

Country Development Strategy Statement

FY 1984



Sri Lanka

January 1982

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND
USED FOR PLANNING PURPOSES IN THE FIELD AND IN
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY
POLICY!

**

*

UNCLASSIFIED

COUNTRY DEVELOPMENT STRATEGY STATEMENT UPDATE

FY 1983 - 87

UNITED STATES AID MISSION TO SRI LANKA

Prepared January 1982

UNCLASSIFIED

CHIEF OF MISSION COMMENTS

This Sri Lanka Country Development Strategy Statement Update for FY 1983-1987 is being sent subsequent to Ambassador Toussaint's departure from post. This update has been cleared by the Chargé d'Affaires ad interim, and it will be discussed with the new Ambassador following his arrival at post. Any comments he may have will be forwarded separately.


Herbert G. Hagerty
Charge d'Affaires a.i.

EXECUTIVE SUMMARY

The CDSS period, 1983-1987, will be a period of retrenchment from the substantially higher planning levels projected in earlier years. While we continue to believe higher assistance levels can be justified on the basis of Sri Lanka's economic development commitment and needs, we understand foreign assistance programs cannot remain unscathed in a period of overall U.S. budget reductions. Consequently, we have structured this CDSS update to reflect current budgetary projections as well as the Reagan Administration's new development emphases. As this document is a CDSS update, it should be read in conjunction with the approved CDSS of January 1981.

In 1981 Sri Lanka continued to make substantial progress towards meeting its development goals of attaining food self-sufficiency, creating a million jobs and maintaining an average annual growth rate of 5.5%. Food production (both paddy and other grains) continues to increase. In 1981, paddy production was 106 million bushels, a 30% increase over 1977. Work on the Public Investment program is accelerating and visible progress is being made in the Mahaweli program, other irrigation systems, reforestation and so forth. The private sector continues to be buoyant, although the construction industry is slumping somewhat due to reduced levels of activity caused by budget cutbacks. In 1981, tea production increased substantially over the same period in 1980. Earnings from tourism, textiles and remittances from overseas workers continued to increase.

1981 was a year of increasing financial discipline and major cutbacks in the budget. Excellent performance by the Government of Sri Lanka (GSL) caused the IMF to resume its Extended Fund Facility, which had been suspended in 1980. While the budget cutbacks in 1981 were so severe that much of the development program was delayed, the 1982 budget provides adequate funding for key elements of the development program and a level of deficit financing reportedly acceptable to the IMF. As a result of budgetary cutbacks, combined with production increases, the inflation rate has dropped from over 30% in 1980 to the current estimate of 22%.

The high rate of inflation over the past few years has caused real hardships for the unemployed poor. While they are cushioned to a degree by the food stamp program, it is not indexed for inflation and, consequently, those at the bottom of the scale are worse off and will probably remain so until they find employment. While employment has increased, current estimates of the unemployed stand at about 15% or over 850,000 people. While the GSL believes that the only viable long-term answer to improving the welfare of all its citizens is economic expansion and consequent employment creation, it is very concerned about the short term effects of rising prices. A senior-level Cabinet committee is now studying ways of reducing and stabilizing food prices without resorting to increasing subsidies.

Turning to the area of health, reported cases of malaria continued to decrease, although not at the same rate as in previous years. There are disturbing signs that other diseases, such as cholera, appear to be on the rise. The GSL's plans to reduce water-related diseases, through improved access to potable water and sanitation, have been scaled back because of the overall budget squeeze.

While substantial progress has been and is being made, the period of the CDSS remains critical with many problems on the horizon. Oil imports continue to absorb about 43% of export earnings and it is unlikely that prices will be reduced. The economic problems of the developed world make it unlikely that there will be large increases in imports from Sri Lanka. Growing energy shortages will restrain local industrial growth. Finally, while inflation has been sharply reduced, it is still too high and will put pressure on the development program through higher costs while available or potential resources in the near term are in short supply.

Within this context, USAID objectives remain the same as in our approved strategy, e.g., food production, employment generation, and human productivity and well-being.

We have carefully reviewed our proposed portfolio in light of: (a) revised budgetary projections, and (b) the new emphases of the Reagan Administration. We continue to believe that the three categories,

as set forth below, respond to Sri Lankan and U.S. priorities. We have added two activities which were not included in last year's CDSS.

The first is Private Enterprise Development, which is a direct response to the new Administration. We also believe this is appropriate and timely for Sri Lanka as its policy is to move a larger share of the economy into the private sector. Policies and programs are in place to accomplish this and we plan to build on the existing structure to provide for expansion of both Sri Lankan and U.S. investments. At the same time, we will continue to find ways within all projects for increasing the private sector's role in implementation, thus building capacity within a particular sector. For example, in our Market Town Water Supply - Jaffna project, local contractors will build the small, simple systems under the supervision of an experienced U.S. engineer.

The second new activity consists of assistance to the newly created faculties of agriculture. In the last few years, due to economic growth, there has been increasing demand for trained agriculturalists which the existing educational system cannot supply. We will propose a collaborative arrangement with a U.S. university to assist these universities to develop staffs and the capabilities for training the required numbers of students. This effort would build on our agricultural educational experience at the University of Peradeniya.

The USAID program is designed overall to help Sri Lanka build the capacity needed for self-sustaining growth. Projects now being implemented will (a) provide for the establishment of an effective rice research network, (b) assist in the establishment of the Post-Graduate Institute of Agriculture at the University of Peradeniya, (c) strengthen the Paddy Marketing Board as a food stabilization agency, (d) develop a modern national institute for training of paramedical personnel, (e) develop systems for the construction of cost-effective market town potable water systems, (f) increase the capacity of the Forest Department to protect the watershed and develop fuelwood plantations, and (g) develop effective methods for managing irrigation water and rehabilitating degraded irrigation systems.

