

U N C L A S S I F I E D

DEVELOPMENT ASSISTANCE  
PROGRAM ASSESSMENT FOR SRI LANKA

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U N C L A S S I F I E D

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## PREFACE

The attached report, which is submitted as a substitute for a full Development Assistance Program, is the result of a 2-week visit to Sri Lanka to assess the role of AID in that country and to consider a more definitive assistance strategy for the U.S. to follow. Among the documents and literature available to the team, members were fortunate to have access to the most up-to-date information on Sri Lanka's economy, contained in the World Bank's publication, Sri Lanka: Country Economic Memorandum, dated March 15, 1976. In the interest of time and of avoiding documentary overkill, this report limits itself to presenting highlights of the situation in Sri Lanka to which the proposed strategy and suggested activities seeks to be responsive, accompanied by a limited selection of key economic data from the Country Economic Memorandum, based on Sri Lankan sources.

Similarly, little mention has been made in the report of the political rationale for a U.S. assistance program except for certain key considerations, some of which are new, that make a persuasive case for considering a broader effort in Sri Lanka in the next 4-5 years, even though it is not proposed to increase dollar amounts substantially.

## Introduction and Background

The story is well known of Sri Lanka's virtually unique path from colonial status into a welfare-oriented parliamentary democracy with a strong socialist bias, and its attendant economic decisions for investment in universal health care and education at considerable economic cost in terms of underutilized agricultural and industrial capacity, reduced investment in productive capacity, widespread underemployment of human resources, and depressed per capita income.

The aim of successive governments has been to create a society whose members have equality of opportunity to make a living and to obtain the benefits of material progress. Attainment of these objectives has been sought through increased public ownership and operation of a broad range of economic enterprises in all major sectors, through redistribution of income and widespread provision of basic social services, including access to family planning services that have helped contribute to a significant reduction in the rate of population increase.

Key elements and results of this strategy, which permits favorable comparison with the new directions contained in foreign assistance legislation since 1973, include:

-- more equitable income distribution through pricing policies, tax and subsidy measures, minimum wage and job security legislation, provision of public sector employment and income ceilings on the wealthy. In the decade ending in 1973, significant progress had been achieved with the lowest

40% of the population receiving 15% of incomes (compared with 12% in 1963) while the top 10% saw a fall in its share from 39% to 30%. (Table A).

-- In addition, provision of social services, (subsidized food rations, health care, education, public transportation) especially to the poorer elements of society, on a heavily subsidized basis which reinforced the efforts at greater income equalization.

-- despite some religious strictures against birth control, Sri Lanka's health care programs have provided family planning services, supported very materially by outside donors (particularly Sweden and the UNFPA). Combined with a high rate of literacy and a remarkably high status of women, the scene has been set for sharp reduction in the population growth rate as family formation has been postponed (average age of women marrying is now estimated as 26). This has also mitigated some of the adverse effects of slow growth in living standards.

-- nationalization of estates and land reform.

-- creation of a large public sector in the areas of commerce, marketing, banking and industry. More than half of value added in manufacturing, all public utilities and the great preponderance of banking services are provided by public

enterprises. Until recently, this has caused a drying up of private investment and a tendency to run up losses in many of the public entities which have contributed further to budgetary pressures.

-- improvement in the relative welfare of the agricultural population by conscientious provision of services and infrastructure in rural areas and by more recent policies emphasizing increased agricultural production and diversity. In its productivity, land clearing and rural development schemes, the Sri Lankan Government has opted very clearly for labor intensive methods. These measures have been vitiated somewhat, however, by chronic shortages of urgently needed equipment, tractors, earthmoving equipment and spare parts, due to the all-pervasive foreign exchange deficiency, which have hampered optimum accelerated use of available labor.

-- relatively widespread participation of the rural farming population in the decision-making process through the strong influence of local Members of Parliament through increased reliance on cooperatives, creation of local and/or district development commissions village councils and agricultural production councils.

This strategy has had the result, rare in the developing world of only negligible migration to urban areas and the presence of a reservoir of educated people whose roots are in rural Sri Lanka and whose interests remain there.

The Sri Lankan economy evolved from colonial times heavily dependent on three estate crops (tea, rubber and coconuts) for the great bulk of its export earnings. Stagnating prices for these items since the boom days of the Korean War has contributed to steadily deteriorating terms of trade. Significant advances occurred in domestic food production and industrial expansion but the emphasis of Sri Lanka's Government on social services and redistributive objectives preempted use of resources at the cost of expanded investment in productive capacity, both in terms of meeting internal requirements and in the export sector. Until 1973, the Sri Lankan economy was able to manage reasonably well although

- there was sizeable unemployment;

- per capita incomes remained low

(the effects of both mitigated somewhat by comprehensive benefits such as a free basic food ration, universal education and health care);

- foreign exchange was generally short although not critically so, making import substitution an attractive strategy for

Sri Lankan planners;

-- rates of capital formation were low as resources were diverted to current consumption and to build up industrial capacity on an expensive import substitution basis, leading to increasing obsolescence and insufficiency especially in urban population centers. As more than one Sri Lankan official recently stated it, no one on the island had to work very hard to make a reasonably good living.

This scene of low-level stagnation turned sharply for the worse in 1973 as world prices especially for petroleum, food and fertilizer rose sharply. At the same time, Sri Lanka was hit by the first of three severe droughts that cut food production and redoubled the country's dependence on food imports. Sri Lanka's current account foreign exchange deficit climbed from \$38 million in 1973 to \$173 million in 1974 and continued to rise in 1975. Increased recourse to short-term borrowing led to a 50% jump in the debt service ratio while the heavy additional pressures of cost increases on the subsidy system gave promise of unmanageable deficits unless further needs were circumscribed.

Economic assistance relations between Sri Lanka and the United States have been unevenly distant. AID funds have been provided sporadically, usually in the form of loans, and from FY 1969 to FY 1975 there were no AID fund obligations at all. PL 480 Title I sales of wheat flour have taken place in most years since FY 1968 and there is

also a modest Title II program through CARE which currently amounts to about \$2.5 million per annum.

Sri Lanka has the distinction of having had U.S. aid terminated twice since independence (once for bartering its rubber to Mainland China in return for rice; the second time because of expropriation of American property).

Due to a combination of factors:

- conventional development theory which has held until recently that Sri Lanka policies were inimical to setting the requisite base for development;
- number of country limitations first contained in U.S. foreign assistance legislation in 1966; and
- the generally low priority accorded Sri Lanka in conventional political terms by the U.S., perhaps due to competition for attention by the chronic problems and crises involving India, Pakistan and Bangladesh, and more recently the question of competing strategic forces in the Indian Ocean.

It may even have seemed that Sri Lanka was placed on the "back burner" as far as U.S. assistance was concerned. In earlier years, too, Sri Lanka's non-aligned status, its espousal of socialist policies and rhetoric and the presence of Marxists in various administrations, the frequent appearance of critical articles concerning the U.S. in the uncensored Sri Lankan press, and expulsion of the Peace Corps did nothing to establish a favorable atmosphere for sober, objective

assessment of Sri Lanka's economic and social needs and aspirations or to put a premium on willingness by the U.S. to play a constructive and positive role in helping Sri Lanka accomplish its objectives.

