benefitting from PVO-implemented agricultural production, micro-enterprise, feeding and income-generating activities. These projects target small farmers, women entrepreneurs and vulnerable children. The FY94 Agreement broadens the NGO activities eligible to use Title III local currency in support of a wider range of agricultural production activities.

Several improvements in the management of local currencies have been instituted during the past year. These include:

- requirement for interest payments on late payments by CWE to the Special Account;

- establishment of an interest bearing account to maintain value of GSL funds held in the Special Account; and

- revised procedures to obtain higher rates of interest on the NGO Special Projects Account funds.

TABLE VI
Status of Local Currency Generation (FY 91-94 Tranches)

Item	Total To-Date (Rs.)
Local Currency Generation	5,618,344,677
Deposits in Special Account	5,618,344,677
Transfers to NGO Account	561,834,468
Transfer of Treasury	4,209,996,137
Remaining in Special Account	846,514,073

B. *GSL Program Budget Support* Table VII provides a breakdown of local currency use by GSL programs from program inception to-date. The disbursed local currency was allocated to nine programs. Of the total, 79 percent of allocations were to the food stamp and rehabilitation programs, while 21% was for agricultural productivity enhancing programs.

TABLE VII - Local Currency Allocation - FY 91-94

Institutions	Allocation (Rs. Million)	%
Ministry of Social Welfare, Rehabilitation & Reconstruction		
• Food Stamp Program	2,399.7	57.0
• Rehabilitation	926.8	22.0
Ministry of Ag. Dev. & Research	274.3	6.6
Department of Agriculture	248.8	5.9
Department of Export Agriculture	37.2	.9
Ministry of Lands, Irrigation and Mahaweli Development	288.9	6.8
Land Commissioner's Department	28.3	.6
Food Department	5.7	.14
Department of External Resources	0.2	.06
Total	4,209.9	100.0

A brief description of the use of GSL local currency is given below:

1. Food Stamp Program: About two thirds of total local currency allocations have been directed at this program. Funding provides critical supplemental food for the poor on a monthly basis. It is estimated that during the four year period the program has provided assistance equivalent to about 1,193 million households for one year or 5 million person year benefits from the program.

2. Refugee Relief and Rehabilitation Program: Local Currency allocations to this program in 1994 are estimated to have benefitted 89,114 persons who have been displaced due to terrorist attacks and civil war. Funding provides for feeding programs and other emergency support.

3. Irrigation Program: The Ministry of Lands, Irrigation and Mahaweli Development received local currency for improvements of irrigation structures and improvements to gravity irrigation works. This funding is estimated to have provided for essential structural improvements and improved maintenance of irrigation systems covering 16,900 hectares; benefitting approximately 16,000 farmers and 80,000 total beneficiaries; and substantially improving food production capacity.

4. Other Agricultural Sector Programs:

(a) Ministry of Agricultural Development & Research: This allocation of local currency has been directed at programs for agricultural planning, monitoring, programming and progress control for programs under this ministry. It also supported development of an agricultural extension project and it was used for counterpart funding for the Agricultural Planning and Analysis Project. These funds improved overall management of government agricultural sector programs.

(b) Department of Agriculture: This allocation has been utilized for crop research, for plant generic resource conservation, and for review and update of plant quarantine regulations. It also assisted agricultural extension and adoptive research and diversification activities in district programs. These funds increase agricultural productivity of rice and basic food crops produced by small farmers.

(c) Department of Export Agriculture: This allocation has supported research and extension programs for minor export crops, primarily spice (clove, pepper, cardamoms, cinnamon) and beverage (coffee, cocoa) crops.

(d) Land Commissioner's Department: This small allocation has covered expenses for the land titling activity in two districts. Land titling has benefitted 6,000 persons directly and approximately 30,000 family members in total with an additional of 22,000 persons benefitting from speed-up of title issuance in other areas.

(e) Department of Food: Allocation of local currency to the Food Department provided supplemental transportation for food supplies following a period in which transport was disrupted due to security problems.

(f) Department of External Resources: This small allocation has been used to cover costs of the Title III Program Coordinating Unit.