In addition, the USAID has financed small activities for transferring technology and providing consultants which have had a development impact far beyond the limited cost. For example, we financed the local construction and testing of Georgia Tech-type handpumps which can be built here at about half the cost of imported handpumps. These pumps have been so successful that the GSL has decided they will be used on all rural potable water projects, including those financed by other donors. Thus a small industry has been created and water can be supplied to rural populations at reduced costs. In another example, fishermen who use diesel-powered fishing boats are becoming increasingly unable to make a living because of the high price of fuel. A USAID project financed the construction of five demonstration sail-powered fishing boats designed by a U.S. fisherman. This type of boat will drastically reduce costs of the fishermen and allow their incomes to increase while keeping the consumer price of fish at a reasonable level. As a result of this project, the GSL has removed all subsidies from diesel-powered boats and is offering assistance to fishermen to convert diesel boats to sail. There are currently about 3,500 diesel-powered boats in Sri Lanka. Thus, there will be substantial fuel savings to the economy and a better livelihood for fishermen, traditionally among the poorest in Sri Lanka. Various USAID-financed consultants have also assisted the GSL to: (a) determine if they would continue to subscribe to the ILO convention of night work for women, (b) revise and rationalize water laws (which are confusing and redundant), (c) stimulate the optimum use of fertilizer for coconut production, (d) install and demonstrate the uses of a solar kiln developed by the Forest Products Laboratory in Madison, Wisconsin, (e) develop a comprehensive plan for increasing access to drinking water throughout the country by the year 2000.

Our programs during the CDSS period will build upon past efforts and will benefit from earlier projects which were devoted to strengthening the capacity of various organizations. We continue the three major categories as set forth in our approved strategy.

Our major assistance categories are:

1. Mahaweli Basin Development

The GSL's overall Mahaweli program involves the construction of major dams and related downstream irrigation and farmer settlement work. When completed, the program will provide over 100,000 poor farm families with irrigated land, produce over 500,000 tons of rice and over 500 MW of power, and provide non-farm employment activities for an estimated 175,000 people. During the CDSS period, our estimated contribution to this program will be over \$96 million in development assistance, primarily to: (1) finance downstream irrigation facilities in System B, (2) provide targeted financial support for the GSL's construction of basic roads, schools and related social infrastructure for settlers, and (3) to support a program to ameliorate the environmental effects of the Mahaweli program.

2. Food Production and Natural Resource Management

This category covers the improvement of irrigation and water management, expansion of food production and improvement of marketing, and supports the development of a comprehensive national food and nutrition sector strategy. Assistance will also be provided for the management of natural resources necessary for agricultural production and development of low-cost energy sources for the rural poor. (Priority will be given to reforestation in watersheds and increased fuelwood production.) During the CDSS period, our estimated contribution to this category will be just over \$163 million in development assistance and PL 480.

3. Human Productivity and Well-Being

As training, health and nutrition improve, human productivity improves. This assistance category will thus focus on the improvement of environmental conditions and basic services impacting on health services. We will also assist the Government to maintain or improve the health and nutrition status of children through the targeted maternal and child health (MCH) and school feeding programs supported by PL 480, Title II. Continued support for vocational, technical, and management training will be provided through various ongoing projects. Also

included in this category is our new private enterprise initiative which will have as its main objective the strengthening of private sector activities, both Sri Lankan and U.S., to increase production and employment. This new effort will include significant technical assistance and management training activities. During the CDSS period, our estimated contribution to this category will be about \$132 million in development assistance and PL 480, in addition to \$125 million in the Housing Guaranty Program.

Total U.S. assistance levels, composed of development assistance, PL 480 commodities and housing guarantees, remain at a level of about \$103 million throughout the CDSS period.

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	1
I. <u>DEVELOPMENT AND ECONOMIC OVERVIEW</u>	
A. Development Perspective	1
B. Economic Situation	4
1. General	4
2. Balance of Payments	6
3. Implications for Donor Financing	7
C. Update of Analysis of Poverty	8
II. <u>POLICY COMMITMENT AND DEVELOPMENT PROBLEMS</u>	
A. Overall Objectives of the Government of Sri Lanka (GSL)	12
B. Economic Policy Framework	13
C. Role of the Private Sector	13
D. Development of Human Resources and Institutional Capacity	17
E. Technology Development, Transfer and Extension	19
III. <u>AID ASSISTANCE STRATEGY AND PROGRAM</u>	
A. Objectives and Rationale	22
B. Assistance Strategy and Program	23
C. Assistance Levels and Staff	38
<u>ANNEXES</u>	
A. Macro-Economic Analysis	
B. Agricultural Policies	
C. Estimated Aid Disbursements	

INTRODUCTION

This CDSS for 1984-87 is not a complete CDSS, but rather an update of the approved CDSS of January 1981. Thus, much of the background information and analysis of government policies which remain unchanged will not be included in this document. Consequently, this CDSS update should be read in conjunction with the approved CDSS.

I. DEVELOPMENT AND ECONOMIC OVERVIEW

A. Development Perspective

Over the past year since the submittal of the 1983-87 CDSS, the Government of Sri Lanka (GSL) has steadfastly moved forward with the economic policies initiated since 1977. In response to serious dislocations in the economy in 1980, which included a substantial increase in inflation to 30% (50% in the construction sector) and a \$798 million^{1/} current account deficit in the balance of payments, the GSL rephased and reduced its ambitious development program. The economy's response in 1981 has been impressive - real GNP growth per capita is projected to be 5.8%, slightly higher than 1980, inflation decreased moderately to an underlying rate of 22%, and the current account deficit of the balance of payments has been reduced to \$666 million. In addition to these encouraging financial indicators, progress has been evident on other fronts.

Food production, encouraged by the GSL's policies to provide adequate prices and other incentives to stimulate farmers to increase production, continues to expand with optimistic projections that Sri Lanka will require limited rice imports in 1982. The GSL is predicting potential production in 1982 of 122 million bushels of paddy, but we believe this to be too optimistic. Paddy, the country's principal staple food, is the most important crop in Sri Lanka. Paddy production was 102.2 million bushels in 1980 and is projected to increase by over 3% in 1981 to 106 million bushels. Other subsidiary food crops have also responded to price supports maintained by the GSL and increases in open market prices.