Since attainment of independence, Sri Lanka has maintained a genuine parliamentary and democratic form of government. General elections have regularly resulted in the ousting of the incumbent administration. As developing countries go, it is an open society with widespread political interest and activity, an uncensored press, a highly literate and well-informed public, and a government that is heavily service-oriented and high responsive to public opinion. Except for civil unrest in the early years of this decade, Sri Lanka's political evolution has been peaceful and all shades of political opinion are represented on the island. However, this atmosphere of relative freedom and openness does have its drawbacks in terms of Sri Lanka's ability to tackle its economic problems. Governments inevitably are required to cater to the interests and sensibilities of a wide range of interests, and they are extremely reluctant to provoke an already fickle electorate that always has stood ready to turn them out of office at election time. Hard economic decisions tend to be put off until they become truly unavoidable. However, Sri Lankans in key places maintain that the basic political consensus is such, despite the differing style and philosophies of the principal parties, that development programs adopted by one government will be supported and carried out by its successor, e.g., the ambitious Mahaweli Ganga development scheme.

The Present Program Setting

With the twin disasters of the world commodity price escalation, of which Sri Lanka became a Most Seriously Affected (MSA) country, and the severe drought which resulted in a sharp decline in paddy production and a large increase in food imports, Sri Lanka stepped up its efforts to produce more food and make it more easily available within the country. At the same time, the Bandaranaike Government, after dropping its Trotskyist cabinet members, has attempted to increase confidence of private domestic and foreign investors through tax concessions and rationalization of the system although it has not yet introduced a Foreign Investment Law that was previewed in the Budget Speech in November 1975. Subsidies have been modified on rice and sugar and huge budget claims on the basis of the old prices have been significantly reduced. Imports were curtailed drastically and embargoes were placed on various foods to stimulate domestic production.

The main approach of the Government to overcome the basic imbalance of the economy and reduce balance of payments deficits was the stepping up of a campaign to attain agricultural self-sufficiency. It should be stressed that this takes the form mainly of increased food production for domestic consumption to reduce dependence on expensive imports and on development of agricultural exports other than tea, rubber and coconut products, the traditional exports. However, the export tree crop sector, which in Sri Lanka is considered a separate sector and which is administered through a separate Ministry

of Plantation Industries suffers from relative stagnation of prices on world markets and from the historic imbalances such as unfavorable exchange rates,\* export taxes, traditionally low wages for estate workers which the government has moved to raise.

Expectations for Further Policy Changes in the Short Run

There has been sentiment in the recent past among donors, including AID, that extensive additional policy measures are needed for Sri Lanka to put its economic house in order. Such policy prescriptions have stressed reduction of the amount and universal scope of the rice ration, widening of the income tax base, and reduction in the fertilizer subsidy. It seems unrealistic to expect a government preparing for a critical election in 1977 to push for such fundamental changes at this time. Technocrat elements in such ministries as Finance and Planning, Agriculture and Irrigation and Public Works have expressed the view that the basic framework exists for making meaningful progress toward reducing the balance of payments deficit to manageable proportions through redoubling of agricultural efforts and that the scene has been set, if delicate timing problems can be dealt with, for progress on the industrial development and foreign investment fronts also.

Sri Lankan officials have also emphasized that reduction in subsidies, while more costly in the current budget, mitigated the sharp jump in the budgetary burden that would have occurred if the old rates of subsidy

\*Tea, rubber and coconut exports are valued at the official exchange rate while most other exports earn a premium of 65% under the Foreign Exchange Entitlement Certificate system and may participate in a convertible currency retention scheme.

had been maintained and they indicated that the government in all probability would not take additional steps in the next year, at least. Similarly, in the case of fertilizer, they pointed out that despite reduction of world fertilizer prices in 1975, abolition of the cumbersome 3-tier price structure\* and institution of a straight 50 percent subsidy still results in fertilizer prices above pre-1973 levels. Drought conditions have reduced fertilizer use to preclude a meaningful trial for the new price policy. For the present, GSL appears to believe that the only broadening of the income tax base that will take place will be due to the effects of continuing inflation. As regards the private investment bill, its introduction in Parliament has been delayed, partly because of leftist sensitivities and hopefully in the interest of more auspicious timing. Principal impact of this delay is likely to be less on domestic agriculture than on Sri Lanka's hopes for a more revitalized export sector and associated need for private investment including foreign investment. There is some evidence to suggest that substantial foreign investment is flowing in and joint ventures are being considered, especially in export-oriented textile industry. A more immediate cause of reluctance of additional investors is uncertainty as to whether the GSL will abrogate or modify the present liberalized tax concession policies.

\*Prior to 1975, differing prices and subsidy levels were maintained for paddy production, for the tree crop sector, and for other agricultural production.

Sri Lankan expectations are that, provided the weather is favorable, the campaign for agricultural self-sufficiency will gain sufficient momentum from steps already taken -- freeing of rice trade, efforts at diversification, more effective use of marginal estate lands affected by land reform and distribution of Crown lands for settlement, simplification of fertilizer price structure, rehabilitation and extension of village water storage and simple irrigation facilities, etc., -- so as to make significant impact on the food import bill. UN and FAO officials in Sri Lanka support this assessment, and while giving credit to the government for a relatively high level of efficiency compared to other developing countries given problems faced, agreed that building of institutions and infrastructure established so far is needed if the program is to succeed.

It is obvious that at present the GSL wishes to rely primarily on natural factors and non-coercive, indirect actions to right Sri Lanka's economic ills and appears far more receptive to advice in areas like extending and increasing effectiveness of infrastructure and social institutions and extending measures already taken than adoption of additional policy steps which inevitably would create political controversy.

Accordingly, it seems to be unrealistic for the United States to expect major additional changes at this time.

#### Self-Sufficiency in Food Production

With food imports alone absorbing nearly half of Sri Lanka's foreign exchange expenditures for imports in 1974 and 1975, the Sri Lanka Government has decided to assign high priority to increase food production

and to make Sri Lanka self-sufficient in food. A number of policy actions were adopted or strengthened, including:

- Abolition of the three tier fertilizer price system for paddy, tree crops and other crops.
- Removal of restrictions on trade of rice across district lines which has freed the rice trade and has resulted in some reduction in the free rice price to slightly above the 1.10 Rupee per lb. price for the second pound of the universal weekly ration (the first pound being free).
- Paddy prices to farmers have been increased with a generally favorable ratio of paddy price to fertilizer price. However, drought conditions have prevented all realization of increased prices to farmers.
- Production of relatively lucrative crops such chillie peppers, onions, potatoes and pulses has expanded due to embargo of imports to conserve foreign exchange.
- Adoption of a massive program of irrigation and development of an area, eventually to cover 900,000 acres, through diversion of the waters of the Mahaweli Ganga, Sri Lanka's major river, into the dry zone. The current phase of the program for which World Bank support has been sought would bring 87,000 acres of new land into production and upgrade a further 58,000 acres of existing land. Land is to be distributed on a wide participation basis (2½ acres of paddy land and a half acre of upland for a homestead per family settling in the zone).

-- Beyond the massive Mahaweli Ganga project, initiation of an extensive program of improvement of local water storage tanks, irrigation works and drainage systems through public works and volunteer labor. This program is intended to upgrade and augment available land in Sri Lanka's dry zone where most of its rice is produced. This seeks to build on old pre-colonial approaches to intensified agriculture.