C. *NGO Program Support*: Table VIII provides a breakdown of the allocation to-date of local currency to NGO programs. The use of these local currencies will accelerate substantially due to the completion of 1994 design work for NGO projects which will rely heavily on these funds.

A brief summary of each current NGO program utilizing local currency resources follows. Programs largely focus on relief, food security, development of democratic institutions and agricultural productivity and target the very poor. Total life-of-project beneficiaries for these programs are estimated at 102,270 for direct beneficiaries and 405,680 for indirect beneficiaries. Of the total beneficiaries, 71,565 benefit from relief and rehabilitation assistance and 436,385 from programs to increase agricultural productivity and employment. There is, of course, some over-lap in these benefits and objectives. These NGO programs provide an important supplement to GSL poverty "safety net" programs.

1. CARE - Private Seed Enterprise Development Project: This project (July 1, 1992 to June 30, 1998) is to facilitate the development of private seed production and marketing systems. Life of project funding from local currency resources totals Rs.81,529,000 which will be drawn down only later in the project. The project objectives are to increase seed enterprise production and incomes and provide

quality seed material for the small farm sector. Improved seed is estimated to increase production by approximately 10% and will result in increased farmer income, food availability and improved quality of life in the farming community. The project is based on small farmer seed produce groups and is estimated to affect 1,400 direct beneficiaries with seed enterprises and 61,000 beneficiaries from use of improved seed and a total of 249,600 indirect beneficiaries. Current beneficiaries total 915.

TABLE VIII
Allocation of Local Currency to NGO Programs To-Date
(Rs.'000)

Project	Authorized	Expended*
CARE: Private Seed Enterprise Development	81,529	5,965
Agromart: Women's Training & Development	38,971	24,502
CARE: Rehabilitation Emergency Agriculture	12,790	8,785
IIMI: Shared Control of Resources	23,000	0
AAFLI: Employment/Disadvantaged Youth	690	690
JAAPS: Vocational Training	24,684	15,212
Samata Sarana: Integral Human Development in North of Colombo Slums	27,131	26,206
Agromart: Anti-Poverty Lending	13,133	12,722
Asia Foundation: CIPART	114,881,844	3,005,000**
Other U.S. PVO: CIPART	240,000,000	0
Direct Grants: CIPART	35,418,156	0
Total	390,621,928	3,099,082

** Expenditures through 6/30/94*
***As at 8/31/95*

2. Agromart Outreach Foundation - Womens' Training and Development Project: Agromart Outreach Foundation is a local NGO which works in rural areas, mainly with rural women. This project (July 1, 1993 to March 31, 1996) is fully funded with Title III local currency totaling Rs.38,971,000. It provides training for rural women in agri-business and agricultural production and marketing. It works through local societies established in administrative divisions of the North-Western and Southern provinces. Beneficiaries to-date total 2,827 individuals or approximately 14,135 total family members.

3. CARE - Rehabilitation Emergency Agricultural Project: This CARE program (September 17, 1993 to May 16, 1995) is funded with Rs.12,790,000 in local currency resources and additional DA funding. It assists farmers in conflict areas in the North and East through local NGO's. The program helps to ensure supply of essential food items and to restart agricultural production activities to the extent possible. Beneficiaries to-date total 13,293 or approximately 66,465 individuals including family members.

4. International Irrigation Management Institute (IIMI) - Shared Control of Resources (SCOR) Sub-Project: The SCOR project (May 26, 1993 to September 30, 1998) increases the productivity of the natural resource base to improve peoples' livelihood on a sustainable basis. The SCOR project provides DA funded technical services and will utilize a life-of project total of Rs. 23 million of local currency funds for grants to approximately 1,000 user-groups for conservation and production activities. This will benefit 20,000 farmers/resource users, or 100,000 total beneficiaries, who are occupying marginal land or land vulnerable to resource degradation. The funds will help beneficiaries to acquire new technologies related to conservation and production for 30,000 hectares. It will support various conservation measures, such as homestead development, conservation farming or agro-forestry, soil and water conservation, tree planting, bio-farming and systematic ground water development. To-date assistance has benefited 6,777 families and 33,865 total beneficiaries.