The GSL's current policy is to have the government provide a minimum guaranteed floor price for paddy and thirteen subsidiary crops while leaving farmers free to sell at higher market prices when these occur, as is currently the case for paddy. As the private sector has assumed the

^{1/} Throughout this CDSS, exchange rates used are Rs.16.53 and Rs.19.30 per \$1 for 1980 and 1981, respectively.

essential marketing function for paddy as opposed to virtual GSL monopoly in earlier years, the Paddy Marketing Board has now become a price stabilization agency not only for paddy, but also for the thirteen subsidiary crops.

While the GSL's policy efforts to stimulate increased production of paddy and other food grains have been remarkably successful, it has become clear that the development of an integrated food sector strategy is needed. Sri Lanka has accomplished much of the basic work required for the development of such a strategy, while realizing the necessity for strengthening the national organizational framework for a balanced and well-coordinated approach to development in the food, nutrition and agricultural areas. To develop the work plan for preparing such a strategy, the GSL is now in the process of setting up a Central Planning Unit within the National Planning Division of the Ministry of Finance and Planning. This unit will also undertake regular reviews and carry out analyses of agricultural pricing policies and the preparation of a long term agricultural development plan.

The Public Investment Program (covering a five year period and revised annually) is well into implementation. The three lead projects within the program include the Accelerated Mahaweli Program (AMP), a Housing and Urban Development Program, and the Investment Promotion (Free Trade) Zones Program.

Under the AMP, construction of three major dams (Kotmale, Victoria, and Maduru Oya) continued in 1981, with a fourth, Randenigala, to begin in 1982. When completed during the 1984-86 period, these dams will provide an additional 500 megawatts of power (doubling current capacity) and irrigation water for 117,000 hectares. As a result, 450,000 people are to be resettled on small plots of land and domestic paddy production is expected to be increased by 547,000 tons per year. Already, land under production in System H of the Mahaweli Program is contributing to the decline in rice imports. Downstream activities in Systems C and B are accelerating.

While the housing program has slowed due to budgetary stringencies, of GSL's low cost housing target of 108,000 units by 1984, by the end of 1980, 21,000 units had been completed and about 40,000 were under construction.

As of September 1981, the Investment Promotion Zones Program had resulted in the approval of 151 projects with a total investment of over Rs.5 billion (\$259 million). These projects are estimated to provide employment for 63,000 people and foreign exchange amounting to nearly Rs.14 billion (\$725 million) annually. As of August 1981, 38 projects were already in operation, employing nearly 18,000 people.

Although data is mushy, employment continues to expand. It is estimated that unemployment had dropped to 15% in 1981, from over 20% in 1977.

In the plantation sector, tea, the major export earner has rebounded from the poor performance in 1980. Production in 1981 was 208 million kilograms, about 9% higher than in 1980. Also, coconut production was up 4% over 1980.

Non-traditional exports, ie., textiles, and tourism also performed strongly during the first two-thirds of 1981 with growth rates of 60% and 19%, respectively. Whether this growth rate can be maintained, however, is questionable in view of industrialized countries' reluctance to expand textile imports and the world-wide recession which is starting to be felt in a lower rate for tourist arrivals.

In addition to the large investments in the Mahaweli for irrigation, power and resettlement, the GSL is continuing to place a strong emphasis on increased food production through relatively small investments in small and medium-sized reservoirs, the development of rainfed agriculture through stabilized, yield sustaining cultivation and the acceleration of its reforestation and fuel wood efforts to protect the watersheds and provide low cost energy sources for the rural population.

The GSL is giving increased attention to the provision of basic services (safe water supplies, sanitation facilities, and preventive health care services) to farm families, especially those in recently resettled areas. As the massive investments in Mahaweli headworks and canal systems begin to gradually taper off in 1983, more attention and resources are expected to be made available to provide and improve the social infrastructure in the Mahaweli downstream and other rural areas of the country. Such efforts are underway now, but the constraints on the GSL's budget and the imperative

need to complete the headwork investments in the Mahaweli as quickly as possible have created social service gaps which the GSL recognizes must be filled.

Because of the serious commitment of the GSL to financial discipline and the excellent performance in many sectors of the economy, the IMF agreed to renew the Extended ~~Facility~~^{FUND} Facility (EFF) in the Spring of 1981. The 1982 budget, while substantially greater than the 1981 and calling for tight controls over expenditures, shows a continuing concentration on sectors of importance.

Even with the many problems which have beset the GSL, overall performance and policies have been very good. However, storm clouds are on the horizon. Some of these are caused by GSL anxieties related to the elections it must face in 1983 (if not earlier) and 1984. Others are caused by factors largely outside the GSL's control. The economic downswing in the industrialized countries which are the major donors will certainly affect to some extent the aid levels available to Sri Lanka. The same economic conditions may also restrain the growth of Sri Lankan exports, particularly in the short term.

The energy crisis caused by mounting petroleum prices and also insufficient hydro-power to meet rising energy consumption will limit the growth of domestic industrial production and result in increased costs. It appears that the four months of power cuts in 1981 may be repeated in 1982.

The continuing drain of skilled personnel from the country (while healthy for the remittances they return) is causing severe implementation problems for the GSL's programs.

B. Economic Situation

1. General

A more complete macro-economic analysis is contained in Annex A. The highlights of this analysis follow.

Despite difficult conditions on the domestic front and a continued world economic recession, the Sri Lankan economy in 1981 did surprisingly well without the major setbacks for the GSL's liberalized economic policies. According to tentative estimates, the GNP growth rate in 1981 will be 5.8%, up from 5.5% in 1980. Although the 1981 growth rate is lower than the very impressive growth rates of 8.2% and 6.2% achieved in 1978 and 1979, respectively, the 1981 performance was indeed remarkable considering the circumstances under

which this growth rate was achieved. In a bid to curb rapidly rising inflation and also to reduce further pressure on a sharply deteriorating balance of payments, development expenditures in 1981 were reduced substantially (from 27% to 16% of GDP). In addition, the economy had to cope with higher oil prices, high inflation and power shortages due to periodic droughts.