-- Adoption of a program of clearance and leveling of swamp and jungle land, with payments of up to 500 Rupees per acre to families designated to cultivate these lands. Although heavily labor intensive, this program has been help up by lack of key equipment and spare parts.

-- Adoption of a land betterment tax to cover cost of operation and maintenance of irrigation schemes. It remains to be seen how effectively this tax will be implemented.

-- Adoption of a new land law providing security for tenants and control of rents for paddy land and upland. GSL officials admit, however, that considerable work remains to be done to ensure effective enforcement of the rental limitations.

-- Expansion of credit facilities through encouragement of expanded commercial banking in the rural areas, with some concern evidenced for departure from the previous pattern of default by farmers which had made agricultural credit more an ad hoc welfare or income redistribution system rather than a true credit device.

-- Plans by the Department of Agriculture for expanding, intensifying and decentralizing agricultural research to develop programs appropriate to the nine of ten world agro-ecological zones found in Sri Lanka. Research is to be complemented with production-oriented extension programs addressing the needs of the farmers holding small and medium-sized plots (1-5 acres).

In reviewing these various steps, several problems and shortcomings must be taken into account, if programs are to be successful. These include:

-- Implementation of a comprehensive water use and management scheme, including a system for cooperative management and conservation of local water resources. The issue of charging for irrigation water has not yet been fully settled despite the adoption of a land betterment tax and this tax may need to be augmented by non-governmental arrangements for administration of water use through local users associations.

-- Essentially, the Government has not tackled the question of capturing a part of incomes to farmers of increased production. Generally, SLG officials foresaw that increased incomes would lead to increased consumption and acquisition of durable goods subject to excise taxation and that government revenues would accrue through that means. Another measure that might be considered, SLG officials indicated, is a gradual reduction in

fertilizer subsidies. In any event, the Government obviously will need to pay more attention to this aspect of ensuring sustained additional investment.

-- More attention must be devoted to the problem of landless laborers and farmers owning plots of  $\frac{1}{2}$  acre or less, many of which are not considered to be economically viable on the basis of rice farming. GSL officials are considering various measures such as collective utilization of privately-owned farm land in integrated production schemes and some effort is being made to direct research toward meeting the needs of the smallest farmers.

-- Although heavily labor intensive, Sri Lanka's agriculture sector at present is badly troubled by the lack of adequate tillage power, particularly two and four wheel tractors. There is considerable demand for this equipment, either for rental use or for ownership by individuals or associations. However, chronic foreign exchange shortages have prevented sufficient acquisition both of new tractors or of spare parts for existing ones, upwards of 25% of which are currently estimated to be deadlined. The shortage will be only mildly alleviated by the \$25 million IDA credit which is largely earmarked for estates and public works.

-- Marketing facilities and credit require substantial expansion. While this is true partly for rice, expanded facilities are

particularly needed for other crops if the results of crop research and agricultural diversification are to be applied by masses of small farmers. Besides being important in the rationalization of internal food distribution, augmentation of marketing, storage and credit is indispensable for success of the complementary effort to increase exports of agricultural products beyond the estate crops, such as for instance, spices, horticultural products and essential oils.

-- Implementation of increased extension efforts will require sufficient funds to hire additional people, for which qualified applicants appear to be available, but present shortages of transport will continue to immobilize and delay agents in their work.

-- Successful implementation of the self-sufficiency campaign will inevitably put a strain on other central government department, both with respect to the operations of individual ministries and to coordinate activities among the many different ministries and agencies. A corps of capable government officials exists but they are overworked and spread quite thin, and the GSL is aware of the need for upgrading overall institutional capacity.

-- Emphasis on solving Sri Lanka's problems with indigenous solutions rather than massive dependence on foreign resources will require substantial augmentation and extension of local

planning and decision making capabilities and more substantial budget allocations (or provision of other available resources) for "decentralized budgeting", which has commenced with 350 million rupees in the current budget.

-- With the development of various farmers associations, cooperatives, local production councils and self-help organizations, etc., there is also a key need for building up the competence and effectiveness of these groups through increases and training of operational staffs. Further this is important from the vantage point of obtaining maximum impact from the extension services, which as mentioned before, require some augmentation of staffs but even more critically, better access to transportation. While the Sri Lankan approach gives promise of widespread participation, success of the self-sufficiency campaign will require considerable replication of effectively functioning organizations.

#### Policy Considerations for a Revised Assistance Strategy

Sri Lanka at the present juncture offers a considerable challenge for successful development on an equity-oriented, mass participation basis. While creation of a welfare-oriented state has been expensive, while past policy decisions and investments may at times not have induced the best in growth-oriented investment, and while local industry is still functioning below capacity and largely is non-competitive abroad,

Sri Lanka has built a framework for development of Sri Lanka, which with outside help holds promise of more rapid progress in the future.

The overall program setting of a strong Sri Lankan commitment to achieve agricultural self-sufficiency, and the favorable preconditions for undertaking such a program on a broad basis, despite the shortcomings and obstacles, warrant some increase in AID effort. This could include varied types of programs, although without sharp increases in funding levels, at least not until the 1977 election campaign has been completed. However, there are several factors that make a U.S. assistance effort in somewhat greater depth highly desirable.

In Sri Lanka today, there is a great commitment to making the August 1976 conference of non-aligned nations a success. Sri Lanka will be chairman of the group for the next three years and its past voice of moderation in international affairs takes on considerably greater significance, particularly as trade and resource transfer issues associated with the new international order become increasingly important. Sri Lanka is strongly committed to its own development with due emphasis to social and economic equity without being dependent on any one ideological camp. Its own economic efforts and policies being directed more and more to greater development and exploitation of internal resources thereby reducing vulnerability on external factors such as food and fuel imports at rising prices.

Under the new foreign assistance directions, the United States has a real opportunity to upgrade its image in Sri Lanka transcending purely visible bilateral political considerations, through a positive and effective association with Sri Lanka's agricultural development efforts in ways to maximize Sri Lanka's understanding and appreciation of the difference made by the U.S. presence.

-- Sri Lanka represents a rare instance of a democratic society with widespread popular interest and opportunities for participation in decision-making processes.

-- Social equity policies have, despite criticism on economic grounds, set a base from which development along indigenous lines can flow at an accelerated rate.

-- US programs, like those of other aid donors, can profit from wide availability of extraordinary well educated and qualified personnel in agriculture who now are hampered by lack of transport and other resource shortages. An important factor is the availability of such personnel in rural areas and the basic rural sympathies and orientation of the people involved rather than city-oriented aspirations.

-- There is great receptivity for Congressional mandate-oriented programs benefiting small farmers and vitalizing small holder agriculture. However, GSL attention to the plight of the poorest farmers to obtain better results from their land or to open up sources for supplementary incomes needs to be translated into greater operational priority. Some research

into this problem is being undertaken by the Agrarian Reform and Training Institute (ARTI). More detail will need to be obtained but such program plans as common land utilization schemes and adaptation of technology are steps to include in the concept of equal access so conspicuously achieved in the realms of education, health and other social services to the fundamental right to earn enough to make a better living.

