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COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1981

SRI LANKA

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DEPARTMENT
OF
STATE

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

FOR FY 1981-85

UNITED STATES BILATERAL DEVELOPMENT ASSISTANCE

TO SRI LANKA

United States AID Mission

to Sri Lanka

FORWARDING STATEMENT BY AMBASSADOR W. HOWARD WRIGGINS

I am pleased to forward the Sri Lanka Country Development Strategy Statement (CDSS) for FY 1981-85. It is the result of very careful consideration by the AID team and a review by the Ambassador and his immediate staff. I consider the Part I Analysis to be a lucid piece of work which provides an excellent foundation for the assistance strategy outlined in Part II.

In general, I approve the strategy. The concentration on agricultural production and resources, the Mahaweli Development Project, and the Titles I and II of PL 480 makes good sense. These areas have been the core of the USAID program since resumption of U.S. development assistance in FY 1975. I also support the idea of exploring environmental health and rural infrastructure. I am less sure of the utility of some of the projects suggested under off-farm rural enterprise and area development, and I plan to examine with particular care project proposals in these latter areas.

Given the very real constraints on both the Sri Lankan and American sides, the Indicative Planning Allocation of $93 million for Sri Lanka in FY 1985 is, in my judgement, unrealistic. To attain this level would require either a radical improvement in the Government of Sri Lanka's (GSL's) management and implementation capabilities or a modification

of disparate guidance from Washington. On the one hand, Sri Lanka is worthy of large AID flows but, in accordance with the Congressional Mandate, only for relatively decentralized, management-intensive projects. On the other hand, we are precluded from large infrastructure projects or program assistance, which could accelerate economic growth and absorb far more than $93 million by FY 1985 with comparatively few U.S. Government personnel in country. Moreover, given the expectation that the current constraints on the growth of U.S. Government spending and personnel levels will continue, this figure is unrealistic on quite other grounds. If the figure does in fact turn out to be optimistic, I believe USAID should continue to concentrate its scarce resources in the main in the traditional core areas of Agricultural Production, Technology and Resources and moving into Environmental Health and Rural Infrastructure as resources permit.

As indicated in my forwarding statement for the FY 1980 Annual Budget Submission, I remain concerned about the political implications of a large American presence in Sri Lanka. In past elections, when there was a large official staff in this country, the Embassy (including the USAID Mission) has been the target of leftist attacks of American government interference, which have sometimes adversely affected worthwhile programs following government changes.

While the present USAID staff consists of exceptionally high quality people, about whom I have heard nothing but praise, the fact remains that political contention will intensify as we approach the national elections due in 1983. Thus, while I am sympathetic to an increase in the U.S. Direct Hire staff from 17 in FY 1979 to 20 in FY 1980 and expect to confirm MODE clearance when I am clearer on the proposed functions of the additional people, I am withholding approval of the CDSS staff projections for FY 1981-85.

Next year I will consider the staff level for FY 1981 in light of the local political situation, the purpose of the program and AID budget prospects prevailing at that time. I would expect such a critical scrutiny would be an annual event at least through FY 1983. Whatever happens, I will continue to encourage USAID to find means of doing its business in ways which minimize the need for U.S. Direct-Hire Personnel.

W. Howard Wriggins
American Ambassador

January 22, 1979

EXECUTIVE SUMMARY - SRI LANKA COUNTRY
DEVELOPMENT STRATEGY STATEMENT, FY 1981-85

Sri Lanka is at a watershed in terms of its economic and social development. A long history of social programs for education, food distribution, and health services has contributed to impressive performance with respect to several basic indicators of well-being (infant mortality, life expectancy, literacy, population growth). This record is in fact unique among countries at similar levels of national per capita income and wealth.

However, as detailed by the CDSS, poverty has by no means been eradicated. Notwithstanding social programs, almost 20 per cent of the population is estimated to still fall short of meeting even basic nutritional needs (the proportion is even higher among pre-school children). As a result of malnutrition and deficient drinking water and sanitation facilities and practices, the incidence of gastro-intestinal disease is high and increasing. Massive unemployment and underemployment, in part the result of sluggish-to-stagnant economic growth during the seventies, continues to be a top economic and social priority of the government.

Through means of major policy reforms implemented over the last eighteen months by the current government and an ambitious development program, Sri Lanka is currently struggling to devote a higher proportion of available resources to developing productive capacity in order to sustain and improve upon its social progress. These efforts, materially aided by good weather and buoyant world prices for the

dominant tea and rubber exports, have begun to show encouraging results in terms of food and industrial production, investment, and employment. International donors should be, and are, responding with significant support for these efforts.

The strategy laid out by the CDSS is intended to support Sri Lanka's efforts to expand productivity and employment, move toward food self-sufficiency, and sustain progress in meeting the basic human needs of its population. It proposes doing this in categories which are of high priority to the Government, where additional external assistance is urgently needed, and where AID has both a legislative mandate and comparative advantage. These categories (and sub-categories) are:

I. Agricultural Production Technology and Resources

1. Dryland Agriculture Technology
2. Irrigation Systems
3. Natural Resources and Energy Management
4. Supplemental Agricultural Production

II. Rural Infrastructure, Marketing and Enterprise

1. Rural Infrastructure for Decentralized Development (PL 480 Title III and/or Development Assistance)
2. Marketing Systems
3. Rural Enterprise (off-farm)

III. Human Productivity and Well-Being in the Rural Sector

1. Environmental Health (Drinking Water and Sanitation Facilities and Related Technical Training)
2. Malaria Control

3. Improved Nutrition for Infants and Mothers (mainly PL 480 Title II).

4. Other PVO Activities in Rural Development

IV. Mahaweli and Rural Area Development

1. Mahaweli Basin Development

2. Other Area Development and Market Towns

V. General Support - Development Services and Training

The total amounts of development assistance (excluding PL 480) proposed for these categories grow by increasing amounts, from $29.8 million in FY 80, to $40.5 million in 81, $51.0 million in 82, $62.5 million in 83, $75.0 million in 84, and to $93.0 million in 85. These totals are built up from phasing of individual sub-categories based on assessment of need and absorptive capacity in Sri Lanka (see table on p. 55 for details).

Major emphasis -- $80 million over the CDSS period -- is for continuing assistance to the Accelerated Mahaweli Basin Development Program. The GSL is pinning much of its hopes for food production and employment on this massive, multi-donor irrigation and resettlement scheme in the basin of Sri Lanka's largest river system. Several of the other sub-categories, such as rural enterprise, environmental health, and rural infrastructure are new areas which reflect a proposed broadening of USAID strategy from its current almost exclusive focus on agricultural production. The delineation of categories has been left deliberately broad and flexible to permit more refined planning with improved information and analysis. This does not represent scatteration, however. The

main thrust is still employment and productivity-oriented agriculture and rural development. Some potential categories, such as agricultural credit, salt water fishing, general education and training, and low cost health services were considered but were eliminated for various reasons. Other categories, such as dryland agriculture technology, irrigation systems, and natural resource and energy management, represent expansion and broadening of currently approved assistance efforts.

Potential constraints to effective implementation of the program proposed by the CDSS, in addition to a further "pause" in the U.S. foreign assistance budget and uncertainty over Congressional appropriations, include (1) deficiencies in GSL implementation capacity -- reflected in shortages of technical and managerial staff as well as inter-agency coordination problems --,and (2) insufficient American staff -- both in terms of numbers and skills. The CDSS proposes that the first constraint be addressed by a significant training component in every activity as well as training, studies, and consulting for pre-project program development through the "General Support" category. The CDSS also proposes sensitivity in every activity, supported by special studies and consulting where appropriate, to issues concerning (a) environmental degradation, (b) broad participation in development, including women, (c) impact on population growth, (d) alternative energy sources, and (e) appropriate technology. With respect to the American staff constraint, the CDSS proposes making maximum feasible use of third country (Asian) contractors and local contractors and staff. Some expansion in American contractors and staff are absolutely essential, however, to effective management of the proposed program. The CDSS proposes that

the American direct-hire staff increase from its current approved level of 17 to a maximum of 32 by FY 83. This still represents a fairly low ratio to program level ($93 million in FY 85) compared to many Missions.

The program level proposed for FY 1985, $93 million, is equal to the AID/W Indicative Planning Allocation for Sri Lanka. Several activity categories proposed in the CDSS could be expanded beyond the proposed levels, providing GSL and American implementation capacities expand adequately over the next few years.

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Preface

The task of preparing an assistance strategy for Sri Lanka has been more difficult and the results are more tenuous than an outside observer might have at first expected. To be sure the process has been facilitated by the existence of a number of research and strategy studies by the World Bank, ILO and local institutions, as well as the brief but cogent strategy statement which has guided AID's program for the last two years, Development Assistance Program Assessment for Sri Lanka, July 1976. The CDSS has also benefitted from the 1978 report of the Operations Appraisal staff, Appraisal Report: Sri Lanka. But several considerations have placed limitations on this first CDSS. To begin with, USAID has more than doubled the size of its staff within the last six months and considerable attention has necessarily been focussed on internal organizational and [redacted]

[redacted]

menting a development strategy which includes sweeping policy reforms and major program initiatives. This strategy is still evolving and further changes are inevitable. The yet-to-come assessment of the longer term impact of the recent cyclone could have further consequences for development strategy. The analysis contained in this CDSS is

render even fairly recent information on poverty obsolete. Consequently, expected availability of new data, continuing policy changes, and improved analysis could lead to significant revisions in the 1982-86 CDSS. For these reasons, as well as to conform with AID/W guidance for CDSS preparation, the delineation of assistance categories and sub-categories has been deliberately fairly broad in order to permit further refinement with improved information and analysis.

Part I Analysis

A. Profile of Poverty

An analysis of poverty should first be set in the broader geographical and socio-economic context. Sri Lanka is an island about 66,000 square kilometers in area (about the size of West Virginia) lying off the Southeast coast of India. Its mid-1976 population was 13.9 million, resulting in a population density of 209 persons per square mile, higher than India at 189 and Indonesia at 71, but lower than Korea at 364, Taiwan at 453, and Bangladesh at 558.