The increase in agricultural production is expected to be about 6.0% in 1981, well above the satisfactory growth rate of 3.0% in 1980. This results from an estimated increase of more than 3% in paddy production and the substantial recovery in tea production. Compared to 1980, tea production in 1981 will be about 9% higher. Coconut production, although experiencing a substantial drop during the first half of the year, recovered to record a 4% increase over 1980. Industrial production also suffered heavily during the first half of the year due to serious power shortages. When the power supply situation returned to normal, industrial production recovered with output expected to be about 5% higher than in 1980. The construction industry grew moderately at around 6%. This is lower than during the 1978-80 period due to a reduction in construction activities resulting from cuts in development expenditures. The service sector maintained its past momentum with a growth rate of around 6.5%.

A relatively lower inflation rate appears to be a major plus in 1981. Recent information forecasts an underlying rate of about 22%, which compares very favorably with the inflation rate of well over 30% in 1980. However, the Consumer Price Index (CPI) reported an average increase of 24% in 1981 in food prices. Considering that expenditure on food accounts for about 55% of the total expenditure of households in Sri Lanka and considering also the widespread poverty in the country, increased food costs mean added hardships, especially to families at the low end of the income scale.

Public spending is expected to rise sharply in 1982, according to the Rs.42 billion (\$2.2 billion) election-oriented budget presented to Parliament in November 1981. About 50% of the total expenditure or Rs.20.9 billion (\$1.1 billion) is allocated for development expenditure. Two of the lead projects, the Accelerated Mahaweli Development Program and the Housing and Construction Program, account for about 40% of the total development expenditures.

~~The 1982 revenue is estimated at Rs.19.3 billion (\$1.0 billion), representing 48% of total budget expenditures.~~ The 1982 revenue is estimated at Rs.19.3 billion (\$1.0 billion), representing 48% of total budget expenditures. The large 1982 budget deficit of Rs.21.2 billion (\$1.1 billion) is expected to be financed from both foreign and domestic sources. With a total of Rs.14 billion (\$725 million) or 68% of the total deficit expected to be financed from external assistance, the success of the GSL in carrying out its 1982 development program largely depends on foreign assistance.

Although a higher GNP growth rate is possible with increased public spending in 1982, this can be achieved only at the expense of a higher rate of inflation. The rate of inflation may well depend inversely on the level of foreign assistance. If this level falls short of the target, financing the deficit will have to be met from additional domestic borrowings or increased sales of Treasury Bills. There is little likelihood of reaching the 1982 foreign assistance target on the basis of projections currently available and past experience with delays in project assistance implementation. The other option is, of course, to curtail the level of expenditures contained in the budget. This carries with it the political risk of deferring even further the benefits of massive investments already made in such programs as the Mahaweli, with national elections scheduled for 1983 and 1984.

2. Balance of Payments

According to tentative estimates, the considerable slow down in price increases and volume of imports in 1981 helped avoid a critical balance of payments situation. In 1981, imports are expected to total Rs. 37 billion (\$1.9 billion), while exports will reach Rs.21.6 billion (\$1.1 billion). This will leave a trade deficit of Rs.15.4 billion (about \$800 million). The resumption of the IMF credit facilities to Sri Lanka and the subsequent releases of SDR's amounting to \$124 million helped partly to offset pressure on balance of payments in 1981.

Oil imports is the major item in the total expenditure on imports. These account for about 24% of the total imports and require about 43% of the total export earnings. In 1981, both the volume and price of oil products increased only marginally, thus reducing the adverse effects of higher oil prices felt in 1979 and 1980.

With increased public spending, a deterioration in the balance of payments is likely in 1982. With little, if any, increase in export earnings anticipated in 1982, the current account deficit in balance of payments is expected to increase substantially.

3. Implications for Donor Financing

The scope for further reductions in the GSL's 1981-85 Public Investment Program is limited, given the substantial cuts in real terms undertaken in 1981 and its high "on-going" component. The GSL is reluctant to drastically scale down the Investment Program for it is considered the only available means for providing incomes and employment to enable the Sri Lankan people to bear the costs of economic adjustments already undertaken, including the removal of subsidies and other transfer payments. Given the magnitude of the Investment Program and the large number of projects in it, the scope for new projects, at least through 1983, and possibly 1984, is extremely limited. Needed during the short term (1982-83) is fast disbursing commodity and food aid to meet domestic and external resource gaps. In addition, donor assistance should be directed to viable, on-going projects which have financing gaps caused in large part by original cost under-estimation and inflation. Beyond 1983, donors should move toward a balance between commodity and food aid and new project assistance. The USAID program proposed in Section III reflects this shift.

By 1985, it is expected that the private sector will provide the lead in investments. Given the expanding role of the private sector, we intend to seek out ways by which AID can encourage this policy and draw upon the expanding private sector to assist to a greater extent in Sri Lanka's development. Initial efforts will begin in FY 1982 with a project designed to increase the flow of private local and foreign resources into the economic development program of Sri Lanka. Our assistance will focus both on institution building and support for specific well-designed investment proposals. We will encourage other donors to also consider an enhanced role for the private sector.

The GSL leadership is aware that the strength and growth of the industrialized countries have a direct impact on the economic health of

Sri Lanka. Low rates of growth and worldwide recession in the developed countries have affected commodity prices and export prospects for Sri Lanka, while increased costs of imports (especially oil) have created a major balance of payments problem. Concurrently, the levels of foreign assistance commitments are expected to level off or decrease in real terms, at least over the near term. The option of increased commercial borrowings, in turn, presents the GSL with the difficult task of not becoming over extended to an extent threatening to long term balance of payments stability and a manageable debt services burden.