-- Considerable momentum is being generated as GSL is determined to press ahead on programs, as in the instance of the campaign to upgrade water storage tanks and simple irrigation facilities. Extensive land clearing and leveling efforts have also begun within the constraint of limited resources in advance of delayed World Bank approval of a project in support of the next stage of the Mahaweli Ganga development project (a delay which the GSL regretted). In this atmosphere of wanting to get things done, AID support of the irrigation/water use/land clearing effort of the GSL beyond the Mahaweli Ganga Scheme would be much appreciated and has good promise of a comparatively early pay-off.

An additional dimension deserving serious consideration is that within the wide range of activities covered by Sri Lanka's drive for agricultural self-sufficiency, U.S. participation can serve as a valuable proving ground for research and innovative projects which can

also serve as models for adaptation in other LDC's and in other development programs. Obviously, activities must always be considered first and foremost within the context of meeting GSL needs and priorities.

Proposed U.S. Assistance Strategy

The basic assistance strategy recommended herein is to adopt the Sri Lanka campaign for food self-sufficiency as the framework for a sustained AID effort over the next 4-5 years, at least, offering assistance within a range of activities in which our help appears to be most desired, and where there is considerable promise of high returns. The strategy is designed to reinforce and extend current GSL plans for stimulating rural growth on a self-help basis. It would have as its key objectives to assist GSL to achieve significant increases in the production and availability of agricultural products to:

- reduce and eventually eliminate Sri Lanka's dependence on large scale food imports;
- diversify exports and domestic agriculture based production/consumption;
- provide increased incomes to the rural population, particularly small farmers owning less than 5 acres of land;
- eventually encourage application of an increasing portion of higher rural incomes to a sustained and rising level of further productive investment in the rural areas, not necessarily only through taxation but also through greater reliance on co-op

savings schemes, local associations and other savings incentives.

A key element in this strategy which will need to be reflected in the design of individual activities is to extend the traditional concept of social equity that has been the cornerstone of Sri Lankan policy since independence, also to enhancing economic opportunity of the poorest members of Sri Lankan rural society. This would be done through support to the government to redouble its efforts to raise production and income of marginal farmers and landless laborers; for example, through support of increased research, pilot unified production and marketing schemes, and increased village activities and work programs.

The program foreseen would concentrate support to activities that fall within the range of responsibility of the Ministries of Agriculture and Irrigation and the Mahaweli Development Board (rather than the areas of concern to the Ministry of Plantation Industries). Most inputs would be substantially directed toward local planning association, cooperatives, agricultural productivity and cultivation councils, self-help enterprises, etc., whose participation and management of resources would form the cornerstone of the overall effort. This would be in effect augmentation of the decentralized budget approach, and could take the form of direct AID projects, use of voluntary agency OPG's, and various local currency mechanisms, e.g., a part of PL 480 sales proceeds and use of the new Grant-Back provision under PL 480.

While quick impact is important to win GSL confidence, that should be a secondary consideration as regards support for agricultural research which is such a basic need in the opinion of the GSL, that they welcome aid in that area as a particularly high priority. This approach obviously does not address the problems of the estate sector, except insofar as in the future the Ministry of Agriculture becomes more extensively operationally involved in crop diversification on marginal lands affected by the land reform.

This strategy involves an AID program tailored to help the GSL solve key bottlenecks caused by foreign exchange shortages and lack of sufficient know-how and personnel, and to increase the flow of domestic resources to rural areas through extensive pilot and demonstration activities. Its components comprise:

- a sustained U.S. commitment to decentralized research and extension of its results with special emphasis on meeting needs of small farmers as a key underpinning to the entire self-sufficiency drive.
- support for improved water and land availability, use and management.
- meeting critical foreign exchange shortages in the short run, especially in land clearing and water storage, use and management fields.
- assistance to strengthen technical and managerial capacity of the extension service and farmer organizations including use of para-professional adjuncts.

-- making possible increased Sri Lankan access to specialized expertise and training facilities, mostly on a short-term basis, needed in support of its agricultural self-sufficiency and rural development activities.

-- local currency financing of specific prototype activities in the interest of accelerating rural development on the model of the decentralized budget approach. Again, a heavy premium would be placed on extension of activities of benefit to the poorest farmers, including encouragement of cooperative ventures to avoid further land fragmentation and encourage better land use, and through alternate employment.

For the United States to pursue this strategy successfully, it is presumed that the AID Representative in Sri Lanka will have adequate planning and technical expertise available to him to participate in a sustained manner with responsible Sri Lankan personnel in program planning and project design. U.S. involvement in these aspects of the self-sufficiency drive should guarantee frequent and meaningful access to key decision-making policy and technical personnel throughout the SLG. This should create a more viable base for the U.S. engaging in discussions on broader aspects of national policy with prospects of greater impact than in the past.

Taking due recognition of Sri Lanka's present precarious foreign exchange situation due to its status as a Most Seriously Affected country and its crop losses due to past severe droughts, it seems

reasonable to recommend that the PL 480, Title I sales program be continued. Unless unfavorable weather were to persist, it is reasonable to assume that program levels (based on present prices) would decrease after FY 1977 as increased and diversified production will tend to displace the need for concessional imports of wheat flour. Title II food-for-work programs may be useful temporary device for financing some of the minor public works and rural development activities foreseen but care will need to be taken to avoid competition with locally-available foods and that the net effect of a food-for-work program does not in effect become a further extension of the rationing system. Indeed, it is conceivable that judicious application of a Title II food-for-work program in the context of an expanding economy may provide the GSL with a model for modifying the universality of the subsidized food rationing system in the medium term through the impact of the additional income for the lowest income rural people represented by food-for-work. With the neediest better provided for, pressure to keep the ration for others may lessen.

In considering effective application of this strategy, it is appropriate that additional funding mechanisms be used beyond the present AID development loans and PL 480 sales and grants. Since the resumption of AID-financed assistance to Sri Lanka in FY 1975, it has been our policy to provide loans only. This is an aberration from the usual pattern. Given Sri Lanka's balance of payments problems,

its status as a Most Seriously Affected country and its annual per capita income of \$120, this aberration should end and the option of grants be made available. Certain of Sri Lanka's priority needs such as short-term participant training and consultancies are appropriately met through grants while for some of the rural development and training programs foreseen would be appropriate for a mix of various types of financing, including for instance, voluntary agency Operational Program Grants (OPG).

A significant help to Sri Lanka's efforts to upgrade and diversify research will be the \$4.2 million AID loan contemplated for authorization in FY 1976. However, given the complexity of Sri Lanka's agro-ecological profile, success of GSL's research diversification and decentralization efforts to provide maximum support to the agricultural self-sufficiency campaign make it appropriate to recommend three additional approaches:

- consideration of at least one follow-on loan, possibly by 1978 or 1979, for further support of an expanded research network in Sri Lanka.
- stationing of a research-oriented U.S. agricultural officer in Sri Lanka to assist actively in evaluating GSL research strategies and programs, and to provide technical advice as needed in extension and application of research results. A key aspect of his work would be to help GSL identify key consultancy and training needs to upgrade capabilities, reinforce and extend linkages to international

research, and to help overcome lacunae in up-to-date knowledge which responsible GSL officials are very sensitive about.