5. Asian/ American Free Labor Institute (AAFLI) - Employment Project The AAFLI project (August 1, 1993 to July 31, 1995) is working on employment, income generating and social service activities. In addition to work with industrial labor, AAFLI work is targeting workers in the plantation sector, which is severely affected by

unemployment and social problems. The DA-funded project technical services are complemented by life of project local currency funding of Rs.690,000 for small scale credit. Beneficiaries include two hundred credit recipients or 1,000 total family members. Beneficiaries to-date total 29,285.

6. Jinaratana Adhyapana Ayathana Palaka Sabhawa (JAAPS) - Vocational Training Project: This local NGO is utilizing a grant of local currency for training of men and women in income generating activities compatible with the local environment. The project (June 1, 1992 to December 31, 1994) operates in three areas with a estimated life of project funding of Rs.24,684,000. Life of project beneficiaries are estimated at 550 direct trainees with a total of approximately 4,139 total family members. Beneficiaries to-date total 4,139.

7. Samata Sarana - Integral Human Development in Slum Areas: This local NGO utilizes a local currency grant of Rs.27 million to fund an integrated program of training and services (May 1, 1992 to April 30, 1995) to improve the quality of life of women, the elderly and children in slums in North Colombo. One component of this grant is used for funding a feeding program for displaced children, the elderly, and disadvantaged women. Total beneficiaries are estimated at 1,350, of which 450 are beneficiaries of the feeding program. Beneficiaries to-date total 1,350.

8. Agromart Outreach Foundation - Anti-Poverty Lending Project: Agromart has initiated this credit program (January 1, 1994 to June 30, 1995) utilizing a grant of Rs.13,133,000 of local currency, which complements modest funding from the USAID Global Bureau's **Anti-Poverty Lending Program** (APLP). The program will provide small loans (micro-credit) to 1,650 rural women for agri-business and agricultural production and marketing. It will operate through local agromart societies in the North Western and Southern provinces. The life of project beneficiaries are estimated to be 8,250 (actual as of date are 224 loan recipients).

9. Citizens' Participation Project (CIPART): Local currency resources totalling Rs.354,981,844 will be used under the Citizens' Participation Project (CIPART), to support broader participation of citizens in democracy and development. Rs.114,981,844 of Title III funding

complemented by DA funding of US$2,300,000 has been granted to the Asia Foundation under a Co-operative Agreement to improve access by ordinary citizens to formal and non-formal dispute resolution, as well as increase awareness of legal rights among disadvantaged citizens. This money will also be used to professionalize media personnel and institutions.

A further Rs.240,000,000 of local currency plus DA funding of US$5,700,000 is due to be awarded to another U.S. PVO to improve local government institutions at the community level, as well as increase the efficiency of non-governmental organizations at the national and regional levels. The project period is for five years from 1995-2000. Target beneficiaries are throughout the country, with special emphasis on displaced people, ethnic minorities, women, and youth living in the Northern, Eastern, Southern, and North Central provinces.

D. *Status of Program Audits:* The Sri Lanka PL-480 Title III Program local currency use is subject to audit according to standard USAID regulations and procedures. The operation of the local currency account is subject to audit by the Auditor General of Sri Lanka and reviewed by the USAID Regional Inspector General.

The audit of the local currency account was completed for the period January to June 1992 and the report reviewed by RIG. The audit noted two minor discrepancies in local currency accounts. These have been corrected and the Auditor General of Sri Lanka has indicated acceptance of the corrections to the accounts. The audit of this special account for the period July to December 1992 is complete. The records of accounts for the period of calendar year 1993 and 1994 have been forwarded to the Auditor General to initiate the audit for that period.

GSL agencies utilizing local currency funding are subject to systems reviews by USAID/Sri Lanka or by audit firms contracted by USAID/Sri Lanka. Such reviews have been completed for the Food Stamp Program, the Department of Agriculture, the Ministry of Agricultural Development and Research, the Ministry of Land, Irrigation and Mahaweli Development, the Land Commissioner's Department and the Department of Social Services. Audit of NGO's utilizing local currency funding is done routinely following procedures for USAID grantees. No significant audit findings or recommendations are outstanding.