C. Update of Analysis of Poverty

The GSL continues to place an emphasis on economic growth to expand the employment generating capacity of the economy and to increase incomes, especially for the low income segment of the population. The GSL views this as the appropriate course of action to deal with the country's persistent poverty problem.

The changes that have occurred in the poverty profile since 1977 indicate a mixed performance to date. The deterioration of income distribution evidenced in recent years and the adverse effects associated with high rates of inflation, especially for low income households, are the two pressing issues. Concurrently, there is evidence that the proportion of households living below the poverty line has declined, a considerable achievement. However, about 60% of the population remains below the poverty line.

The deterioration in income distribution stems from the results of the latest Consumer Finance Survey covering the last two month period of 1978 and is, thus, dated. The relative income share of the bottom 20% of the population declined from 4.9% in 1973 to 3.9% in 1978, while the relative income share of the upper 20% of the population increased from 45.9% in 1973 to 54.1% in 1978. This short run phenomenon on income distribution, according to many analysts, is an inevitable consequence of economic liberalization following a long period of government controls and the pursuance of growth-oriented development policies to revitalize a stagnant economy. These imbalances are expected to be gradually corrected through the continuation of growth-oriented policies and as the results and benefits arising from the GSL's major development programs are realized.

There appears to have been progress in reducing the size of the population living below the poverty line over the 1977 to 1981 period. In 1977, about 69% of the population was receiving an income less than the minimum required to meet the basic necessities. Adjusting this minimum income in reflect current prices, the proportion of population falling below the poverty line drops to around 60%. This is no mean achievement and some movement towards the alleviation of poverty.

However, for the 30% to 40% of the population considered to be living under conditions of absolute poverty, evidence points to a worsening situation in living standards during the 1980-81 period due principally to sharply rising prices of basic commodities. This is the population group mostly vulnerable to rising prices of essential commodities. For example, between December 1979 and December 1981, the prices of rice, flour, bread, sugar, kerosene and bus fares increased sharply as noted below.

TABLE I
Administered Prices of Basic Consumer Goods, 1979 and 1981

	<u>Unit</u>	<u>(Rs.)</u>		<u>% Increase</u>
		<u>Dec. 1979</u>	<u>Dec. 1981</u>	
Rice (Purchased with Food Stamps)	Kg.	3.48	6.15	77
Rice (Open Market)	Kg.	5.13	7.50	46
Flour	Kg.	3.00	6.60	120
Bread	Kg.	2.76	5.94	115
Sugar (Open Market)	Kg.	6.62	14.50	119
Kerosene	Liter	2.35	3.89	66
Bus Fare	Journey	.60	1.60	167

Source: Central Bank of Ceylon

Such increases have significantly decreased the ability of low income families to buy food, light homes and cook meals, and travel any distance to places of employment or to markets for their produce.

The incidence of poverty is more frequent in the rural sector, in the estate sector and in isolated pockets in more urbanized areas. In the rural sector, the lowest incomes are in districts in both the wet and dry zones with several constraints including few off-farm employment

opportunities, limited access to larger urban markets for farm produce and inadequate irrigation water (in the dry zone). In the more heavily populated areas of the wet zone, these problems are compounded by the lack of land availability and the small fragmented nature of land holdings. The poverty in the estate sector reflects the general lack of development activities, compounded by the general stagnant performance of the plantation sector and the low wages paid to the stateless Indian Tamils on the tea estates. In the urban sector, irregular and limited employment opportunities, especially for those without marketable skills are judged the reasons for poverty. Poverty also appears to be more common among female households than male households. The Survey of Consumer Finance of 1978/79 reported that the national mean income among male households was Rs.716 (\$46.0) per month, while the corresponding figure for female households was only about one-half this or Rs.386 (\$24.80).

In view of the evidence of worsening living conditions of the absolute poverty groups, the recommendation of a recent Food Stamp Evaluation team, i.e., to maintain the value of food stamps in terms of a given quantity of rice may be appropriate. This recommendation stems from the finding that the original value of food stamps has declined by more than half since the inception of the program in late 1979. As a result, low income households are unable to obtain an adequate amount of rice, from which more than 60% of their nutritional intake is obtained.

Sri Lankan women continue to enjoy in fact and in law a standard of protection, equality, and education which is rare among traditional societies of the third world. Legally, Sri Lankan women of all communities are entitled to equal status under the constitution and have had full voting rights. In 1960, Sri Lanka became the first country in the world to have a woman head of government, yet more than twenty years later, women are still not well represented in local and national elected bodies.

Cultural factors continue to ensure that women enjoy a status distinctly inferior to men, particularly in the rural areas. However, in the urban areas, many enjoy positions of considerable prominence and responsibility. In rural Sri Lanka, the traditional customs of a family-oriented agricultural society prevail and, in domestic situations, women are considered subordinate to men. However, women have a large say over

domestic life and management of the household, and this cultural status carries over into community life and economic activities as well.

(For a more complete review of the status and rights of women in Sri Lanka, including the USAID's Women in Development efforts, see Colombo 0064 dated January 7, 1982).

In addition to efforts already underway to enhance the role of women in the Mahaweli Program, the Sri Lanka Women's Bureau (with UNICEF assistance) has recently commenced a family health education and income generating activities training program for 305 women leaders from the Mahaweli, System H area.

There is little question that the GSL's decision to reform the economy from a focus on subsidies and consumption to the open market and investment has resulted in a decline of real income among the poorest of Sri Lanka's society. Although the government recognizes the need to improve or, at least, maintain the quality of social services, especially to those most in need, the lack of adequate resources for both investment and the maintenance of a broad range of subsidies and social services has meant reductions in the latter. This, among other reasons, is why the GSL is committed to completing its large investments in infrastructure as quickly as possible so as to permit the establishment of and results from a broader productive resource base necessary for the more rapid development of the country. Such development is seen as the longer term answer to the country's ability to sustain and improve upon its enviable record of meeting the basic human needs of the Sri Lankan people.