With a 1977 per capita income level of $160 U.S. , Sri Lanka remains a very poor country in overall economic terms. It is also a predominantly agricultural and rural country. About fifty per cent of its labor force is in agriculture and almost eighty per cent of its population is classified as "rural". (The latter proportion would be even higher if the populations of basically rural market towns classified as "urban" were shifted to "rural"*). Within agriculture, the 3 major estate crops - tea, rubber, and coconut - plus rice (paddy), which is grown on individual plots, dominate production and employment.** Estate crops tend to be concentrated in the central hill districts (especially tea) and Southwestern wet zone, whereas paddy is grown throughout the country.

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* In 1971 roughly half the 135 cities and towns classified in "urban" Sri Lanka had populations of less than 10,000 each.

** In 1970 tea, rubber and coconut accounted for 42%, and paddy for 26% respectively, of the value of agricultural output. The 3 estate crops accounted for 41% of the agricultural labor force in 1971.

The ethnic composition of the population constitutes an important feature of Sri Lankan socio-economic structure. Sinhalese comprise the dominant ethnic group, accounting for slightly over 70 per cent of the population. Sri Lankan Tamils, Indian Tamils, and Moors constitute significant minorities, accounting for about 11, 9, and 7 per cent of the population, respectively. The Sri Lanka Tamils tend to be concentrated in the North where they have lived for centuries. The Indian Tamils were brought by the British to work on the tea and rubber estates, where they tend to remain concentrated. Under a current Sri Lanka-India agreement non-citizen Indian Tamils in Sri Lanka are to be given citizenship or repatriated to India. Tension between Sinhalese and Tamil communities erupted into violence in August 1977 and remains a serious socio-political problem.

Sri Lanka has a natural and human resource base which should enable it to progress far beyond its current low per capita income level. Although rainfall and soils are variable in the so-called Dry Zone, which constitutes two-thirds of the total land area of the country, the overall climate and natural resource base, properly developed and managed, has greater agricultural potential than many parts of Asia. Notwithstanding this potential, Sri Lanka has until recently imported a third or more of its rice consumption requirements. Although, as in most countries, official literacy statistics undoubtedly considerably overstate functional literacy, Sri Lanka's human resource potential is suggested by an impressive adult literacy rate of 78 per cent.

One does not encounter in Sri Lanka the massive numbers in grinding poverty that one might expect in a country with such a relatively low national per capita income. A major reason is a long history of social programs for education, food distribution, and health services. The relatively egalitarian income distribution (the poorest 40 per cent of spending units - adjusted for family size -- received 27 per cent of total income in 1973), low infant mortality (44 per 1,000 in 1976), high expectation of life at birth (68 years in 1970-75), and low population growth (2.0% natural growth, 1.7% net of migration, in 1977), as well as high literacy, are all suggestive of the impact of these programs.

There is serious poverty in Sri Lanka, however. It tends to be masked by the above statistics, for several reasons: (1) they hide considerable variation by region within Sri Lanka; (2) there was apparently a significant-albeit temporary-worsening during the seventies in one of the key indicators -- infant mortality --; and (3) alleged underreporting and other data collection problems may result in an underestimate (by an unknown extent) of such indicators as infant mortality. Furthermore, as will be explained below, other dimensions of poverty in Sri Lanka can be identified which are not captured by the commonly-cited indicators above. The following sections analyze recent measures of poverty in terms of income, employment, health, and other variables. In view of its importance, the rural sector will be emphasized.

Income Measures of Poverty

Two recent studies have attempted to define "poverty lines" in terms of monthly household and per capita income levels: a Marga Institute study supported by AID (included with the FY 1980 ABS) and the 1978 Colombo Plan Special Topics paper for Sri Lanka, prepared by the Ministry of Finance and Planning. The results of these papers are summarized in Table I below. (See table for full citation of sources). Their methodologies are similar but not identical. Both studies define two poverty levels: the first an "acute" or "absolute" degree of poverty at a level of income just sufficient to provide a minimally adequate diet; and the second, a somewhat lesser degree of poverty at a level of income just sufficient to obtain a "minimum consumption basket" of food, clothing, health, education, and household requirements (called "short of basic needs" poverty in the Marga study). Both studies also analyze poverty incomes by the three major economic-geographic "sectors": rural, estate, and urban.

The first row of the table indicates the expected differential between urban per capita incomes, on the one hand, and rural and estate per capita incomes, on the other. The following rows show significant degrees of both "acute" or "absolute" and "minimum consumption" poverty. Both studies show a relatively high incidence of rural poverty at both levels of poverty and a sharp increase in the incidence of estate poverty at the "minimum consumption" or "short of basic needs" level. In fact, as described further in a following section, the high incidence of physical malnutrition in the tea estates relative to other sectors suggests that the so-called "acute poverty" level of

Table I

Percentages of Population Below "Poverty Line" Income Levels

Marga Study - 1973 (Spending Units)*	National	Rural	Estate	Urban
Per Capita Spending Unit Income Jan-Feb 1973	Rs.116	Rs.108	Rs.110	Rs.151
"Absolute"Poverty	19%	26%	2%	6%
"Short of Basic Needs" Poverty	50%	67%	53%	42%
Colombo Plan Paper "Acute" Poverty: 1969/70	18%	23%	-	12%
: 1977/78	38%	40%	36%	35%
"Minimum Consumption Basket": 1969/70 ..	47%	48%	67%	36%
: 1977/78 ..	69%	73%	74%	55%

* The Marga Study data are reported in terms of "spending units" or decision-making units with respect to consumption expenditures. A household will often contain more than one spending unit.

Sources: "Development Programmes and Strategies for Economic Cooperation, for Meeting Basic Human Needs and Raising Incomes and Standards of Living, with Emphasis on Rural Areas" (mimeo; 1978, prepared by the Ministry of Finance and Planning, Government of Sri Lanka, for the 1978 Colombo Plan Consultative Group Meetings.

"Analytical Description of Poverty in Sri Lanka" (mimeo; 1978), Marga Institute, Colombo. (Attached to A.I.D. FY 1980 Annual Budget Submission, Sri Lanka).

The urban sector includes all municipal, urban, and town councils. Population is only one criterion for classifying councils. The estate sector includes tea, rubber, and coconut plantations with more than 20 acres and more than 10 permanent workers. All other populations, including villages are classified in the rural sector.

income did not translate into adequate nutrition levels there.

The Colombo Plan Paper also shows an apparently higher incidence of poverty for all sectors for the 1977/78 period. The paper attributes these increases to reduced demand for labor in the face of steep price rises for basic commodities. Expansion of employment during 1978 is believed to have reduced the proportions below the poverty line, however.

The above findings are based on sources which suffer from several limitations. They include the value of food rations as well as estimates of the value of home-produced and consumed food, but do not include the value of other government-provided services. The information on which they are based is fairly dated: the Marga study is based on the 1973 Consumer Finances Survey, and the Colombo Plan paper, on the 1969/70 Socio-Economic Survey. The 1977/78 data for the latter are derived by applying the urban Colombo price index to a 1969/70 consumption basket -- a questionable procedure especially for the rural sector. Recent sweeping policy changes, including restricting the rice and sugar rations to the poorer half of the population, reducing the subsidy on wheat flour, and other price and wage increases could well have altered the above profile. Analysis undertaken by USAID of the distribution of ration books suggests furthermore that there is substantial variation in poverty levels

among each of the 22 (recently increased to 24) Administrative Districts.*

Access to Rural Employment

Accelerated employment generation is a top government priority. Estimates of the unemployment rate vary from one source to another; however, in all surveys taken since 1959, they consistently show countrywide open unemployment ranging between 10 and 25 per cent of the labor force and ranging up to 50 per cent or more among the age 15-19 group. While open unemployment is higher in urban areas, it, along with under-employment and low-income employment, constitute severe problems in the countryside. Unemployment is believed to have worsened during the sluggish economic growth of the seventies in the face of rapid labor force growth stemming from the high rate of population growth during the fifties. Other contributing causes of unemployment have included economic policies and other factors favoring capital-intensive investment (e.g., over-valued exchange rates, quantitative restrictions on imports with special exemptions for capital goods, and continuing labor unrest); an educational system oriented towards university education and white collar and government employment; and a system of subsidized food and social services distribution that made

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* The Marga Study also presents data based on a five-fold grouping of these districts into "Zones". USAID believes this tends to hide significant inter-district variation. For this reason as well as in the interest of brevity, these data are not reported in detail here. It might be noted, however, that of the spending units sampled nationwide which fell below the "short of basic needs" poverty line, three-quarters were in the heavily-populated Zones I and IV of the Southwest (excluding Colombo Municipality) and the central hill districts.

at least temporary unemployment a feasible option for the individual seeking a more prestigious job. The leadership of the insurrection of 1971 was drawn largely from the ranks of the youthful, relatively educated unemployed. Substantial acceleration of employment generation will simultaneously reduce poverty, increase productivity, and improve chances for political stability.*

The proportion of the employed population in agriculture has remained roughly constant between 1953 and 1971 at slightly over fifty per cent, but within the agricultural sector, the proportion employed on estates declined from 55 to 41 from 1953, while it increased in non-estate holdings from 47 to 59 per cent. This sharp increase is primarily attributed to the expansion of rice paddy acreage. Employment opportunities have increased because rice farms are generally small, family-owned operations.

Successful land reform efforts have secured tenancy rights and eliminated large holdings. In 1973, 88 per cent of Sri Lankan farmers had holdings of less than 5 acres which in total accounted for 47 per cent of all land under cultivation, up from 32 per cent in 1962. Multiple-renting and multiple ownership by members of the same family have reportedly been increasing recently. This could be viewed as subverting at least the spirit of the 25 acre limitation on individual paddy

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* Labor migration to the Middle East and the current expansion of economic activity is believed to have improved the current labor market situation, although it is not possible to provide a precise quantitative estimate. The results of the new Central Bank household survey should shed further light on the current employment situation.

holdings and the 50 acre limitation on private plantation holdings. Legislation has been proposed to restrict these practices.

Landless laborers accounted in 1971 for 97 per cent of the labor force in the estate sector and 20 per cent in non-estate agriculture (reportedly up to a third in some districts). The median incomes for January-February 1973 revealed wide discrepancies among the major occupational groupings:

Urban Clerical and Related Workers	Rs.704 per income receiver.
Urban Industrial Workers	Rs.538 per income receiver.
Rural Farmers	Rs.462 per income receiver.
Rural Laborers	Rs.266 per income receiver.
Estate Laborers	Rs.169 per income receiver.

(Source: Part I, Survey of Sri Lanka's Consumer Finances, 1973, Table 74).