VI STATUS OF PROGRAM INDICATORS

The multiple dimensions of food security suggest that there can be no single indicator for measuring impacts. A number of indicators at a national, household and sectoral levels are given below. The indicators are broadly categorized into (a) food system efficiency and agricultural productivity; (b) income growth, as a proxy for food access; and (c) nutritional status. These are an expanded set of the indicators used for the program. Selected indicators from this set are included in the Mission's PRISM monitoring system.

A. *Food System Efficiency and Agricultural Productivity.* The three indicators of paddy production, paddy yields, and commercial imports of wheat and rice, plus the aggregate total cereal availability, reflect the capacity of the country to meet its staple food needs of rice and wheat. The additional indicators of private sector share of food distribution is a proxy for the efficiency of food system operation. The figures given indicate a positive trend for the country's effort to increase the availability of food.

Targets for the following indicators are somewhat notional, there is recognized to be wide variation in agricultural production due to weather conditions. Food imports will vary on an annual basis reflecting the difference between demand and local production.

TABLE X
Rice Yields (Paddy)

Year	Target	Quantity (kg/ ha)	Percentage Change
1989-90	Base	3,453	
1991	N/A	3,460	.20
1992	N/A	3,424	-(1.04)
1993	N/A	3,502	+(2.28)
1994	N/A	3,363(est.)	-(3.97)
1995	3,625	3,425(est.)	1.84
1996	3,643		
1997	3,661		
1998	3,679		
1999	3,697		
2000	3,715		

* *Source: Central Bank Reports.*

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TABLE XI
Total Imports of Wheat & Rice
(Calendar Year)

Year	Target	Wheat* ('000 MT)	% Change	Target	Rice ('000 MT)	% Change
1989-90	Base	506.6	-	Base	172.0	-
1991	N/A	515.4	+1.74	N/A	133.0	-22.67
1992	N/A	556.4	+7.95	N/A	237.0	+78.19
1993	N/A	611.4	+9.88	N/A	207.0	-18.14
1994	N/A	639.4	+4.58	N/A	58.0	-70.1
1995	647	661.8(est.)	+3.5	75	0(est.)	-100.0
1996	666			75		
1997	686			75		
1998	706			75		
1999	727			75		
2000	749			75		

**Wheat in flour equivalent Source: ANR Records.*

TABLE XII
Total Cereal Food Availability

Year	Target	Rice & Wheat Availability ('0000 MT)	Population (Million)	Per-Capita R+W Availability (kg)	% Change
1989-90	Base	2404.4	16.9	142.3	
1991	N/A	2272.9	17.2	132.1	-7.2
1992	N/A	2383.9	17.4	137.0	+3.7
1993	N/A	2452.3	17.6	139.3	+1.7
1994	N/A	2549.3	17.9	142.4	+2.2
1995	N/A	2599(est.)	18.0	144.4(est.)	+1.4
1996					
1997					
1998					
1999					
2000					

Note: Wheat in flour equivalent.

TABLE XIII
Private Sector Share of Food Distribution*

Year	Target	Actual Percentage	Percentage Change
1989-90	Base	0	-
1991	N/A	1.9	-
1992	N/A	17.6	+826.32
1993	N/A	13.7	- 22.16
1994	N/A	14.0	+ 2.19
1995	N/A	13(est.)	- 7.1
1996			
1997			
1998			
1999			
2000			

* *Defined as private sector portion of combined rice and wheat imports plus wheat distribution. Note: 20% of wheat imports were done by the private sector in 1994. However, this has been stopped subsequently.*

B. *Economic Growth/ Food Access.* The indicators given below reflect the ability of the people to access food though income increases and the country's capability to import wheat flour. These figures indicate that per capita incomes are growing and agricultural exports have increased due to the liberalization of the economy.

TABLE XIV
Per Capita G.N.P.

Year	Target	Per Capita GNP ($)	Percentage Change
1989-90	Base	393	
1991	N/A	460	17.05
1992	N/A	497	8.04
1993	N/A	526	5.84
1994	N/A	584	11.02
1995	591	625(est.)	7.00
1996	626		
1997	664		
1998	704		
1999	746		
2000	791		

Source: Central Bank Reports.