-- provision of a grant project activity, initially planned for funding at a level of perhaps \$100-\$150,000 per year for such identified short-term training and consultancy needs.

Mahaweli Ganga is an ambitious, long-term scheme to which GSL is heavily committed and very anxious to move ahead. The proposed FY 77 AID loan is keyed to a more extensive World Bank input and it fits appropriately into the proposed strategy. However, as stated above, there is a more general effort underway for rehabilitating and upgrading existing water storage tanks (reservoirs) and small local irrigation facilities, with accompanying land clearing and levelling. Capitalizing on GSL determination to proceed as quickly as available resources permit, it is suggested that AID consider support for the more general land and water use sector rather than confine itself to the Mahaweli Ganga project exclusively. With the GSL's decision to concentrate operative machinery and equipment to Mahaweli, the desperate lack of machinery tractors and particularly spare parts has become a key constraint to accelerating the program. With earmarking of the current IDA credit largely for estates and public works, an AID-financed land and water use sector loan program spread over a number of years, possibly at \$3-5 million per annum, would provide the means for increasing the rate of land clearance and improvement by the heavy preparatory work needed to assume a more extensive program of utilization of available human labor. By FY 1980, a more substantial project loan in this area would seem

appropriate.

There is further considerable concern on the part of some GSL officials, particularly in the Department of Agriculture, that Sri Lanka urgently needs help in assessing more adequately the true state of its water resources and in determining a longer range plan for their optimum utilization and management. A useful area of activity for AID, and one in which U.S. technical superiority is keenly recognized by the GSL, would be a technical assistance effort in support of improved use and management of water resources. This might take the form of (1) one or more initial surveys (possibly funded through Asia Regional Project Development and Support funds), (2) assistance to GSL in inventorying present and potential resources throughout selected areas of the dry zone outside of the Mahaweli development scheme, and (3) specific technical assistance projects in selected areas for improved drainage and maintenance of facilities and improved management capacity by local authorities and users' associations of water resources on a self-sustaining basis. Such technical assistance, which presumably would not begin until completion of initial surveys, could be complemented by local currency financed capital activities on a pilot basis as catalysts for more extensive activities with GSL or locally-mobilized resources.

With some planning occurring literally from bottom up through the mechanism of District Development Councils to whom GSL has given access to limited funds under the decentralized budget device, and with extensive decision-making of local producer groups in such areas as

cropping, management and use of inputs, village improvement projects, and marketing of products, a good basis exists for undertaking accelerated programs of local currency-financed activities for the benefit of the poorest farmers as a special target group. In effect, U.S. activities would be an extension and augmentation of the decentralized budget device. U.S. assistance in this area should focus on two aspects, (1) local currency financing of actual activities with complementary technical assistance as required, and (2) encouragement of local training programs to extend technical planning and managerial knowledge of the various organizations cadre and participants. Both elements of this strategy would be very heavily local currency financed and both lend themselves to implementation under operational program grants (OPG's) through low profile volunteer or voluntary agency groups, both U.S. and Sri Lankan.

A good opportunity is presented by the highly-regarded Sarvodaya movement, a mass-based institution not connected with the GSL which encourages a wide variety community and self-help action and which has a network of workers throughout the country. With minimal outside support (small grants from the Netherlands, West Germany and Canada), Sarvodaya has generated a number of small scale activities, including training of young people (mechanics courses, sewing skills, health care, etc.) organization of community leadership, and small economic development projects, all on a very limited scale as dictated by funding availabilities. The movement's network and approach offers

what appears to be an excellent opportunity for offering U.S. support with minimal U.S. personnel for wider-impact activities. There seems also to be a role for U.S. voluntary agencies, possibly in tandem with Sarvodaya and other Sri Lankan agencies. A note of caution applies here regarding the need for concentration of efforts. Proliferation of project identification activities outside rural development should be avoided, not only to avoid raising local expectations but also to keep at a manageable level the need for liaison and counsel on project ideas and proposals by the inevitably limited USAID staff. Fishing expeditions, not unknown in the recent past should be discouraged. Reluctantly but unavoidably, it must thus be recommended that despite the policy prevalent in other AID recipient countries, in Sri Lanka voluntary agencies be authorized only to undertake projects strictly within the strategy recommended herein.

A further tool that seems appropriate for these proposed activities, benefitting the poorest end of the economic spectrum in the rural areas, is the new PL 480 Title I grant back provisions, possibly coupled with dollar assistance through OPG's or otherwise. Sri Lanka's equity orientation and the activities foreseen, with their heavy self-help emphasis, would lend themselves particularly well to an AID effort to put the grant back provisions to the test. Within the context of the planning and negotiations schedule for an FY 77 PL 480 Title I

sales program, a grant back program of perhaps \$2 million, a modest percentage of the likely PL 480 sales program, is recommended as an initial tranche, and to continue at an accelerating pace if deemed effective.

Improvement of marketing and storage facilities under control of the Paddy Marketing Board, the principal market for domestic rice, will be assisted through an FY 1976 AID loan for \$5.4 million. Involvement of the UNDP in improving rice processing facilities will also assist this effort. With acceleration of the agricultural self-sufficiency campaign, a follow-on AID loan in FY 1978 or FY 1979 would serve to further rationalize and improve the operations of the Board.

A possible appendage to the above strategy design concerns the question of U.S. involvement in a renewed campaign to control malaria. A recrudescence of the disease has occurred over the past years and there is evidence that the killing strain falciparum, is becoming more prevalent. There appears to be a difference of opinion among health and agricultural authorities with respect to the prevalence and effect of the disease in the countryside. WHO officials working with the SLG have recently recommended that a major countrywide eradication program should be undertaken until capacity of the GSL Ministry of Health is augmented. As the opportunity may grow for more sustained contact by AID representatives in Sri Lanka with SLG and WHO officials,

the full impact of the malaria problem on the agricultural self-sufficiency campaign and the advisability of U.S. involvement can be more adequately assessed. There may be merit in considering U.S. assistance, possibly within a regional or multi-donor framework, to control and eradicate malaria in Sri Lanka and neighboring territories in South India and the Maldivian Islands.

#### Conclusion

There appears to be ample scope for an effective AID program consistent with the new directions of the Foreign Assistance Act in Sri Lanka that can make a significant contribution to that country's development. The areas discussed in this report offer a wide variety of activities to be undertaken originally on a small scale and then expanded to serve as catalysts and models as part of an even-greater Sri Lankan effort to achieve agricultural self-sufficiency and reduce the balance of payments deficit. The extent to which these activities can be planned and undertaken will depend in the first instance on the presence in Sri Lanka of a number, albeit small, of AID officials who can play a major role in the design of individual activities, coordinate with Sri Lankan policy and technical personnel, effectively monitor implementation of approved activities, and provide an opportunity for stimulating Sri Lanka to maintain and enhance the momentum of the development effort through complementary programs and policy changes.

This approach mandates a change from the recent pattern of AID staffing in Sri Lanka. Limited personnel have not had time or background

successfully to play the active role foreseen by this strategy because they have been heavily engaged in handling the PL 480 program and fielding AID/Washington communications, and have not established the kind of far-reaching contacts in Colombo and throughout the countryside to put a sustained AID program together.