Estate families tended to make up this discrepancy by having several members, including children, work. Thus, the 2-month average income per estate spending unit in Jan-Feb. 1973 was Rs.571, almost as high as the rural spending unit average of Rs.582.

Official statistics indicate that women constitute about 30% of the agricultural labor force. Their actual involvement in estate and small-holding labor is at least as great as that of men.

While there has been considerable progress in providing wide access by rice farmers to fertilizer, credit, research and extension services, and guaranteed prices, progress in reaching farmers growing rainfed dry zone crops has lagged, but is beginning to receive increased attention. Irrigated acreage has also expanded over the last

fifteen years, but efficiency of water use remains low. Rehabilitation of the ancient minor irrigation tanks which have silted up over the years would significantly increase the productivity of North-central districts. Recent policy changes and related development efforts will be described further in later sections.

Of the 467,000 people estimated to be engaged in off-farm rural industry in Sri Lanka in 1976, about 187,000 were in firms with 50 employees or less. According to a recent report, off-farm rural industry in Sri Lanka tends to produce mainly consumption goods and services for rural and urban households, and there is believed to be scope for expanding further into agricultural processing, manufacture of inputs for agriculture and urban industry, and production for tourist demand.* There is little systematic information, however, about the socio-economic characteristics of rural off-farm entrepreneurs, or the extent to which farm families earn income from off-farm sources. USAID is considering supporting local socio-economic research on these questions.

Rural Health, Nutrition, and Other Basic Needs Indicators

Medical care in Sri Lanka is provided through two systems of medicine: the Western system of medicine which meets about 75 per cent of demand and the indigenous Ayurvedic system which meets about 25 per cent of demand. Although both systems are supported by the government, the Western system is highly subsidized as compared to the Ayurvedic syst-

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* International Labor Office, World Employment Programme, Rural Small Scale Industries and Employment in Sri Lanka (mimeo; Geneva, 1978).

em which has remained essentially in private hands. Health centers and clinics are widely dispersed throughout the country.

Sri Lanka's commitment to heavily subsidized medical care, large scale programs to control malaria and other diseases, and a massive food subsidy program have undoubtedly contributed to reducing infant, maternal, and overall mortality rates. By 1973 the death rate had declined to 7.7 from a 1946 level of 19.8 per 1,000, infant mortality to 46.3 from 141 in 1946, and maternal mortality to 1.2 from 15.5. Owing to malaria and an increased incidence of other diseases associated with drought, unsafe water, and food shortages, the death rate shot up to 9.0 and the infant mortality rate to 51.2 in 1974. By 1976, however, these indicators had dropped to 8.0 and 43.7, respectively. With the increasing effectiveness of Sri Lanka's Anti-Malaria Campaign, aided significantly by AID commodity and technical assistance, malaria mortality and morbidity have declined from the peaks reached in 1974-76.

Despite Sri Lanka's health accomplishments, the substantial reliance on the private sector is in part indicative of deficiencies in the system. These deficiencies have been accentuated in recent years due in some measure to declining per capita allocations of resources, and indications that gastro-intestinal diseases in particular are becoming more serious (hospital admissions for such diseases increased at an annual rate of 11 per cent between 1972 and 1976). The draft health sector paper for the GSL 1979-83 Medium Term Investment Plan describes the situation very succinctly:

> The disease pattern in Sri Lanka is characterized by the predominance of preventible diseases. The leading causes of hospitalization, outdoor treatment and death -- can be traced to the lack of environmental sanitation especially safe water supply, sewage disposal, food hygiene and vector control.
>
> About 40% of those seeking treatment at government medical institutions suffer from bowel diseases: mainly typhoid fever, dysentry, gastroenteritis, colitis, and helminthic infestation; hospital admissions for bowel diseases alone indicate an incidence rate of 940/100,000 in 1975. Gastroenteritis remains the main cause of high infant mortality.

The health education program of the Ministry of Health has included for a number of years an emphasis on boiling water as a means of reducing the transmission of gastro-intestinal disease. But the increasing severity of gastro-intestinal disease has led the GSL to conclude that investment in improved drinking water and sanitation facilities must be substantially increased. There is a related concern over increasing rural consumption of fuelwood in the face of a serious fuelwood shortage.

The drinking water supply and sanitation situation is described by the following statistics; roughly 30 per cent of the urban, 25 per cent of the estate, and 95 per cent of the rural populations have no access to piped water. Piped supplies even in cities and large towns have been judged unsafe, often coming from unprotected surface water sources. The rural population relies mainly on untreated rivers, streams or tanks (reservoirs), or on wells, frequently contaminated as a result of poor location, design, maintenance, and cover. Forty-five per cent of the rural population relies on pit latrines for sanitary facilities and over forty per cent has none. The water

and sanitation situation is especially deficient in northern and eastern districts.

Notwithstanding Sri Lanka's widespread food subsidy and ration programs, protein-caloric malnutrition among pre-school children remains a serious problem. The AID-assisted Nutrition Status Survey of 1975-76 found 6.6 per cent of pre-school children "acutely malnourished" and 34.7 per cent "chronically malnourished". The estate districts of Kandy, Nuwara Eliya, Ratnapura, Matale, Kegalle and Badulla led the list with acute malnourishment ranging up to 8.8 per cent and chronic malnourishment up to 49.6 per cent. A recent follow up by the GSL's Medical Research Institute has found no significant change in the situation. Infant mortality rates are reported to be twice as high in the estate sector as in the rural and urban sectors. Diseases of the respiratory system are also a leading cause of hospitalization, especially in the estate sector.

There are close inter-relationships among the above problems; malnutrition reduces the resistance to infectious disease, but bouts of gastro-intestinal infection also often trigger malnutrition and anemia, and increase susceptibility to respiratory disease. In response to these problems, the GSL plans to increase the emphasis of its health program on water supply and sanitation, as already mentioned; community-based services with a preventative emphasis and involving local volunteers; immunization services; nutrition services aimed particularly at young children and mothers; and selective improvements in the training and other facilities of the entire system, including curative and preventative services.

Although recorded rates of literacy and school enrollment are impressively high in Sri Lanka, deficiencies in facilities, teaching quality and curriculum, as well as economic pressures on low income families, have caused an increasing drop-out problem. It is estimated that only 58 per cent of entering students complete the fifth grade. In an effort to cut down the drop-out rate, the Government is establishing a uniform improved system to remove imbalances now existing among schools and districts in educational facilities and equipment and to effect a more even distribution of faculty. Out-of-school job training centers are also being expanded.

Women in Sri Lanka have had relatively wide access to formal education compared to other LDCs. In 1975, girls represented 49.7 per cent of school enrollees in Grades 1 through 12, and women constituted 42.3 per cent of all college students.

Sri Lanka's population growth rate has declined from a peak of 2.8 per cent a year in 1950 to about 1.7 per cent in 1977 (these figures are net of migration; the natural rate of increase in 1977 was about 2.0 per cent). A recent World Fertility Survey found that Sri Lanka's universal education, improved status of women, delayed marriages, and family planning have all contributed to this dramatic reduction in the country's once high fertility levels. Nevertheless, Sri Lanka's population has doubled over the past 30 years, from 7 million in 1963 to just over 14 million in 1978.

Even with an optimistic 2-child norm after 1990, the population is not expected to stabilize until it reaches 26 million about the year 2050. While Sri Lanka is relatively well off compared to other count-

ries in the Asia region, population pressures are beginning to impose on the quality of life through demands on scarce resources, unemployment, and declines in the quality of social services. These have given rise to greater awareness and concern by both the government and the general public.

In 1965 the government adopted an official policy to reduce population growth and introduced family planning as a component of the National Health Program. The World Fertility Survey found that the use of modern contraception was found to be low when compared to either the level of knowledge about contraception or the level of desire to stop child-bearing. At present the demand for voluntary sterilization exceeds the capacity of the health system to provide such services. The GSL has announced intentions to make contraception and sterilization services more attractive and accessible.

Shelter needs are being given high priority by the GSL; particularly for urban Colombo, where overcrowded slums and shanties have become increasingly visible and serious over the years; for the estate sector, where deteriorating, crowded "line" houses contribute to the spread of communicable disease; and for the rural and urban areas of the Eastern districts, where housing suffered widespread devastation and damage from the recent cyclone. These priorities are reflected in the 1971 Housing Census statistics which indicate that one and two room housing units together constituted 75 per cent of estate housing, 35 per cent of urban housing, and 37 per cent of rural housing. One room housing units constituted 31 per cent of estate, 12 per cent of urban, and 10 per cent of rural housing, respectively; and

the average number of occupants per room in these units, by sector, was 4.5, 5.5, and 4.6, respectively.

B. Commitment and Progress Towards Equitable Growth

The role of economic and social policies in Sri Lanka's development has been the subject of long-standing and continuing debate. Although per capita expenditures on health, education, and food distribution services apparently declined in real terms during the seventies, they still accounted for about ten per cent of GNP and almost a third of government expenditures. Thus, Sri Lanka has already been devoting a substantial share of its resources to bettering the lot of its poor. These efforts have made a major contribution to its unique position among Asian and other developing countries. The March 1978 World Bank country report stated that Sri Lanka has about one and one-half times the life expectancy, one quarter the infant mortality and half the birth rate that would be expected at its per capita income level.

However, the same programs that helped produce this impressive performance have necessarily meant that less resources were available for investment in physical productive capacity. If the welfare of Sri Lanka's population, and especially its rural and urban poor, is to continue to be improved on a sustained basis, efficient investment in productive capacity and related institutions must be expanded sharply. Sri Lanka is now struggling with the problem of how to put a higher proportion of available resources into developing productive capacity without adversely affecting the welfare of the poor and needy.

Macro-Economic Trends and Policies

The pace of economic acitvity has accelerated in Sri Lanka during the last two years. Excellent weather (up to the cyclone of November, 1978), buoyant world prices for tea and rubber, and economic policy reforms of the new Government elected in July, 1977, all contributed to the improved performance.

This is in sharp contrast to the previous six years, marked by overall stagnation and in some sectors, deterioration. The causes of this stagnation were not entirely within the control of the Government. Severe drought and sharp increases in world fuel and grain prices crippled production and curtailed consumption, with severe health and nutrition consequences. Beyond these factors, government economic and administrative policies discouraged private savings and investment and led to inefficiency and mismanagement in the sharply expanded and nationalized public sector. As noted in the previous section, high and increasing unemployment was in part the result of the economic stagnation of the seventies.