TABLE XV
Value Added in Agriculture
($ Million)

Year	Target	Actual	Percentage Change
1989-90	Base	292	
1991	N/A	364	24.65
1992	N/A	425	16.76
1993	N/A	448	10.05
1994	N/A	493	6.50
1995	495	517 (est.)	4.87
1996	519		
1997	545		
1998	572		
1999	601		
2000	631		

**Value added in food, beverages, and tobacco*
Source: Central Bank Reports.

TABLE XVI
Value of Non-Traditional Agricultural Exports
($ Million)

Year	Target	Actual	Percentage Change
1980-90	Base	23.39	
1991	N/A	20.5	-12.35
1992	N/A	23.41	+14.19
1993	N/A	19.7	-15.85
1994	N/A	26	+31.98
1995	146	28.6 (est.)	+10.00
1996	160		
1997	177		
1998	194		
1999	213		
2000	235		

Source: Central Bank Annual Report, various issues. Note: Agricultural exports other than traditional and minor exports.

TABLE XVII
Agricultural Income Increase Due to Crop Diversification

Year	Target (%)	Actual (%)	Percentage Change
1989-90	Base	100	-
1991	110	106	5.66
1992	120	112	5.66
1993	130	118	5.36
1994	140	121	2.54
1995	150	138 (est.)	14.05

* *Family income from crop production as a percentage of income from paddy monoculture in the Mahaweli System B area. Data are generated from the USAID MARD Project and will not be available after 1995. Rapid targeted increase is due to intensive project activity. Actual achievement is affected by poor security in the area.*

TABLE XVIII
Agricultural Export Earnings ($ Million)

Year	Target	Value	Percentage Change
1989-90	Base	669	
1991	N/A	641	-4.19
1992	N/A	605	-5.62
1993	N/A	655	+8.26
1994	N/A	702	+7.18
1995	722	772 (est.)	+10.00
1996	758		
1997	796		
1998	835		
1999	877		
2000	921		

Source: Central Bank Reports.

C. *Nutritional Status*: Nutritional status is frequently difficult to measure and monitor. A further constraint in this sector in Sri Lanka is the lack of comparable data. A 1989 nutrition study done by USAID/Sri Lanka found that earlier surveys were not comparable due to different methodologies and different sample populations. The household nutrition survey initiated by the Ministry of Policy Planning and Implementation with support from USAID has completed its second bi-annual survey and the data is being tabulated. Once this data is analyzed, Sri Lanka will be better able to provide analytical data for tracking nutrition status.

Indicators in this section will track actual nutrition status (average daily caloric consumption, percent of pre-school children underweight, and decrease in prevalence of anemia) and government commitment to nutritional monitoring (operation of bi-annual nutrition surveillance survey).

TABLE XIX
Average Daily Caloric Consumption Per Capita

Year	Target (Cal.)	Actual (Cal.)	% Change
1986-89	N/A	2300	
1991	N/A	2339	+1.69
1992	N/A	2282	-2.44
1993	N/A	2305	+0.96
1994	N/A	*	
1995	2346		
1996	2369		
1997	2393		
1998	2417		
1999	2431		
2000	2455		

Source: Ministry of Policy Planning and Implementation.
**Not yet available.*

TABLE XX
Percent of Pre-School Children Underweight

Year	Target (%)	Actual (%)	% Change
1993	Base	34.7	
1994	N/A	31.4	-9.51
1995	31.4		
1996	31.2		
1997	31.1		
1998	31.0		
1999	30.5		
2000	30.0		

Source: National Health & Nutrition Survey of Children.

TABLE XXI
Prevalence of Anemia in Women*

Year	Target (%)	Actual (%)	% Change
1994	Base	45	-
1995	45		
1996	44		
1997	41		
1998	39		
1999	37		
2000	35		

**Targets revised in early 1995 on receipt of reliable data from National Nutritional Monitoring Surveys.*

TABLE XXII
Status of National Nutritional Monitoring Survey

Year	Target No:	Actual No:	Achievement (%)
Pre-1992	N/A	0	-
1993	1	1	100
1994	2	2	100
1995	2	2(est.)	100
1996	2		
1996	2		
1997	2		
1998	2		
1999	2		
2000	2		

D. *Program Specific Indicators*: Table XXII presents program specific indicators that reflect the direct operation and outputs of the Title III program. These are related to the operation of specific components of the program. Targets are not available for all indicators, but will be established as more definite implementation plans become available for specific policy reform benchmarks.