II. POLICY COMMITMENT AND DEVELOPMENT PROBLEMS

A. Overall Objectives of the GSL

Over the past four years, there has been a massive and progressive liberalization of the economy. The policy reforms introduced were designed to move economic management away from government intervention and controls to a policy of guidance towards desired objectives. Such reforms have included: (1) the unification of the exchange rate and allowing it to float; (2) the liberalization of imports; (3) the dismantling of price controls; and the simplification of the tax structure, with incentives for investment in high priority areas.

Food and other subsidies, which were widespread and in operation for nearly 30 years, were rationalized by removing them from the more affluent classes and trying to target them towards the poor, while restoring market incentives. These and other policy reforms are on-going.

At the same time, the GSL has undertaken the largest effort in the country's history to implement a public investment program designed to restore vitality to the economy and to provide the economic and social infrastructure required to place the economy on a path of self-sustained growth.

The main objectives of the GSL's investment strategy were to generate over one million jobs and an annual GNP growth rate averaging 5.5% with particular emphasis on attaining self-sufficiency in basic food items, diversifying exports, and maintaining and improving social services.

The GSL has made impressive progress toward meeting its overall objectives. Unemployment is down from over 20% in 1977 to about 15% in 1981, with about 800,000 additional people employed since 1978; GNP growth is expected to average just under 6.5% over the 1978-81 period; rice imports, which averaged about 180,000 metric tons over the 1978-81 period, are very optimistically expected to be reduced substantially or eliminated in 1982; and efforts to diversify exports have shown promise, with the share of industrial exports rising from 15% in 1978 to 32% in 1980.

B. Economic Policy Framework

The high rates of economic growth and the employment creation achieved by Sri Lanka to date are not judged likely to continue over the medium term due to several adverse conditions, including a deteriorating balance of payments situation, a low level of international reserves, high rates of domestic inflation and an unfavorable external economic environment. Given the general downturn in the economic activity in the industrialized countries, the potential for an expansion of Sri Lanka's exports tend to be limited. This comes at a time when an expansion of exports is needed to, inter alia, reduce the impact of petroleum imports which absorb over 43% of Sri Lanka's export earnings. Further the capacity of the public sector, in particular, to absorb new investments is limited due to constraints on materials and manpower. Thus, the GSL has decided to focus attention in the medium term (through 1985) on: (1) arresting a worsensing balance of payments situation; (2) bringing down the high rates of domestic inflation; (3) improving the composition of public investment and reducing its share over time; and (4) seeking solutions to manpower and material constraints. The targets established by the GSL to address these problems include: (1) to increase the volume of exports by a minimum of 4% per annum and, concurrently, to hold the increase in the volume of imports to no more than about 1.8% per anum through 1985; (2) to hold the increase in the price index of consumer expenditures to 22% in 1981 and 10% per annum thereafter; (3) to reduce the public investment program from about 17% of GDP in 1981 to 12% in 1985, while its relative share of total investment is to drop from 57% in 1981 to 43% in 1985; and (4) to meet the demand for managerial, technical and professional personnel and a range of materials in excess of the country's capacity to supply them by providing skilled personnel with special incentives, implementing manpower training programs and expanding the output of cement and other building materials.

C. Role of the Private Sector

Prior to 1977, market imperfections caused by rigid exchange and import controls, raw material quotas and state monopolies had limited the potential for private sector expansion. Those in the private sector with

access to capital tended to direct resources into short term investments in trade and commerce, where scarcities enhanced potential profit margins. Others invested in industries catering to a captive domestic market created by import restrictions, where inferior products could be marketed at considerable profit margins.

The liberalized economic policies introduced since 1977 are to create an environment necessary to stimulate private enterprise and provide a greater role for the private sector. The GSL considers a healthy private sector as necessary to meet employment, efficiency and output goals. The initial, high levels of public investment in infrastructure and the expansion of the production base are viewed as complementary, rather than as competitive with the private sector or a substitute for private sector investment.

With this setting, a range of far reaching policy reforms, investment and tax incentives were introduced in 1978 and 1979 to encourage private enterprise and promote economic growth. Although it is too early to determine definitively the success of these reforms and incentives, progress has been made. For example, paddy production has continued to increase as the GSL intervention in purchasing and distribution declined. The production of almost all subsidiary food crops also increased in 1980 and 1981. The GSL attaches great importance to the expansion of production of these crops as benefiting Sri Lankan diets, nutrition and incomes, and for the reduction of the country's food import bill. In addition to encouragement of small-holder and small farm development, the GSL is considering larger-scale investments (including private foreign investments) in the agricultural sector.

The private sector also plays an important role in the tree crop sector (tea, rubber and coconut) which accounts for about 13% of GDP and over 50% of exports and provides a major share of employment. The role of the private sector is evidenced by its contribution to production - 33% for tea, 77% for rubber and 95% for coconut. The need continues for improved management efficiency and production from this sector.

In the manufacturing sector, the GSL has made progress in increasing investments. The prevailing view within the GSL favors export promotion over import substitution, believing that a rigorous policy favoring the

latter will lead to only limited industrial expansion because of the small size of the domestic market. However, the economic liberalization since 1977 has continued to leave the bulk of Sri Lankan industry protected by substantial tariff barriers. This protection has, in an improved economic climate, generated a sharply increased flow of new investments into largely import substitution industry. The World Bank^{2/} has concluded that the existing policy framework is unlikely to lead existing industry to any significant focus toward exporting, nor any significant growth in existing exports outside of textiles and petroleum products. The Bank recommends: (1) giving attention to the development of "new" export industries producing final products using domestic raw materials and requiring the adoption or generation of new technology and the development of new markets; (2) a reduction of protection for domestic industry with enhancement of export incentives; (3) an adjustment of policy to increase the flow of benefits from foreign investment to Sri Lanka; (4) the equalization of incentives between the export-oriented and import substitution-oriented sectors over a 10-15 year period. The GSL is aware of these problems and is giving increased attention to them. Most of these problems were also highlighted by AID's recent Private Enterprise Bureau Reconnaissance Team that visited Sri Lanka in December 1981.