It was against this background that the new UNP-led government revealed during the latter half of 1977 the outlines of its development strategy. The Government's list of priorities were stated as "Employment first, second, and third". Three major investment programs were announced with the chief objective being to generate employment: (1) the power and irrigation development and settlement of the Mahaweli River Basin, the largest river system in the country, to be accelerated from a 30-year to a 5-year program, and to generate up to a million jobs in the const-

ruction and downstream activity phases; (2) the establishment of a large Free Trade Zone north of Colombo, including greater concessions for employment-intensive operations; and (3) the initiation of a Greater Colombo Urban Renewal Program for housing and infrastructure construction and rehabilitation. The Government appears to appreciate the need to adopt relatively labor-intensive methods in civil construction, and there has been some experimentation with labor-intensive approaches even in the up-stream phases of Mahaweli construction, although the accelerated construction schedule would suggest that downstream development offers greater scope for labor-intensive methods.

Concurrently, a number of significant policy reforms have been enacted to stimulate both private and public savings, investment, production, and employment. Major measures included unification and devaluation of the exchange rate by over 50%; elimination of quantitative restrictions and licensing for most imports (except essential foods and a few other items); doubling of deposit and short-term lending interest rates; restricting subsidies for rice and sugar to the poorer half of the population; and reducing the subsidy on wheat flour. While no major nationalized enterprises have been returned to the private sector, some State import monopolies have been ended and the private sector has been encouraged to import and to compete with the public sector. To mitigate the impact of subsidy cut-backs and price increases, especially on low income groups, an unemployment "dole", or income supplement, was instituted in August 1977, and a wage increase of 25 per cent, with a maximum increase of Rs.50 a month, was implemented in December 1977.

To provide further stimulus to agricultural production, policies already initiated by the previous Government were re-inforced by raising the procurement price on rice by 21 per cent and increasing fertilizer subsidies. Planting, replanting and rehabilitation subsidies for tea, rubber and coconut were also increased. A tax on irrigated land is to be initiated in 1979.

The recently announced 1979 Budget continues many of the policies introduced in 1977. In an announced effort to reduce the bias in favor of capital-intensive investment inherent in some of the existing incentives, the investment tax holiday is to be limited to a certain percentage of investment and stretched out over several years. Expected further reductions in consumer subsidies were not revealed in the budget, but are expected to be announced in early 1979, after implementation of the 10 per cent wage increase announced in the budget.

Some indication of government priorities is provided by examining the pattern of recent government expenditures. While most categories are slated for substantial absolute increases in the 1979 Budget over 1978 (original estimates), some will increase their <u>relative</u> shares: agriculture and rural development (which includes several Ministries, including Mahaweli Development), from 13 to 14 per cent; local government, housing, and construction, including water supply and drainage from 3 to 6 per cent; and plan implementation, including decentralized development, from nil to 3 per cent. The shares for power and highways, and trade and shipping are also to increase. Education and health <u>decline</u> in relative terms, from 10 to 7 per cent and 5 to 4 per cent, respectively; yet in absolute terms education increases by about Rs.245 million

($16 million) and health, by about Rs.335 million ($22 million). Notwithstanding restrictions in the number of families eligible to receive basic food subsidies, the budget share for the food subsidy program increases slightly, owing mainly to price increases, from 11 to 12 per cent. Although absolute spending on defense and foreign affairs is to increase, the relative share remains a low (compared to other countries) 4 per cent. (Based on USAID analysis of recent budgets).

The economy has responded positively to government program and policy measures. A boom in world prices has boosted earnings of the still lagging plantation sector, and food production for domestic consumption is up sharply, led by record rice harvests in 1977 and 1978 (aided materially by good weather as well as policies). Imports, savings, investment, industrial production, and most importantly, employment, are all expected to post substantial gains in 1978. The latest estimate by the Finance Minister is that the combined effect of expanded public and private investment during the last year and a half has been to create 200,000 new jobs. Real GNP is expected to increase by 5.7 per cent in 1978, or 4.0 per cent per capita, in marked contrast to the virtual stagnation of per capita growth from 1970 to 1976. Private capital flows to Sri Lanka improved from minus $4 million in 1976 to an estimated plus $5 million in 1978. U.S. private investments totalling $1 million are expected to increase by $0.5 million in 1978 and an additional $1 million in 1979.

Implementation Capacity

A serious and frequently-voiced concern by GSL, business, and donor

representatives is over the availability of adequate technical and managerial staff required to design in detail and implement the ambitious strategy envisioned by the Government. This shortage of human resources may appear paradoxical in view of the presumed existence of "educated unemployed" in Sri Lanka. The latter tend to be secondary school leavers with few job skills and no previous work experience, however, while the need is for workers with job or technical skills and/or experience. The emmigration of professional and even semi-skilled workers to the Middle East has further exaccerbated this situation. There is no easy way out of this dilemma. An improvement in GSL salary scales for scarce category would help at the margin, but there must also be a re-allocation of resources in favor of job-related education and training. A range of public and private efforts are being undertaken to increase university level education in technical fields, to expand formal and non-formal vocational training aimed particularly at school drop-outs, and to provide management training. It is anticipated that training will accordingly compromise an important element of most AID-assisted development efforts during the CDSS period. Efforts of the recently established Women's Bureau in the Ministry of Plan Implementation may also alleviate shortages through increased training and placement of women in professional and managerial positions.

As is common in other developing countries, lack of coordination and competition among various Ministries, Boards, Authorities, etc., has been and continues to be a problem. There tends to be a lack of delegation of authority within units and lack of teamwork and communication among them as well as an overlap of functions and responsibilities.

There also exists a tendency among Ministries and Departments to jockey for the most favorable position, which can complicate the smooth implementation of programs. A recent hopeful development is the strengthening of the Ministry of Plan Implementation, charged by the President with improving GSL development coordination and implementation performance. It should also be noted that the execution of the policy reforms of the last eighteen months and the administration of relief and rehabilitation efforts in areas devastated by the recent cyclone have generally drawn praise from domestic and foreign observers.

Environment and Energy

Emerging important developmental concerns are the related problems of environmental degradation and rural energy shortage. Specific aspects include deforestation and depletion of rural fuelwood supplies; serious flooding of some areas during rainy seasons; soil erosion; dangers to coasts and coastal resources, especially coral reefs; wildlife (especially Asian elephants) protection; industrial pollution; and contamination of drinking water sources. The GSL is taking a number of actions to address these problems, including reforestation programs, experimentation with small-scale and non-conventional rural energy sources, efforts to control water use and improve water quality in urban areas and small towns, and others. An Environmental Authority is to be established which will focus on all problems of the environment with initial concentration probably on industrial pollution. An Environmental Panel has been established in the Mahaweli Ministry to coordinate environmental concerns in the major Mahaweli program. As will be elaborated in the

Strategy section, the USAID program is intimately involved in the exploration and mitigation of environmental and rural energy problems, and we expect this involvement to grow.

Participation, Social Structure, and Related Policies

Participation in development-related decision-making at the national level in Sri Lanka has its roots in the spread of public education and improved country-wide communication and transportation followed by the universal franchise granted in 1931. A relatively well-educated and informed electorate demanded responsiveness from their national legislators, which in turn produced the widespread further expansion of central government programs already described. Although, as noted below, charges of discrimination on the basis of ethnic or communal origin persist, Sri Lanka's firmly established parliamentary democratic traditions have generally produced an environment where individual political and civil human rights, including freedom of expression, are respected.

In contrast, apolitical local level participatory organizations with development-related functions, have waxed and waned. Notwithstanding attempts at reform, cooperatives have tended to become politicized, beset with management and corruption problems. Similarly, agricultural production and cultivation committees originally intended to encourage genuine participation reportedly became "top-down" political organizations and have been disbanded by the current government. The government provision of such services as health and agricultural extension has also tended to be "top-down". Central government field staff in these sectors have tended to be deficient in numbers, poorly trained and moti-

vated, and not interested in working with traditional local leaders, such as headmen, ayurvedic physicians, and mid-wives.

At least some recent developments give promise of increased local participation in development. A new "decentralized" District Development scheme, whereby District Councils approve local development expenditures, could in theory encourage local participation. How this scheme will work out in actual practice remains to be seen. A newly announced community health program is to rely on health workers drawn from villagers to be responsive to expressed local needs. A number of Sri Lankan voluntary organizations have been increasingly concentrating on self-help development projects at the local level.

The role of women in development participation is growing. They have played a fairly active role in political parties (35% of party membership and 15% of party office-bearers), and contributed the first woman Prime Minister in the world, (Mrs. Bandaranaike), but their representation in local and national elected bodies (5 of 168 Members of Parliament) has been low. Several women's organizations have development-related programs at the local community level. A forthcoming AID-supported study by the University of Sri Lanka should shed more light on the development roles of Sri Lankan women.

Caste lines do exist in Sri Lanka, but they are not as rigid or finely defined as elsewhere in South Asia. More serious are the divisions between broad ethnic groups, particularly between Sri Lanka Tamils and Sinhalese. The latter resent dis-proportionate (to population) occupation by Tamils in certain Government departments and business. Tamils resent

defacto if not dejure settlement of Sinhalese agricultural colonists in traditionally Tamil districts in the North and East and charge discrimination and abuse by Sinhalese officials and police. An uneasy situation has existed since the communal violence of August 1977, with charges and counter-charges among parliamentary leaders, and repeated official Government assurances of a policy of equal opportunity and communal harmony. It should be noted that the conduct of the relief and rehabilitation efforts in the largely Tamil Eastern areas hardest hit by the recent cyclone has apparently been non-discriminatory.

C. Financial Resource Needs

The GSL's "Medium Term Investment Program", covering the period 1979-1983, is still being refined, and is now expected to be released shortly before the next AID Group Meeting, scheduled for March, 1979. The Ministry of Finance and Planning has indicated that the Government is anticipating a budget deficit of Rs.45 billion over the 5-year period, 1979-83, to be covered by a combination of domestic and foreign borrowing. In annual terms the deficit is expected to grow from about Rs.6 billion in 1979 to about Rs.12 billion in 1982, and stabilize at that level.