TABLE XXIII
Program Output Indicators and Targets (Cumulative)

Description	Achievement To-Date	End of Year Targets			Program Total
		1995	1996	1997	
Title III Wheat Imports ('000 MT)	921.3	1,061.5	1,250.5	1,440.5	1,440.5
Feeding Programs ('000 person-cereal-years)	5,650	5,900	6,200	6,500	6,500
First Phase Policy Reform Program (FY91-93) %	86	100	100	100	100
Second Phase Policy Reform (FY94-96) %	4*	30	70	100	100
NGO Program Beneficiaries ('000 persons)	85	200	350	500	800
State-Owned Assets Transferred to Long-Term Private Sector Control %	**				
Employment Creation (Jobs)	**				

** First wheat shipments due only in early 1995.*
***Data not yet available*

The output targets in Table XXII are based on information currently available. These will be modified, as appropriate, following the receipt of additional progress reporting and monitoring surveys.

VII FUTURE ASSISTANCE PLAN

A. *Food Assistance Plan:* The FY94-96 Multi-Year Program is designed and budgeted at a program level of $118 million. With an FY94 level of $25 million and no Title III currently planned in FY 95, there remains a requirement for $93 million.

B. *Program Analytical Support:* The major analytical work over the past year (1993-94) was related to defining and negotiating the second phase policy reform program and agreement. Additional policy reform-specific studies and analyses were completed on: (a) iron fortification of wheat flour; (b) restructuring/reorganization of the Mahaweli Authority; and (c) reform of the Department of Wildlife Conservation.

Over the next year USAID/Sri Lanka plans to complete the following policy reform and food security related work:

- Study on the impact on efficiency from privatization of the food marketing system.
- Study of impact of improved land tenure status.
- Review of employment impacts of policy reform measures.
- Assessment of food stamp program and options for better targeting the poor.
- Review of CWE operations.
- Studies on feasibility of iron fortification of wheat flour.
- Analysis of the Bi-Annual Health and Nutrition Surveys.

Completion of analytical support studies is contingent upon funding from PD&S or other sources.

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Attachment 2

USE OF LOCAL CURRENCY
October 1994-August 1995

Ministry	Program	Allocation (Rs.)
1. Ministry of Irrigation, Power and Energy	* System "B" * Uda· alawe Right Bank Project	40,000,000.00 80,000,000.00
2. Ministry of Health, Highways and Social Services	* Department of Poor Relief	221,381,536.36
3. Ministry of Agriculture, Lands and Forests	* Land Commissioner's Department	13,000,000.00
4. Ministry of Shipping, Ports, Rehabilitation & Re-construction	* Distribution of Dry Rations	530,000,000.00
TOTAL		884,381,536.36

PRISM INDICATORS RELATED TO IMPROVED FOOD SECURITY AND TITLE III PROGRAM IMPLEMENTATION

Indicators	Baseline Data		1995		1996		1997		1998		1999		2000	
	Year	Value	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual
1) Per capita caloric food availability (calories per day)	1994		2346		2369		2369		2417		2431		2455	
2) Percentage of women with iron deficiencies (% women)	1994		45%		44%		41%		29%		37%		45%	
3) Prevalence of stunting and wasting amongst pre-school children (%)	1994	31.4	31.2		30		29%		27%		26%		25%	
4) Value of targetted government assets transferred to private control ($ Million):														
• Title III (Land)	1994	2	3		4.5		4.5		4.5		4.5			
• Title III (Plantation Land)	1994	-	20		20		20		20		20		-	
• Title III/MED (Land)	1994	0.1	0.1		0.5		0.5		0.5		-		-	
Total Value of Land		2.1												
• Title III (ID Irrigation)	1994	-	50		50		50		50		50		-	
• Title III (MASL Irrigation)	1994	-	2		2		2		2		2		-	
• Title III (Plantation Assets)	1994	1.1	2		2		-		-		-		-	
• Title III (MASL Assets)														
• Title III (Fetilizer Corporation)														
Total Other Assets		1.1	54		54		52		52		52		-	
5) Percentage share of staple food trade by the private sector (%)	1990	36%	36%		45%		55%		60%		65%		70%	

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