As a country very strongly committed to democracy and a social and economic approach that fits in perfectly with the new directions spelled out in U.S. foreign assistance legislation, Sri Lanka represents a very special opportunity for the United States to make a positive impact with its development assistance -- within Sri Lanka, throughout the developing world and in the United States Congress and public opinion.

Consideration should be given to augmenting the current AID staffing pattern of an AID Representative, a capital development officer and a secretary with perhaps three additional officers and one program/administrative assistant covering the areas of (1) agriculture from the production and research angle; (2) rural development covering all aspects of rural life including organization and management of rural societies, in addition to familiarity with key aspects of agriculture, health, training and other substantive areas; and (3) economic and social policy. Such a small staff would be the minimum required to plan and administer the assistance program projected by the proposed strategy, and would still require augmentation by selected short-term temporary duty assignments. Given space constraints of the American Embassy and the

consideration that the agricultural officer and rural development officer would have to perform a great part of their duties in the countryside, it may be advisable to consider moving the office of the AID Representative out of the Embassy and with one or more officers located outside of Colombo entirely.

Finally, the strategy suggested in this assessment shows promise of making a strong impact on the rate at which Sri Lanka's objective of agricultural self-sufficiency may be achieved. It is agreed generally that the potential is there; the means and the organization are lacking in full measure, as this assessment shows. The types of U.S. assistance activities proposed -- the provision of tractors, machinery and spare parts to overcome the equipment bottlenecks, the acceleration of simple rural works activities along the decentralized budget approach, improved water resource identification and management, the upgrading of cooperatives planning and production and other rural organizations, expanded and diversification of research, expanded self-help improvement, etc. should restore the balance of payments to health and materially hasten achievement of agricultural self-sufficiency and a more prosperous rural society within the next four to five years.

Illustrative U. S. Assistance Program  
to Sri Lanka, FY 77-80  
(\$000)

AID Dollar Funds (All § 203)	FY 76*	FY77	FY78	FY79	FY80
<u>Loans</u>					
Agricultural Research	4,200		5,000		
Paddy Marketing Board	8,400			5,000	
Mahaweli Ganaga Development		8,000			
Water Storage, Irrigation Rehabilitation & Development		<u>3-5,000</u>	<u>3-5,000</u>	<u>3-5,000</u>	<u>10,000</u>
Total Loans	9,600	11-13,000	8-10,000	8-10,000	10,000
Possible Additional loan for <u>1/</u> Malaria Control					To Be Determined
<u>Grants All § 203)</u>					
Agri. Research & Training		150	150	0,150	150
Survey of Water Resources			500	0,250	-
Water Use & Management Technical Assistance			300	0,300	300
Rural Development Projects <u>2/</u>		150	300	0,300	500
Rural Development Admin. <u>2/</u> and Training		850	100	0,150	150
Project Development & Support <u>1/</u>		250	100	0,100	100
Total Grants	0 -	600	1,450	1,450	1,200
PL 480 Title I Sales	22,000	17,700 <u>4/</u>	17,000	13,000	10,000
PL 480 Title II Programs	2,500	2,700	3,000	3,000	3,000
Local Currency Resources:					
PL 480 Title I Grantback <u>3/</u>		2,000	3,000	4,000	5,000

1/ Possibly from Asia Regional Funding

2/ Proposed for implementation as OPG's

3/ For expenditure in following FY

4/ Presumes same quantity as FY 1975 program but lower price for wheat

\* For reference

PERCENTAGE OF TOTAL INCOME RECEIVED BY EACH TENTH OF INCOME  
RECEIVERS AND SPENDING UNITS, 1963 and 1973

Deciles	By Tenth of Income Receivers						By Tenth of Spending Units			
	Urban		Rural		Estates		All Island			
	1963	1973	1963	1973	1963	1973	1963	1973		
Highest	42.78	29.90	34.23	27.27	24.87	31.70	39.24	29.98	36.77	28.03
Second	15.64	15.42	16.51	15.44	13.31	13.51	16.01	15.91	15.54	14.92
Third	10.77	12.17	12.35	12.72	11.21	11.12	11.46	12.65	11.22	11.65
Fourth	8.31	10.25	9.96	10.68	10.42	9.53	8.98	10.56	9.00	9.91
Fifth	6.64	8.68	8.11	9.16	8.71	7.99	6.82	8.75	7.54	8.75
Sixth	5.13	7.45	6.45	7.79	8.71	6.91	5.55	7.10	6.27	7.45
Seventh	4.28	6.25	5.04	6.42	7.33	6.16	4.51	5.70	5.21	6.52
Eighth	3.16	4.75	3.73	5.18	6.86	5.58	3.56	4.38	4.00	5.60
Ninth	2.00	3.42	2.54	3.53	5.56	4.61	2.70	3.17	2.95	4.38
Lowest	1.29	1.70	1.08	1.81	3.02	2.89	1.17	1.80	1.50	2.79

Source: Central Bank of Ceylon, Survey of Sri Lanka's Consumer Finances, 1963 and 1973.

## TOTAL RESOURCES AND USES, 1970-1974

Table B

(Rs millions at current prices)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
GDP (at market prices)	12,812	12,844	13,789	16,926	21,130
External Resources (net imports of goods and NFS)	278	180	180	135	1,030
<u>Total Resources Available</u> ( = total uses)	<u>13,090</u>	<u>13,024</u>	<u>13,969</u>	<u>17,061</u>	<u>22,160</u>
Consumption	10,535	10,775	11,851	14,432	19,320
Public	1,649	1,790	1,924	2,043	2,771
Private	8,886	8,985	9,927	12,389	16,549
Gross Fixed Capital Formation	2,359	2,140	2,206	2,493	2,972
Public	1,021	860	836	894	1,153
Private	1,338	1,280	1,370	1,599	1,819
Changes in Stocks	196	109	- 88	136	168
	----- Per Cent of GDP -----				
GDP	100.0	100.0	100.0	100.0	100.0
External Resources	2.2	1.4	1.3	0.8	4.8
<u>Total Resources Available</u>	<u>102.2</u>	<u>101.4</u>	<u>101.3</u>	<u>100.8</u>	<u>104.8</u>
Consumption	82.2	83.9	86.0	85.3	90.2
Public	12.9	13.9	14.0	12.1	12.9
Private	69.4	70.0	72.0	73.2	77.2
Gross Fixed Capital Formation	18.4	16.7	16.0	14.7	13.9
Public	8.0	6.7	6.1	5.3	5.4
Private	10.4	10.0	9.9	9.5	8.5
Changes in Stocks	1.5	0.9	-0.6	0.8	0.8

Source: Central Bank of Ceylon, Annual Report, 1974.

## ECONOMIC INDICATORS, 1960-1974

<u>Output (Annual Average Growth Rate) /a</u>	<u>1960-61 to 1969-70</u>	<u>1969-70 to 1973-74</u>
Real GDP	4.6	2.6
Agriculture	3.2	0.9
Manufacturing production	6.4	1.7
Paddy (bu.)	5.7	-0.7
Food	5.2	-1.5 <u>/b</u>
Tree crops and minor agricultural products <u>/c</u>	1.3	1.2

  

<u>Trade (US\$; Annual Average Growth Rate)</u>	<u>1960-61 to 1969-70</u>	<u>1970 to 1974</u>
Exports	-1.3	10.5
Imports	0.9	15.1
Agricultural exports	-1.7 <u>/d</u>	5.4
Agricultural imports	2.2 <u>/e</u>	14.0

  

<u>Prices, Foreign Trade (1969-70 = 100)</u>	<u>1960</u>	<u>1974</u>
Exports	103	181
Imports	61	270
Terms of trade	169	67

/a At 1959 prices.