The 1979 deficit alone represents a 43 per cent increase over the deficit originally estimated for 1978 and a 72 per cent increase over the 1977 budget deficit. The Rs.8.7 billion level of capital expenditure (Rs.7.3 billion net of repayment on public debt) projected for 1979 represents by a wide margin the largest in Sri Lankan history. A major item is

increased outlay for the massive Mahaweli Basin Development Program, now estimated to have a total cost of close to $1 Billion U.S.* While 1978 revenues represented an almost 70 per cent increase over 1977, owing to devaluation-induced increases in export and import duties as well as in sales taxes, the 1979 revenue estimate represents only a six per cent increase over 1978.

On the external account side, increases in world tea and rubber prices have caused foreign exchange earnings to climb substantially, and Sri Lanka consequently experienced in 1977 its first balance of payments surplus on current account since 1965. However, this surplus was rapidly converted into a deficit in 1978, with the rapid expansion of imports associated with liberalization, and a recent weakening in tea prices. The accumulation of foreign exchange reserves which has continued into 1978 is expected to reverse in 1979, with the growth of imports generated by implementation of new development programs and continued expansion of economic activity. The need for foreign resources is expected to continue to increase over the next five years as the private sector expands further and as the public sector development budget and deficit increase sharply (as cited above). Even with additional assistance from the IMF Extended Fund Facility and Supplementary Financing Facility currently under negotiation for the 1979-1981 period, foreign exchange needs are likely to be very substantial over the next 5-10 years.

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* The Minister of Finance has already indicated that cyclone reconstruction needs will have a definite impact on the 1979 Budget. He has initiated discussions with the IBRD to implement a new integrated rural development program in the affected areas.

About 70 per cent of the 1979 Rs.6 billion budget deficit is proposed for foreign financing. Applying the same proportion to the projected 1983 deficit of Rs.12 billion would yield Rs.8.4 billion or about US $540 million to be financed from foreign sources. Without knowing more about the shape of government plans and the as-yet-unpredictable impact of other events, such as the national elections projected for 1983, it is difficult to indicate with any precision the need for foreign resources in 1985. A conservative assumption is that these needs will continue in the neighborhood of $550 million a year, assuming the effect on the budget deficit of under-spending by ten to twenty per cent could well be offset by the effects of expanded programs and inflation.

A wide range of bilateral and multilateral aid donors plus the IMF have responded favorably to the policy and program measures described above. Sri Lanka secured a pledge of $380 million from the latest Aid Group Meeting. This pledge, which excludes commitments for the accelerated Mahaweli Basin Development program to be addressed at the next Aid Group Meeting, is the largest in the 14-year history of the Sri Lanka Aid Group. Moreover, it is increasingly clear from published statements and conversations with the donor community that the international financial institutions, Aid Group donors, and other donors are planning to substantially increase contributions to Sri Lanka's development program. Aid disbursements are expected to reach $230 in 1978, $270 million in 1979, and to exceed $300 million in 1980.

Sri Lanka receives aid from a variety of sources including the IBRD and the 13 DAC countries, UN, ADB, Communist and OPEC countries, and short-term balance of payments support from the IMF. The most substantial donors are the IBRD and the 13 DAC countries, including the US, who coordinate their development strategies fairly effectively through regular Aid Group Meetings and frequent contact in Sri Lanka. The latter has been facilitated by the recent placement of a resident IBRD representative.

DAC programs provide technical assistance, project assistance, and balance of payments support. Most DAC donors follow the lead of AID and the IBRD in attempting to design programs which benefit the poor majority. However, neither they nor, for that matter, the ADB nor the IBRD, are restricted to this thrust alone and are at liberty to undertake large infrastructure and commodity projects in the areas of power, transportation, industry, dams, and urban development.

The UN has 13 agencies with a staff of over 250 operating in Sri Lanka under the leadership and coordination of the UNDP. The UN program covers a wide range of small scale technical assistance projects. The program amounts to about $15 million annually.

The ADB is generally engaged in infrastructure projects while the Nordic countries are concentrating primarily on fishing and area development projects. Other donors are involved with a variety of activities such as Sweden in population, the FRG in fish farming, etc.

II Strategy

A. Objectives

The previous analysis suggests that if Sri Lanka is to meet the basic needs of its population on a self-sustaining basis, a sustained growth of the economic base and of productivity are required. Moreover, Sri Lanka's experience demonstrates that the bulk of the poor, who are not able to meet their basic needs, must have the purchasing power to do so, and that for a developing country like Sri Lanka with labor still its most abundant economic resource, the most efficient way to increase simultaneously the supply of goods and services to satisfy basic needs and to generate the purchasing power or demand required to meet basic needs is to employ the poor, through emphasizing relatively labor-intensive sectors and techniques in the expansion of productive capacity. A corollary -- also demonstrated by Sri Lanka's experience -- is that while subsidized services and commodities and outright transfers can still play a role in assisting particularly those households who cannot be productively employed, and can indeed play an economic role in improving human resource productivity, unless such transfers as food rations are kept within bounds and focussed on the most needy without access to productive employment, they can seriously interfere with production and employment generation objectives.

USAID proposes therefore to concentrate a major share of its assistance, as in the recent past, on activities which simultaneously contribute to (1) meeting the needs of the poor for the most critical basic need, food, thereby also contributing to Sri Lanka's objective of basic food self-

sufficiency, and (2) increasing the capability of the poor in rural areas where the overwhelming majority of the poor are located, to meet their basic needs, mainly through expansion of productive employment in activities related to food production. In further support of the goal of rural employment generation, USAID proposes moving away from an almost exclusive focus on food production, per se, into assistance for such activities as rural off-farm enterprise and production of minor export crops which increase the employment and purchasing power of the rural poor.

While expanded employment, purchasing power, and food production are essential to meeting the basic needs of the rural poor, the foregoing analysis of Sri Lankan experience also suggests they are by no means sufficient. Also required -- for their direct impact on well-being and for their indirect impact on labor productivity and employability -- are direct efforts to improve access to (1) basic health, nutrition, and family planning services and infrastructure, and (2) basic education and training services at the local community as well as national levels. AID has in fact been providing significant assistance in these areas, through its assistance to malaria control efforts and through assistance channelled through U.S. intermediary organizations involved in family planning, nutrition supplemental feeding, and nonformal education and training activities in Sri Lanka. USAID proposes broadening during the CDSS period its assistance for improving rural environmental health from a focus on malaria control to include potable water and sanitation and related training.

The above elements correspond quite closely to recent evidence of Sri Lankan development commitment and progress as described in the Analysis section. An exception is GSL concern with urban poverty, particularly in Colombo. Available data which show a relatively high proportion of the population below the poverty line in Colombo Municipality (24% in "absolute" poverty according to the previously-cited Marga study) suggests that this concern is well-founded. There are urgent needs for accelerated employment generation and for upgrading slum and shanty living areas, including housing and potable water and sanitation facilities. Current IDA and Canadian loans for the South West Coastal Area Water Supply Projects will meet only a portion of these needs. USAID assistance to increase food production will directly benefit the urban poor, and assistance for rural employment generation will indirectly benefit the urban poor to the extent rural-to-urban migration is thereby reduced. AID's legislation would, however, prevent USAID involvement in major urban infrastructure for large urban areas, such as Colombo. There may be ways of providing technical assistance for urban improvement, but USAID staff management capacity would be a significant constraint on becoming involved in this area. Assistance for upgrading low-income housing through AID's Housing Program is a possibility which USAID will explore during the coming year.

B. Assistance Strategy

This section delineates five broad program categories, and sub-categories within each category, in which USAID proposes assistance during the CDSS period. These are: (1) Agricultural Production Technology

and Resources; (2) Rural Infrastructure, Marketing, and Enterprise; (3) Human Productivity and Well-Being in Rural Areas; (4) Mahaweli and Rural Area Development; and (5) General Support. Assistance in these categories is intended to support meeting the basic needs of Sri Lanka's rural poor through accelerated employment generation, expanded food production, and improved environmental health.

Several important considerations cut-across USAID's proposed strategy. First, assistance efforts in each category and sub-category would contain a significant training component to address the previously identified major constraint of deficient implementation capacity. The "General Support" category would provide further support to relieve this constraint through technical and managerial training, as well as feasibility studies and consulting, for the purpose of pre-project program development.

A second concern also identified in the foregoing analysis, is the growing problem of environmental degradation. In addition to planned FY 80 assistance for reforestation and watershed management, for which an expansion in magnitude and scope is proposed during the CDSS period, USAID intends to give serious consideration to the environmental consequences of every assistance activity. Expanded efforts to strengthen irrigation water management, through making better use of already available water, and new initiatives to improve rural drinking water and sanitation, will make direct contributions to environmental improvement. USAID's previously sponsored environmental assessment of an earlier phase of the Mahaweli program received considerable atten-

tion at GSL policy-making levels and helped generate a request to carry out a major environmental analysis of the broader Mahaweli program. USAID will encourage environmental analyses of other aspects of Sri Lankan development through support of studies and consultancy under the "General Support" category.

Other considerations to receive attention in every category include broad participation in development, including women; impact on population growth; alternative energy sources; and appropriate technology. USAID will seek to promote through its proposed assistance strategy broad participation by the rural poor in the benefits of development. While this goal is generally in line with the announced intentions of the GSL, there may be some tension in specific cases. Broad participation in the benefits of development involves equitable access to productive resources, services, and employment by all socio-economic groups, including men and women, and caste and ethnic groups. Of particular concern to USAID in this regard is that there be a balance in our assistance activities so that the rural poor among the various ethnic groups are benefitted. For example, while the rural poor among the majority Sinhalese may be primary beneficiaries of the Mahaweli Basin Development program, at least portions of other assistance efforts such as support for local rural infrastructure, rural environmental health, and rural area development and market towns, should be designed to benefit the rural poor in predominantly Tamil areas as well. Expert social science consultancy on various aspects of rural settlement experience in Sri Lanka, including the ethnic dimensions, is planned during 1979. USAID will also seek through

its assistance to promote the access of women to productive resources, services, and employment. The previously mentioned University of Sri Lanka study is expected to suggest ways in which the development participation of women could be enhanced. Similarly, USAID will seek to encourage participation by the rural poor and their organizations in the development decisions which affect their lives. Identification of sub-projects by local communities should be central features of assistance to rural infrastructure and area development. Local participation in decision-making should also comprise an element of such categories as irrigation systems and environmental health.