The private sector also has played important roles in housing and the services sectors of tourism, trade and transport. While the GSL expects these sectors to continue to grow, increased emphasis will be given to the more productive areas of the economy such as manufacturing, agriculture and export promotion.

The projected share of private investment for the medium term is shown in Table II.

^{2/} "Sri Lanka: Policies and Prospects for Economic Adjustment", Report No.3466-CE, May 15, 1981.

TABLE II
Investment 1981-85
(Rs. Billion at Current Prices)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
Total	22.5	30.1	33.2	37.2	43.3	169.3
Private Sector	10.9	11.6	14.1	18.5	24.6	79.7
% Private Sector	43	39	42	50	57	47

Source: Ministry of Finance & Planning

The GSL expects that by 1985 the private sector will take the lead in investment with the public sector share declining thereafter.

To promote private investment, the GSL has established a number of institutions and agencies. The Greater Colombo Economic Commission (GCEC) is charged with the administration and promotion of investment in the Investment Promotion Zones (IPZs), the Export Development Council is to promote exports; the Foreign Investments Advisory Committee (FIAC) in the Ministry of Finance and Planning is for the promotion and approval of all foreign investments outside the IPZ; and Local Investment Approvals Committees in the Ministries of Industries and Scientific Affairs, Fisheries and Textile Industries are to evaluate proposals by local firms which involve no foreign investment, but which require "approval" to obtain GSL support and access to incentives.

While the GSL has done much to create a favorable environment for the private sector and encourage foreign investment, insufficient work has been done to develop a comprehensive private sector development plan and related implementation strategy. This is reflected in the flow of investments into import substitution industries or to "foot loose" export industries. The GSL needs to more sharply focus its strategy and planning efforts on specific export markets where the country's resource base can be linked to new and needed technologies. Such an approach will contribute to Sri Lanka's receiving a greater return on foreign investments and its resources.

An additional constraint is that local technical, management and administrative skills are in short supply. Evidence of this includes the application of rather sophisticated technology to the production of low

technology products and the need for improved plant layout and production/quality controls.

Lastly, due in large part to the lack of demand to date, capital markets are very limited and both structural and administrative reforms are badly needed, if an expanded private sector is to be able to meet its financing needs.

D. Development of Human Resources and Institutional Capacity

Preliminary results of the 1981 Census place Sri Lanka's population at 14.9 million, suggesting that population growth rates have fallen from an average of 2.3% per annum during the 1963-71 period to 1.7% during the 1971-81 period. However, this masks the 1978 to 1980 natural rates of increase of 2.2% which were significantly reduced by high migration rates, especially in 1979 and 1980 of 5 and 6 per 1,000, respectively, to arrive at net growth rates of 1.7% and 1.6% for these years.

Higher levels of education, combined with the increasing numbers of working women, have contributed to lowering fertility. Evidence suggests that the general growth in the economy in the past several years has enabled more women to marry at an earlier age, thus reversing the previous trend and contributing to an increase in fertility and the birth rate.

The size of the labor force is estimated to be about 5.7 million, of which 64% are males. The average annual growth rate for 1978 and 1979 was 2.4% which meant a net addition of 132,000 people per annum to the labor force for these years. Present labor force projections for 1980-85 suggest an annual increase on the order of 2.2% (or the addition of 640,000 people to the labor force by 1985). The labor force is predominantly young, male and relatively well-educated and rural based. Those in the age group 14-25 account for 38% of the labor force, with more than 55% having a secondary or post-secondary education and 51% making their livelihood from the land.

The above reflects the increasing problem Sri Lanka will face in absorbing the increasing numbers of the young and educated into the labor force, which will be compounded should the rate of migration drop as employment opportunities abroad dry up or the growth in the Sri Lankan economy encourages those now leaving to stay. The GSL looks to the growth

of its large and important agriculture sector as the principal solution to this problem, as the manufacturing sector employs only about 10% of the labor force.

The unemployed are mostly young (75% below the age of 25) and educated (about 75% with secondary schooling). Unemployment is higher among females at 26% than among males at 10%, while in the urban sector the unemployment rate is 21% versus 15% in the rural sector. The GSL has projected that, for the 1980-85 period, about 680,000 additional jobs will be created to absorb about 640,000 new additions to the labor force, while cutting by 40,000 into the backlog of the unemployed. Total unemployment is projected to decline from 15.1% in 1981 to 10.8% in 1985.

The GSL estimates that about 72,000 Sri Lankans are now working in the Middle East of which 7% are mid-level managers, 39% skilled and 54% semi-skilled workers. Further, the GSL projects this number to double for 1985. Remittances from these workers have been increasing substantially over the last several years, thus helping the balance of payments. However, the absence of these skilled Sri Lankans has also exacerbated the manpower shortages noted below.

Output from Sri Lanka's educational institutions between 1980-85 is estimated to be about 1.4 million, with most of these young people requiring additional technical or vocational training before being employable. Due to its efforts to provide free, mass education to the Sri Lankan people, the GSL is faced with the problem that most of the available resources are required to maintain an extensive primary school system, with little remaining to expand needed science, technical and vocational training opportunities. Competition at the university level is extremely keen, with the existing system unable to accept all those qualified and desiring entrance. In addition, the university system turns out large numbers of liberal arts graduates who are ill-prepared to meet the needs of an expanding economy. What is needed is the improvement of the quantity and the quality of higher education available to Sri Lanka's young people. Although a current White Paper on education calls for a restructuring of the education system to, inter alia, give a more prominent place to vocational and technical education, recent opposition to the proposed changes have resulted in a postponement of the Parliamentary

debate on this matter. Recognizing the importance of English to Sri Lanka's expanding economic and trade relationships and for improving employment opportunities, the current government made a policy determination to improve the English capabilities of teachers and students throughout the island, especially at the university level.