/b 1969-70 to 1972-73.

/c 1960 to 1970, and 1970 to 1973.

/d 1960 to 1969-70.

/e 1963 to 1970.

Source: Department of Census and Statistics, Central Bank of Ceylon, and External Resources Division, Ministry of Planning and Economic Affairs.

Table D

## SUMMARY OF BUDGETARY POSITION, FY1969/70 - FY1976 /a

	<u>1969/70</u>	<u>1971/72</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
	<u>/b</u>			<u>/c</u>	
	<u>(Rs. million)</u>				
	<u>1969/70</u>	<u>1971/72</u>	<u>1974</u>	<u>Revised Est.</u>	<u>Budget</u>
Current Revenue	2,446	2,923	4,340	4,376	5,051
Current Expenditure /d	2,614	3,137	4,222	4,659	4,980
Current Surplus	- 168	- 214	118	- 283	71
Capital Expenditure and Net Lending	808	887	1,254	1,787	1,846
Cash Deficit	976	1,101	1,137	2,070	1,775

## --- As Percent of GNP at Current Market Prices ---

Current Revenue	19.7	21.7	20.4	17.3	...
Current Expenditure	21.1	23.3	19.8	18.4	...
Current Surplus	-1.4	-1.6	0.6	-1.1	...
Capital Expenditure and Net Lending	6.6	6.6	5.9	7.1	...
Cash Deficit	7.9	8.2	5.3	8.2	...

/a Before 1971/72, the fiscal year was from October 1 to September 30. FY1971/72 covered a 15-month period from October 1, 1971 through December 31, 1972. As from 1973, fiscal year corresponds to calendar year.

/b Pro rata adjusted to 12-month figures.

/c The latest estimate given to the mission in March 1976 shows a total current revenue of Rs 4,428 million in 1975.

/d Including outpayments of advance accounts.

Source: Central Bank of Ceylon.

Table E

BALANCE OF PAYMENTS, 1970-1976  
(US\$ million)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u> <sup>1/</sup> Esti- mate	<u>1976</u> <sup>1/</sup> Project- ion
<b>CURRENT ACCOUNT</b>							
<u>Receipts</u>	<u>382</u>	<u>380</u>	<u>362</u>	<u>435</u>	<u>579</u>	<u>648</u>	<u>607</u>
Merchandise, Exports, f.o.b.	339	324	308	367	505	569	533
Port, Transportation and Insurance	19	18	25	28	26 )		
Foreign Travel	4	4	4	9	14 )		
Investment Income	2	2	2	3	6 )		
Government Expenditure	5	7	5	5	5 )	79	74
Other Services	10	21	14	16	16 )		
Private Remittances	3	4	4	7	8 )		
<u>Payments</u>	<u>453</u>	<u>434</u>	<u>410</u>	<u>473</u>	<u>752</u>	<u>841</u>	<u>852</u>
Merchandise, Imports, c.i.f.	392	372	349	413	687	774	788
Port, Transportation and Insurance	5	3	11	11	10 )		
Foreign Travel	3	3	2	2	1 )		
Investment Income	23	24	20	20	22 )	67	64
Government Expenditure	5	5	3	3	4 )		
Other Services	20	20	17	17	18 )		
Private Remittances	5	7	8	7	8 )		
<u>Net Current Account</u>	<u>-71</u>	<u>-54</u>	<u>-48</u>	<u>-38</u>	<u>-173</u>	<u>-193</u>	<u>-245</u>
<b>CAPITAL ACCOUNT</b>							
<u>Receipts</u>	<u>203</u>	<u>259</u>	<u>244</u>	<u>254</u>	<u>376</u>	<u>422</u>	<u>323</u>
Private Capital	1	4	2	1	2	-	-
Grants	13	18	16	13	38	78	183
Loans	50	84	67	52	64	115	56
Suppliers' Credits	14	10	8	38	63	53	84
Short-term Credits	73	111	96	122	125	104	-
IMF Drawings	23	25	36	21	56	54	-
Borrowings from Banks (net)	21	-	2	-	2	5	-
Bilateral Payments (net)	-	-	-	5	24	13	-
Others	8	7	17	2	2	-	-
<u>Repayments</u>	<u>122</u>	<u>186</u>	<u>163</u>	<u>201</u>	<u>204</u>	<u>237</u>	<u>194</u>
Private Capital	2	6	1	1	1	-	-
Loans	19	16	20	23	26	25	24
Suppliers' Credits	13	11	14	15	32	55	45
Short-term Credits	47	103	92	101	118	123	90
IMF Repurchases	27	24	28	26	24	23	-
Borrowing from Banks	-	14	-	18	-	-	4
Bilateral Payments	13	10	2	-	-	-	10
Others	1	2	6	17	3	11	21
<u>External Assets, n.i.e.</u> <sup>3/</sup> (- increase)	<u>-10</u>	<u>-19</u>	<u>-33</u>	<u>-15</u>	<u>1</u>	<u>8</u>	<u>-</u> <sup>4/</sup>
<u>Unfinanced Gap:</u>							<u>116</u>

1/ Official estimate and projection as of early March 1976.

2/ Includes cash loan from People's Republic of China of \$26 million in 1971 and \$2 million in 1972.

3/ Including errors and omissions.

4/ No account has been taken of possible change in external reserves, including IMF position.

Sources: Central Bank of Ceylon for 1970-74 and Ministry of Planning and Economic Affairs for 1975-76.

FINANCING OF EXTERNAL GAP, 1976 /a  
(US\$ million)

<u>Current Account Deficit</u>	<u>245</u>
<u>Debt Repayment</u>	<u>194</u>
Loans	24
Suppliers' credits	45
Short-term credits	90
Others /b	35
 <u>Gross Foreign Exchange Requirement</u>	 <u>439</u>
To be financed through:	
<u>Disbursements from existing commitments</u>	<u>117</u>
Commodity aid	70
Project aid	47
<u>Disbursements anticipated by Government from new aid and credits</u>	<u>206</u>
Commodity aid	66 /c
Suppliers' credits	56
Short-term credits	84
 Additional foreign exchange required	 <u>116 /d</u>

/a Official projection as of early March 1976.

/b Bilateral balances and repayment of commercial bank borrowings.

/c \$55 million of this expected by the Government to be available from the Aid Group members.

/d This does not take into account any possible change of reserves including IMF facilities.

Table G

TERMS OF TRADE, 1968-1973  
(1967 = 100)

	<u>Exports</u>		<u>Imports</u>		<u>Terms of Trade</u>
	<u>Volume</u>	<u>Price</u>	<u>Volume</u>	<u>Price</u>	
1968	103	117	101	126	93
1969	98	117	108	134	88
1970	102	118	102	140	84
1971	99	117	90	150	78
1972	97	118	88	158	75
1973	98	137	79	209	65
1974	85	213	56	370	58

Source: Central Bank of Ceylon, Bulletin, August 1975.