Largely for the socio-economic reasons already mentioned, Sri Lankan population growth has declined significantly. But to maintain and even accelerate this decline, greater attention than in the past will need to be given to implementing an effective family planning program, a judgement which the GSL shares. USAID will continue to support AID's centrally-funded population programs conducted through intermediaries, and will seek greater coordination among these and other donor programs with the goal of increasing cost-effectiveness. During the coming year USAID will also consider how its proposed assistance -- especially in such areas as decentralized rural infrastructure development, environmental health, and rural area development can be designed better to support the Section 104(d) objective of enhancing the impact of development programs and projects on reducing population growth. TDY and/or consulting assistance may be requested in this connection.

The energy implications of every activity will be considered. This will be a direct concern of the Natural Resources and Energy Management sub-category, which will broaden over the CDSS period from an initial focus on fuelwood as a rural energy source to identification of and perhaps R & D on alternative conventional and non-conventional rural energy sources. Other categories, such as dryland agriculture, rural infrastructure and enterprise, and environmental health, have energy implications which will be examined carefully in the course of program development. To the greatest extent possible, technology will be promoted through USAID programs that is accessible to low-income communities, households, and enterprises, and which makes maximum effective use of Sri Lankan labor, material and energy resources in its construction, operation, and maintenance. USAID plans during the coming year to widen its contact with local and outside groups (such as Appropriate Technology International) concerned with these questions.

Brief discussions of each of the proposed five assistance categories follow below.

1. Agricultural Production Technology and Resources

This category deals with the development and diffusion of improved agricultural production technology and current inputs, with a primary emphasis on food production, and the protection and improvement of the agricultural production natural resource and energy base. These concerns are critical to the sustained expansion of agricultural production in Sri Lanka. The discussion below draws on several sources, including the draft agricultural sector assessment based on the Spring 1978

AID/W team visit. Additional analyses, as indicated below, will be required.

The relative emphasis on food production implies a concern with what is called in Sri Lanka the "non-plantation" or "domestic" rural sector. This is not meant to imply that plantation export crops are unimportant to equitable growth. The latter still provide the bulk of foreign exchange required for accelerated development and are also a source of income for a significant number of rural poor. The serious productivity problems of the three major plantation crops -- tea, rubber, and coconut -- are highly specialised, however. Other donors with experience in these crops are already providing assistance or have indicated an interest in doing so (Canada, U.K., IBRD).

Current assistance to improve the level and utilization of information on agricultural natural resources and to expand and strengthen the national rice research and agricultural education systems should be in mid-implementation at the beginning of the CDSS period. USAID believes these efforts will establish sound, self-sustaining systems.

A major effort to develop and diffuse improved technological packages for basic non-rice grains for dryland agriculture will just be getting underway. The dry zone is primarily rural, contains two-thirds of Sri Lanka's land area and one-third of its population, a relatively high proportion of which fall below a "poverty line". In view of the zone's large size and the wide range of micro-ecological conditions and crops grown, several phases of assistance are anticipated during

the CDSS period. A more detailed sector assessment will likely be required to help develop optimal design and phasing of this assistance.

A major assistance program to improve water management throughout the country will also be getting underway at the beginning of the CDSS period. The findings of recently-completed project development work suggest that the problem is both larger and more complicated than originally suspected. Current irrigation water usage runs twice that needed for current rice production. The implications of more efficient use for increased yields, cropping intensities, and total production are therefore substantial. The problem is pervasive, ranging from system design to construction standards, to operation and management, and to farmer use, attitudes, and organization. USAID anticipates that experience during the first phase will lead to follow-on efforts during the CDSS period.

Assistance intended to protect and better manage for multiple uses the rural natural resource and energy base of Sri Lanka will also have just gotten underway by FY 1981. Again, the current envisioned project just begins to tackle this set of problems, addressing reforestation and water management needs in selected north central areas of the country. Preliminary analysis suggests the problem of deforestation is growing to one of massive proportions and requires far more attention than it has received thus far. A closely related problem concerns alternative rural energy sources. As population has expanded, fuelwood for rural domestic use has become increasingly scarce. Reforestation can const-

itute in effect an alternative energy program. Related aspects that require more attention include patterns of land use for crops and livestock, and adequate drainage and flood control in downstream areas. Experience from USAID's first effort in this area is likely to suggest aspects of resource and energy management such as R & D on alternative, non-conventional rural energy sources, and drainage and flood control, where additional assistance could be effective during the CDSS period.

USAID proposes broadening its agricultural assistance into non-grain or so-called "supplemental" agricultural production in one or more areas such as: domestically consumed horticultural crops, "minor" or "non-traditional" export crops, animal husbandry (probably dairy cattle and/or poultry) and/or fresh water fishing. All of these activities can provide an important supplement to small farmer and estate family income, owing to their relative labor-intensity and, for several of them, high value in relation to amount of land required. The employment and incomes these activities could generate among the rural poor in the heavily-populated central and south-western districts would be particularly significant. Previous efforts, in some cases donor-assisted, have been made in several of these fields, some more successful (potatoes, chillies, spices) than others (pineapple, dairy cattle, poultry). Improved marketing services as well as technology packages would undoubtedly be a part of any assistance effort in view of the importance of adequate marketing to sustained production in these areas. The U.S. has considerable expertise in the marketing as well as production aspects of these fields. Consultant assistance

would be essential in order to develop the best approach and sequencing for these activities, and help learn from previous experience.

If the urea fertilizer plant currently under construction in Sri Lanka comes on-stream as planned in FY 1981, there is not likely to be a need for additional commodity assistance related to food production. If, on the other hand, operation is delayed, which may be the case in view of current construction delays, a need for additional concessional fertilizer assistance may continue into the CDSS period.

2. Rural Infrastructure, Marketing and Enterprise

The construction and operation of rural physical infrastructure, marketing and storage services, and small-scale, off-farm rural enterprise contribute to food production and provide additional employment and income earning opportunities for low-income rural people.

Substantial assistance for rural physical infrastructure construction is anticipated as part of USAID involvement in the Mahaweli Basin Development Program. This assistance will constitute, providing GSL planning and implementation performance proves satisfactory, a very major element of our assistance throughout the CDSS period. As elaborated further in the "Mahaweli and Rural Area Development" section below, this assistance will, in line with AID's current legislation, be provided in a multi-donor context, and as part of a program which will bring substantial benefits to the poor.

Assistance is also proposed for a program of local small-scale rural works or infrastructure construction, such as, small irrigation tank

rehabilitation and construction. There is a great need, particularly in the East and North, for improvement of existing structures and construction of new ones. Farms and villages in these areas tend to lack adequate rural roads and electrification as well. Where economically viable, assistance for these purposes could also be provided. Consideration is being given to providing rural infrastructure assistance through the recently expanded Decentralized Budget administered by the Ministry of Plan Implementation, with either development assistance funds or a PL 480-Title III program. An essential feature would be local participation in the identification of sub-projects falling within the above categories. Monitoring and accountability would impose serious responsibilities and requirements, but USAID believes these can be satisfactorily addressed on both the GSL and U.S. side.

Effective marketing facilities and services, including procurement as part of sound pricing policy, are essential to the sustained growth of food production, to assure adequate returns to small producers, and to provide incentives for productivity-increasing investment. Major assistance initiated in FY 1979 and 1980 to strengthen marketing and storage facilities for the small farmer of rice and other grains should accomplish during FY 1981-85 the objective of providing procurement and storage capability sufficient to maintain adequate market prices in times of relative surplus and to provide some food reserve and a brake on price increases during weather-induced poor harvests. The GSL talks in terms of these facilities and the managing institutions constituting a "buffer stock system" for rice and other major food

grains. To ensure the smooth functioning of this system, as well as other aspects of marketing including agricultural inputs, modest assistance is proposed in FY 83.

USAID is also exploring assistance to small-scale, off-farm rural enterprise, tentatively proposed for FY 1982 and 84. Expansion of rural enterprise could generate significant off-farm employment and income for the rural poor. If the labor force of densely populated areas is to be productively employed outside Colombo, off-farm as well as agricultural employment must expand. Several GSL Ministries (Finance and Planning, Industries and Scientific Affairs, Rural Industries) have expressed interest in obtaining external support in this area. Kinds of enterprise to be assisted could range from manufacture of agricultural implements and equipment designed for low-income farmers; to processing of agricultural products; to manufacture of consumer goods and handicrafts. In addition to financial viability, main criteria for assistance would be that units assisted be relatively small-scale and labor-intensive. To the extent products are intended for the rural sector, they should be within the reach of the majority of rural families and local communities. Kinds of assistance might include small equipment, including prototypes of new designs; seed capital; training; and technical, product design, marketing, and management advice or information. Assistance would be provided to intermediary public and private financial and technical institutions specializing in this field. These institutions would in turn deal directly with small rural enterprise. Although an IBRD loan for rural and

urban, small and medium scale industry has been proposed for 1979, there would appear to be need and potential for a modest AID entry in this field in the early eighties. Evolution of the IBRD project will be followed closely. Consideration is also being given to supporting local research on the characteristics and needs of existing rural enterprise and related intermediary institutions to help guide the design of an assistance effort.

3. Human Productivity and Well-Being in the Rural Sector

USAID proposes broadening its assistance directed to improvement of human productivity and well-being in the rural sector. Assistance for malaria control is expected to phase down during the CDSS period as the recent malaria upsurge is brought under firm control by the Anti-Malaria Campaign, and the need for commodity assistance correspondingly declines.

The evidence presented in the Analysis section on other water-borne disease incidence, especially involving the gastro-intestinal system, and on the deficiencies in drinking water and sanitation facilities in rural Sri Lanka, lead USAID to believe that assistance for the improvement of rural water and sanitation facilities and related training needs should be seriously considered. A well-designed and implemented program should not only result in improved well-being among the rural poor, but also, reduced hospital costs and improved productivity. These views have been reinforced by indications that the GSL -- partly in response to IBRD and WHO recommendations -- will give considerable

emphasis to rural drinking water and sanitation in its Medium Term Investment Program.*

Proposed assistance for rural water and sanitation would have several elements and be phased over the CDSS period. Increased emphasis would be given to training water and sanitation engineers and inspectors. Greater sensitivity to water and sanitation problems would be incorporated into the training of other health personnel. Another element would be to provide technical and capital assistance to expand and improve drinking water and sanitation facilities in one or two rural market or provincial towns to begin with, expanding to additional towns and possibly to surrounding villages in a latter phase. Assistance in this field, beginning with support for technical studies, is likely to be requested by the GSL at the Spring 1979 Donor Group Meeting. USAID should respond favorably to such a request.