Table H

## MAJOR CATEGORIES OF IMPORTS, 1960-76

VALUE (US\$ million)	<u>1960-61</u>	<u>1970</u>	<u>1973</u>	<u>1974</u>	<u>/a</u>	<u>/a</u>
					1975 Estimate	1976 Projection
A. Food <u>/b</u>	147	169	195	291	350	243
B. Petroleum	26	10	46	135	130	139
C. Fertilizer	12	14	17	33	32	25
D. Sub-total (A+B+C)	185	193	258	459	512	407
E. Other consumer goods	78	38	27	28	(	
F. Other raw materials and capital goods	122	158	139	193	(	262
Total Imports	385	389	424	680	774	788
A as percent of total imports	38	43	46	43	45	31
D as percent of total imports	48	50	61	68	66	52
F as percent of total imports	32	41	33	28	34 <u>/c</u>	48 <u>/c</u>
<u>VOLUME ('000 metric ton)</u>						
Food						
Rice	433	492	337	300	460	455
Flour <u>/d</u>	172	419	365	454	445	304
Sugar	184	279	190	52	60	50
Petroleum (million barrels)	n.a.	n.a.	12.9	11.2	10.8	10.5
Fertilizer <u>/e</u>	n.a.	n.a.	326	358	185	260

/a Official estimate and projection as of early March 1976.

/b Value of food imports include all kinds of foodstuff imported.

/c Includes small amount of consumer goods.

/d Excluding wheat imports, amounting to about 70,000 tons in 1975 and 150,000 tons in 1976.

/e The yearly volumes are not strictly comparable because of changing composition.

COMPOSITION OF MERCHANDISE EXPORTS, 1970-1976

Table I

VALUE	1970	1971	1972	1973	1974	1975 <sup>3/</sup>	1976 <sup>3/</sup>
	US\$ millions						(Estimate)
Tea	188	191	158	162	203	280	240
Rubber	74	52	48	82	110	95	102
Major Coconut Products <sup>1/</sup>	40	46	43	23	59	58	44
Sub-total	302	289	249	267	372	433	386
Other Exports <sup>2/</sup>	37	35	59	101	132	136	147
Total Exports	339	324	308	368	504	569	533
----- Per Cent of Total Export Value -----							
Tea	55.3	59.0	51.3	44.0	40.3	49.2	45.0
Rubber	21.8	16.0	15.6	22.3	21.8	16.7	19.1
Major Coconut Products <sup>1/</sup>	11.8	14.2	14.0	6.3	11.7	10.2	8.3
Sub-total	88.9	89.2	80.8	72.6	73.8	76.1	72.4
Other Exports <sup>2/</sup>	11.1	10.8	19.2	27.4	26.2	23.9	27.6
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0

VOLUME

Tea (million lbs.)	460	443	416	454	387	469	450
Rubber (million lbs.)	354	285	286	354	283	366	355
Major Coconut Products <sup>1/</sup> (million nuts equiv.)	880	1,019	1,258	422	468	853	950

<sup>1/</sup> Coconut oil, desiccated coconut and copra.

<sup>2/</sup> Other exports include coconut by-products, spices, minor agricultural crops, precious and semi-precious stones, manufactured goods, minerals, and bunker oil.

<sup>3/</sup> Official estimate and projection as of early March 1976.

Source: Central Bank of Ceylon for 1972-74 and Ministry of Planning and Economic Affairs for 1975 and 1976.

Table J

PRODUCTION, IMPORTS, TOTAL SUPPLY AND SELF-  
SUFFICIENCY IN FOODGRAINS  
( '000 tons)

	1960	1970	1971	1972	1973	1974	1975 Estimate
A. Rice Production	602	1,098	949	890	892	1,090	749
B. Imports, total	677	953	657	567	733	702	975
1. Rice	532	534	339	266	337	300	460
2. Wheat (Flour)	145	419	318	301	396	402	515
C. Total Supply (A+B)	1,279	2,051	1,606	1,457	1,625	1,792	1,724
D. Self- sufficiency(%)							
Rice (A/A+B.1)	53	67	74	77	72	78	62
Rice and Wheat (A/C)	47	54	59	61	55	61	43

Source: Based on Table 2.10 Vol. I of Report No. PA-134a, Agricultural Sector Survey of the Republic of Sri Lanka for 1960 and 1970 and recent Bank economic reports.

Table K

VOLUME OF TREE CROP PRODUCTION, 1960-74  
(Index, 1960-61=100)

	1969-70	1973-74
Tea	107	103
Rubber	158	146
Coconuts	104	81

Source: Central Bank of Ceylon.

Table L

PADDY PRODUCTION AND RICE AVAILABILITY, PROCUREMENT AND DISTRIBUTION, 1970-1976

	1970	1971	1972	1973	1974	1975 Estimate	1976 Estimate
<b>Paddy Production:</b>							
Paddy Production (million bushels)	77.4	66.9	62.7	62.9	76.8	52.8	50.7
Gross Acreage Sown (1000 acres)	1678	1794	1794	1792	2038	n.a.	n.a.
Net Acreage Harvested (1000 acres)	1510	1457	1349	1411	1682	1190	1797
Fertilizer Issue (1000 tons)	89	90	81	99	118	46	173
Average Yield (bushel per acre harvested)	52.3	46.5	47.3	45.1 <sup>1/</sup>	46.5	45.1	51.6
<b>Rice Availability:</b>							
Rice Production (1000 tons)	1092	949	890	892	1090	749	1157
Net Domestic Rice Supply (1000 tons)	980	847	795	796	973	669	1119
Opening Stock of FC (1000 tons)	n.a.	255	177	73	65	90	90
Rice Imports (1000 tons)	534	339	266	343	323	169	300
(Imports/Rice Consumption as %)	n.a.	(26.8)	(27.8)	(29.9)	(25.4)	(41.1)	n.a.
Total Rice Available for Consumption (1000 tons)	n.a.	1264	1165	1147	1271	1132	n.a.
<b>Procurement and Distribution:</b>							
Paddy Procured by FC (million bushels)	26.2	32.4	25.2	22.9	20.9	11.0	21.0
(Procurement/Production as %)	(33.9)	(48.4)	(40.2)	(30.4)	(27.2)	(20.8)	(25.5)
Rice Distributed by FC (1000 tons)	610	879	792	685	558	617	670
(Distribution/Rice Consumption as %)	n.a.	(69.5)	(68.0)	(59.7)	(43.9)	(54.5)	n.a.

<sup>1/</sup> Based on the conversion factor: 71.61 bushels paddy = 1 long ton rice.

<sup>2/</sup> Equals rice production less seed and wastage, which are estimated at 12% of total production.

<sup>3/</sup> FC = Food Commissioner.

<sup>4/</sup> Food Commissioner's data.

<sup>5/</sup> This is the apparent rice consumption which is estimated to be equal to the total rice available for consumption. The latter is estimated as net domestic rice supply plus imports plus change in the FC's stocks; the change in the stocks of private traders and the Paddy Marketing Board (PMB) is omitted.

Source: Central Bank of Ceylon, Ministry of Planning and Economic Affairs, and the Food Commissioner.