Community level education in the proper use of drinking water and sanitation facilities is often essential to assure that the intended improvement in health and nutrition status occurs. USAID would encourage the GSL to integrate sanitation education within the newly announced community-based preventative health care program.

Nutrition continues to be an area of concern to both the GSL and USAID. Protein-caloric malnutrition and iron deficiencies impose serious afflictions on the poorest segments of Sri Lanka's

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* USAID also notes the proposed "Water/Sanitation Inititive" for U.S. development assistance being recommended by AID/W and STATE, as well as the conclusion of Annex C of the FY 1980 ABS in support of exploring assistance for potable water and sanitation.

poor majority, particularly in the more disadvantaged areas of the country such as the hill estate districts. While PL 480 Title II will continue to be AID's main vehicle for addressing Sri Lanka's most critical nutrition problems, a more effective and efficient means must be found within and outside Title II for reaching the most needy target groups. The nutrition impact of Title II is discussed further in the PL 480 section below. USAID is considering in addition modest technical assistance in the form of nutrition training or consulting under the General Support Category (such as that provided for the Nutrition Status Survey of 1975-76).

4. Mahaweli and Rural Area Development

A major emphasis of USAID strategy -- by far the largest single subcategory at $80 million over the CDSS period -- is for continuing assistance to the Mahaweli Basin Development Program on which the GSL is pinning its hopes for substantial increases in domestic production of grains, sugar, cotton, and other crops, with a consequent reduction in the current Rs.4 billion annual agricultural import bill, as well as for making a major dent in the employment problem. The Accelerated Program currently being studied by the GSL and many donors (Dutch, U.K., Canada, U.S., UNDP, ADB, FRG, Japan, Sweden, and IBRD) will involve the construction of four or more large dams to provide irrigated agriculture on 340,000 acres of land in a sparsely settled 1,000 square mile area. Services in the area are now inadequate for the current population of 1-200,000 which is expected to increase by a minimum of 500% by the time the project is completed. The program

will benefit some 140-150,000 land-poor families who will resettle in the area as well as underemployed farmers already in the region, and the large numbers of people employed in construction phases of the program (as high as 100,000 by some estimates) and follow-on farm-related services and agro-industry (the latter estimated at 60-70,000 jobs). USAID's participation in development of the system is likely to include construction of canals as well as multi-faceted development (which might include feeder roads, rural electrification, agricultural services, etc.) of a specific geographic sub-area; however, financing of one or more activities throughout the total commandarea, such as schools, market facilites, etc., has not been ruled out. The magnitude and content of at least the first phase of USAID participation in the accelerated Mahaweli program will be decided in the next few months after thorough review of a forthcoming revised Mahaweli Implementation Strategy Study. USAID will carefully consider such aspects as economic viability, implementation capacity, and equity in reaching this decision and will maintain flexibility during the CDSS period to adjust the content and magnitude of assistance for the Mahaweli Program relative to other activities, such as decentralized rural infrastructure assistance, rural environmental health, or other area development efforts.

In addition to settling people in an under-developed area, such as the Mahaweli Basin, an "area development project" can be an appropriate vehicle for ensuring that benefits accrue to a disadvantaged group (or groups) already concentrated in a particular area. Focusing several discrete activities in one region as part of a national program may

result in similar advantages to selected target groups and savings in both host country and AID human resources. Either emphasis if correctly designed can be replicated in other geographic areas. In addition to Mahaweli, the GSL has identified about ten administrative districts for externally-assisted, focussed area development efforts. Criteria for selection have included concentration of poverty and/or deficiency in economic and social infrastructure. The local government, local representative organizations, and local representatives of technical Ministries are to formulate, in conjunction with the Ministry of Plan Implementation, and to carry out a development program for the district. The IBRD, Sweden, and Norway are already providing or are commited to provide assistance for such programs. Canada is considering such assistance and the IBRD is considering additional area-focussed assistance to one or more of the cyclone affected districts in the East. USAID intends to explore assistance to one or more of these districts over the CDSS period. Consideration will be given to financing selected activities in a district, such as health, nutrition, sanitation, housing, farm services, etc., with direct impact on the target populations. USAID believes it is most important in area development to work through and not around local government institutions and to at the same time avoid being identified with all or even many aspects of a district's development (or lack thereof).

5. General Support

USAID's resident staff itself constitutes an important element of general support for its program -- both in the development and

implementation stages. In addition, as in other countries, USAID's resident expertise and the extensive documentation generated during the program and project development process are drawn upon by other Sri Lanka donors with little or no in-country capability. This constitutes de facto another element of support for Sri Lanka's development program.

Another dimension of general support which USAID has found useful is its Development Services and Training grant. USAID proposes expanding the scope and magnitude of this project to provide assistance which the GSL or USAID may draw upon, utilizing both external and indigenous institutions and experts, to support pre-project studies and consultancy; short-term technical and managerial training for key GSL personnel; specialized technical journals or other publications and demonstration equipment; and analyses and consultants on issues which cut across sectors and projects, such as environmental degradation, participation of women in development, appropriate technology, non-conventional energy sources, impact of development on population growth, etc.

C. Modes of Assistance

Development Assistance

USAID development assistance loans and grants in recent years have typically focussed on one program of one Ministerial department (rice research, for example). Several of the problems to be addressed in the CDSS categories cut across existing agency and even Ministerial lines. The effective accomplishment of development objectives in such categories as Mahaweli development, dryland agriculture, and environ-

mental health may require working with, and channelling assistance through, two or more Departments or Ministries. Assistance in these categories could be packaged as an umbrella project, encompassing two or more sub-projects. There could be resulting economies in terms of management and documentation requirements, but the difficulties of coordination across departments and Ministries, already alluded to, should not be minimized.

Local revenues are expected to remain a major constraint to accelerated development in Sri Lanka. Thus, it is anticipated that the assistance proposed for the CDSS period will have a continuing local cost component. Recurrent costs will not, as a general rule, be supported. One possible exception which would require a clear understanding with the GSL might be selected professional or technical salary costs during the development phase of a project.

PL 480

The PL 480 Title I program will continue to be used for supporting the GSL's economic reforms and food programs for the needy. A balance will be sought between our policy to further such programs on the one hand, and to encourage domestic food production and the GSL goal of greater self-sufficiency in basic food on the other. For planning purposes, a continuing need for 100,000 metric tons of wheat flour (or its grain equivalent) has been assumed. The actual dollar volume will depend on such factors as the price of wheat, U.S. budget and commodity constraints, Sri Lanka food production trends in relation to domestic requirements, and GSL policy performance relative to IMF recommendations. USAID

hopes to be in a better position next year to indicate longer term Title I/III requirements. Requirements will also be subject to a year-by-year review and re-assessment, depending on total PL 480 availability, in the event of serious short-term (weather-induced) fluctuations in domestic food supplies.

The PL 480 Title II program conducted through CARE, will continue to be USAID's main avenue for addressing Sri Lanka's most critical nutritional problems. Means need to be found to increase resource allocations to, and/or improve the delivery system of, the Maternal Child Health (MCH) program with a recipient level of only 340,000 relative to those allocated to the School Feeding (SF) program with a recipient level of 1,250,000. Current consideration being given to converting the SF program from a biscuit ration supplement to a hot lunch program may result in resource savings which can be applied to the MCH program.

The Mission has recently proposed a PL 480 Title III program, to replace all or part of Title I, in support of the previously-described Decentralized Budget Program. A Title III program could support those within the GSL who favor participatory rural development that reflects the "felt needs" and mobilizes the resources of local communities. The proposed Title III program would entail the establishment of a special fund account to finance locally identified rural infratructure and other development-oriented activities that meet mutually agreed-upon criteria. USAID and the GSL are currently discussing the various conditions imposed by a Title III program. Major and difficult conditions that need to be

satisfactorily addressed include additionality, GSL implementation capacity, and GSL and USAID monitoring responsibilities. If a Title III program were to be initiated in FY 1979 or 80, it is proposed that it be converted to a Development Assistance program in FY 1983 or 84, intended also to support decentralized rural development.

Private and Voluntary Organizations

As part of USAID's strategy in assisting the GSL in its aim of expanding employment and enhancing self-sufficiency, more emphasis will be placed on people-oriented projects at the village level. A variety of locally established indigenous and U.S. private voluntary organizations (PVO's) will be encouraged to act as the agents for organizing such efforts at the local level and providing catalytic assistance. Activities could range from non-formal education, to food production, to health and nutrition services, to housing, to small off-farm enterprise. Already, a number of PVO's have indicated interest in this area, including several women's organizations. Most of the projects would specifically (though not exclusively) identify women, youth, and young children as benefactors, and goals would include employment creation and improvement in health and nutrition status, leading to greater self-reliance and independence from outside help. The PVO co-financing mechanism to be established in FY 79 would continue as a primary instrument for implementing the above approach during the CDSS period.

D. Expected Benefits to the Poor

Significant benefits to the poor can be expected from the program outlined above, together with complementary efforts by the GSL and other

donors, in at least three areas: employment and incomes of the rural poor, basic food availability, and health and nutrition status of the rural poor. USAID is simply not able to give quantified estimates of these benefits at this point, nor to attribute them among AID, GSL, and other donor efforts. For the FY 1982-86 CDSS, however, we plan to be more precise.

With respect to employment and incomes of the rural poor, while the GSL 1983 employment goals (for the Medium Term Investment Program) have not yet been announced, major benefits are expected from proposed assistance to Mahaweli development, agricultural production, rural infrastructure construction, and rural enterprise. The employment impact of the Mahaweli Basin program is likely to be the most dramatic, but the employment generated from local rural infrastructure rehabilitation and construction, rural enterprise activity, and other area development should also be significant. Major beneficiaries will include rural landless labor, which reportedly constitutes up to a third of the rural labor force in some districts, and farm family members employed off the farm on a seasonal basis. Another primary beneficiary of several of the above activities as well as assistance to agricultural production will be the small holder, the farmer with less than five acres who accounts for almost 90 per cent of all holdings and almost 50 per cent of total area farmed.

With respect to basic food availability, the GSL has developed food requirement estimates for the projected 1985 population, according to nutritional standards, by major food items. USAID's preliminary judge-

ment is that agricultural development efforts currently underway and planned for the CDSS period could, if well-implemented, result in reaching several of the key requirements by 1985, such as for rice. Beneficiaries would include both the rural and urban poor.

A preliminary version of the health sector section of the Medium Term Program includes the following health and nutrition goals for 1983:
(1) Reduction of infant mortality in the worst affected health districts (Kandy, Badulla, Ratnapura, Matale, Kegalle, Kalutara, Galle and Batticaloa) to reach the 1973 national average of 46 by 1983.
(2) Reduction of third degree protein and energy malnutrition (PEM) in infants and pre-school children by 90% and moderate second degree PEM by 75% by 1983.
(3) Nutritional supplementation to low-income women in early pregnancy to increase birthweight in 90% of the children born to them by 1983 and reduction of serious anemia in 90% of these mothers by 1983.
(4) Construction and installation of 200,000 new latrines for households in the low income groups by 1983.
(5) Qualitative, but as yet unquantified, goals to improve water supplies and hygenic practices, and in general to give "greatly increased emphasis on preventative health care". The proposed rural water technical studies, for which technical assistance is to be requested at the Donors Group Meeting, should indicate quantitative water supply targets.

USAID believes proposed assistance for food production and related employment generating activities, as well as for rural environmental health and nutrition programs, would make substantial contributions to these

goals, and result in significant improvements in the health and nutrition status of the rural poor.

III Assistance Planning Level

The Indicative Planning Allocation (IPA) proposed by AID/W for U.S. bilateral development assistance to Sri Lanka in FY 1985 is $93 million. USAID has accepted this planning level as a valid target. It would accordingly constitute the "year-five" Proposed Assistance Planning Level.

USAID concurs with AID/W judgement on need and commitment in Sri Lanka which led to the IPA being significantly greater than present levels of development assistance. In fact, we believe the foregoing CDSS analysis of need in terms of poverty and GSL commitment to equitable growth supports an increase of even greater magnitude. As to need in terms of development planning, it will be recalled from the section on "Financial Resource Needs" that a foreign resource gap of U.S. $550 million was considered a conservative estimate for 1985. Twenty per cent of this, slightly less than the highest previous U.S. share of all foreign capital flows (in 1976), would yield a level of $110 million. It should also be noted that continued reduction in the purchasing power of the dollar would significantly reduce the real value of $93 million. Extrapolation of recent inflation experience at an annual rate of 10 per cent would reduce $93 million to $57 million in 1980 prices. This may be compared with an approved $29.8 million development assistance level for FY 80 and the $55 million development assistance level proposed by the FY 80 ABS for FY 1983 and FY 1984.

There are, to be sure, several potential constraints on both the GSL

and U.S. sides which could limit program expansion. USAID believes, however, that the constraints can either be avoided, or are so uncertain that they cannot yet be taken into account in planning. U.S. budgetary limitations and uncertainty over Congressional appropriations fall into the latter category. Another "pause" in the expansion of world-wide development assistance would undoubtedly force a reduction in all IPA's. Limitations on direct hire staff expansion would also constrain program expansion. USAID believes the American and Foreign National direct-hire staff levels proposed in the table and narrative below could, in combination with contractor/consultant assistance in project design and implementation, effectively manage the proposed program on the AID side.

There are also potentially serious constraints on the GSL side, particularly with respect to management and implementation capacity. As indicated previously, USAID believes that through a combination of substantial training elements in each of the sub-categories of the proposed program, and short term managerial and technical training assistance under the "General Support" category, this constraint can be overcome.

The following table lays out the categories and sub-categories described in the "Assistance Strategy" section and indicates proposed obligations for each sub-category and for each fiscal year from FY 1981 through FY 1985. Several aspects of the table require discussion.

Although we have some notion of possible breakdowns by types of assistance (capital-technical, training, equipment, etc.), further disaggregation of the sub-categories into "institution-building", "infrastructure", etc., would appear premature and not in keeping with the injunction of

PROPOSED DEVELOPMENT ASSISTANCE PROGRAM, FY 1981-85
($ Million)

	Categories	Fiscal Years 1981	1982	1983	1984	1985	Total
I	Agricultural Production Technology & Resources	3.0	21.0	5.0	41.0	40.0	110.0
	1. Dryland Agriculture Technology	(3.0)		(5.0)		(10.0)	(18.0)
	2. Irrigation Systems		(15.0)		(25.0)		(40.0)
	3. Natural Resource and Energy Management		(3.0)		(10.0)	(15.0)	(28.0)
	4. Supplemental Agricultural Production		(3.0)		(6.0)	(15.0)	(24.0)
II	Rural Infrastructure, Marketing & Enterprise (Excludes PL 480 Title III)	-	5.0	14.0	10.0	23.0	53.0
	1. Rural Infrastructure for Decentralized Development (PL480 Title III in FY 81-82, and development assistance in FY 83 and 85)	((17.0))	((17.0))	(13.0)		(23.0)	(36.0)
	2. Marketing Systems			2.0			2.0
	3. Rural Enterprise		(5.0)		(10.0)		(15.0)
III	Human Productivity & Well-Being in the Rural Sector (Excludes PL 480 Title II)	7.5	3.0	10.5	11.0	17.0	49.0
	1. Environmental Health	(3.0)		(8.0)	(10.0)	(15.0)	(36.0)
	2. Malaria Control	(4.0)	(2.5)	(1.5)			(8.0)
	3. Improved Nutrition for Infants & Mothers (Also under "General Support" below)						
	PL 480-Title II Commodities (non-add)	((6.0))	((6.0))	((6.0))	((6.0))	((6.0))	((30.0))
	4. Other PVO Activities in Rural Development	(0.5)	(0.5)	(1.0)	(1.0)	(2.0)	(5.0)

		1981	1982	1983	1984	1985	Total
IV.	Mahaweli & Rural Area Development	29.0	20.0	30.0	10.0	10.0	99.0
	1. Mahaweli Basin Development	(25.0)	(20.0)	(25.0)	(10.0)		(80.0)
	2. Other Area Development & Market Towns	(4.0)		(5.0)		(10.0)	(19.0)
V.	General Support - Development Services & Training	1.0	2.0	2.0	3.0	3.0	11.0
VI.	GRAND TOTAL - Excluding PL 480	40.5	51.0	62.5	75.0	93.0	322.0
VII.	U.S. Direct Hire Staff	22	28	32	32	32	n.a.
VIII.	Foreign National Direct Hire Staff	28	38	42	45	45	n.a.
*	* * * * *	*	*	*	*	*	*
IX.	PL 480 - Title I (Assumes no Title III program and a continuing annual requirement for 100,000 metric tons, depending upon conditions explained in the text).	((17.0))	((17.0))	((17.0))	((17.0))	((17.0))	((85.0))

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the CDSS guidance to avoid a listing of projects.

As apparent from the Analysis section, many of the sub-activities represent an extension and broadening of assistance efforts already underway.* This reflects the fact that the proposed strategy is an extension and broadening of the 1976 Program Assessment which has guided U.S. development assistance. Major new, but related, initiatives proposed for the CDSS period include supplemental agricultural production, rural infrastructure, rural enterprise, rural environmental health, and area development and market towns. The absolute and relative relationships among the major categories and sub-categories can best be compared by looking at the last "Total" column of the table. USAID believes efforts represented by these levels will accomplish, together with efforts of the GSL and other donors, the objectives and benefits set out in the strategy section.

Row VI of the table indicates the annual totals of development assistance, exclusive of PL 480, between FY 1981 and FY 1985. Taken together, they constitute USAID's Proposed Assistance Planning Levels (PAPLs). The annual totals, which progress toward the FY 1985 total level at an increasing rate, reflect the phasing of individual sub-categories year-by-year. The phasing of sub-categories is based on USAID judgements with

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* Some of the entries for these sub-categories represent funding levels required to fund the current portfolio of approved projects. These are: Dryland Agriculture Technology - $3 million for FY 1981; Malaria Control - $4 million FY 81; $2.5 million - FY 82, $1.5 million FY 83; PVO co-financing FY 81, 82, 83 - $5 million each year; Mahaweli Basin Development - FY 81 $25 million, FY 82 $20 million, FY 83 $25 million, FY 84 $10 million.

respect to USAID and GSL implementation and absorptive capacity. An important consideration affecting the timing of new initiatives was availability of technically qualified USAID staff. This will be discussed further below. Another aspect of phasing concerns anticipated build-up of assistance over time in a given sub-category, with the accumulation of previous experience. For example, the amounts shown for natural resource and energy management (Row I - 3) are larger in 1984 and 1985, reflecting expansion based on experience and increased absorptive and implementation capacity, as well as the possibility of assisting flood control and alternative energy R & D efforts, which can be fairly resource-intensive. Similarly, rural environmental health (Row III - 1) shows a build-up over time, indicating increased support for rural and market town water and sanitation systems.

Providing GSL and U.S. implementation capacity improve sufficiently over the next few years, USAID believes that by FY 1985 such sub-categories as irrigation systems, natural resources and energy management, and environmental health could well absorb more than the proposed levels. This would add to a total above the IPA/PAPL, which, in terms of overall foreign exchange needs and development commitment and progress, USAID believes, as explained above, is warranted.

The table also shows proposed PL 480 levels (Rows II - 1, III - 3, and IX) as explained in the previous section.

Rows VII and VIII indicate proposed U.S. and Foreign National (F.N.) direct hire staffing needs. The FY 1981 levels represent increases,

based on proposed program expansion, from the FY 79 approved levels of 17 U.S. and 20 F.N. direct-hire staff, and proposed FY 80 levels of 20 U.S. and 25 F.N. direct-hire staff. USAID believes these levels are essential to manage the proposed program responsibly and effectively. Although maximum possible use is planned of local and third country (e.g. Asian) contractors and consultants, especially in the monitoring and implementation of projects, it is essential that USAID have technically competent American and local direct-hire staff in the major sub-category areas. In fact, technical staff for such new initiatives as rural environmental health and rural enterprise should be on board two years before the initial implementation of assistance. Adequate administrative, legal, program, and financial support staff are also required for a program of the proposed magnitude. Relative to the size of the program and to the experience of other USAID Missions, the proposed staffing levels would appear on the conservative side.*

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* It might also be noted that USAID/Sri Lanka's staffing level was identified as being 18 to 24 months behind program requirements in the recent world-wide functional audit of staff versus program requirements.