In addition to serious shortages of professionals such as doctors, engineers, and mid-level managers, Sri Lanka is also experiencing critical shortages of skilled labor such as technicians, carpenters, masons, mechanics and electricians. Although the GSL and private sectors have undertaken efforts to increase technical training facilities and programs and apprenticeship programs, a much greater effort is required to improve the implementation and effectiveness of the country's current and future development efforts, including those supported by AID. Our experience has been that, although the top administrative leadership within the GSL is excellent, the quality and numbers of staff at the mid-management, administrative and technical levels, while varying significantly among ministries, tends to be in short supply.

On the institutional side, especially within the government, there continues to be the problem of too numerous organizational units, often with overlapping responsibilities, which impede effective policy development, resource allocation, planning and implementation. While the GSL has taken steps to improve coordination between ministries through such vehicles as inter-ministerial committees, the principal need is for administrative reform aimed at a substantial reduction in the number of public sector organizations and a concurrent diminution of the public sector's role in the country's development. While we judge such actions not to be forthcoming in the near-term, the declining share of public sector investment beyond 1985 ^{made} ~~made~~ the long-term prospects more favorable.

E. Technology Development, Transfer and Extension

Sri Lanka offers an attractive example of a country which is ripe to take advantage of new developments in and the transfer and extension of technology. The country offers a highly literate population; a large pool of educated, trained and adaptable workers; the availability of many raw materials; access to attractive markets in the Near and Middle East and Africa; and economic policies supporting the process of technological change.

An impressive example of Sri Lanka's use of new technologies dates from the 1970's with the introduction and improvement of high yielding varieties of rice. By the 1979/80 cultivation year, about 80% of the acreage under paddy was in high yielding varieties. Such technologies, supported by the GSL policies which provided price incentives for producers, resulted in the highest level of paddy production in the country's history in 1981, with the prospect of rice self-sufficiency by the mid-1980s.

However, to the extent the sustained development of the economy depends on the building up of an effective indigenous scientific and technological infrastructure and capability, serious problems exist. These problems were identified in the Sri Lanka National Paper for the 1979 U.N. Conference on Science and Technology for Development and, we believe, still require increased attention, if they are to be overcome. These problems include: (1) inadequate capacity in research and development resulting in deficiencies in the transfer, adaptation and innovation of technology; (2) inadequate managerial capacity; (3) lack of easy access to scientific and technological information; (4) high cost of books, periodicals and scientific equipment; (5) the heavy exodus of trained manpower (doctors, scientists, engineers, technicians and skilled workers) - the expertise available in Sri Lanka is of a very high standard, but is in short supply; and (6) the inadequacy of training facilities for increasing the numbers of skilled personnel, particularly at the technician level. The USAID also considers the lack of effective management institutions to be a serious problem. We are currently moving ahead with the provision of assistance to improve the staff and institutional capabilities of the Sri Lanka Institute of Development Administration, the major institution for the training of government administrators.

As the country's economy expands and diversifies, increasing demands and opportunities will exist in areas such as agro-industry, export-oriented manufacturing in higher technology products, energy and construction to apply technologies which can contribute to Sri Lanka's self-sustaining growth. The USAID will remain sensitive to where we can assist to overcome the problems noted above.

Under the USAID's Development Services and Training project, we have financed smaller activities for transferring technology which have had a development impact far greater than the limited costs to AID. A couple of notable examples follow.

Using the basic design of a handpump developed by Georgia Tech and technical assistance from this institution, the USAID supported the local construction and testing of handpumps for use in Sri Lanka's rural sector. The pumps cost about half their imported counterparts. A small private sector industry has been created and the cost of providing water to the rural population substantially reduced.

The USAID also financed the construction of five demonstration sail-powered fishing boats designed by an American fisherman. This type of boat will significantly reduce costs to fishermen, allow their incomes to increase, and help to keep the price of fish at a reasonable level. As a result of this activity, the GSL has decided to remove all subsidies from diesel-powered boats and is offering assistance to fishermen for the conversion of diesel boats to sail. With an estimated 3,500 diesel-powered boats in Sri Lanka, the potential pay off from this small AID investment is substantial.

III. AID ASSISTANCE STRATEGY AND PROGRAM

A. Objectives and Rationale

The U.S. national interest in Sri Lanka remains as set forth in last year's CDSS. Sri Lanka is a functioning constitutional democracy with a multi-party system, a parliament, an executive presidency and an independent judiciary. The country has an enviable record of free elections (the next scheduled for 1983/84), human rights and social equity. Within the non-aligned movement, Sri Lanka plays an active, yet moderate role, while maintaining good relations with all countries. Sri Lanka continues to maintain a policy of keeping its ports open to the navies of all nations. The current Government of Sri Lanka sees economic growth with equity and the revitalization of free markets and the private sector as the means by which the country can be put on the path to self-sustained growth. Such growth is considered mandatory to enable the country to maintain and improve the well-being of its people. U.S. interests lie in encouraging and supporting the rapid socio-economic development of Sri Lanka.

Over the past fourteen months, the GSL has been forced to reduce the scope and magnitude of its Public Investment Program (1981-85) by firstly imposing a 25% reduction in the 1981 capital budgets of most ministries in November 1980. These reductions were of an ad hoc nature and required a subsequent review. This review was completed in March 1981 and a new capital expenditure target set. As a result, development expenditures dropped in 1981. The revised 1981-85 Public Investment Program calls for lower levels (in real terms) of investment and a gradual shift away from capital and import intensive projects to investments in more directly productive sectors. These changes contributed to a slow down in development activities generally in 1981 and, in turn, the slower implementation of our project portfolio.

The USAID will continue with the CDSS objectives of expanding food production, increasing employment generation and incomes, and improving human productivity and well-being. Through this strategy, the USAID can directly support the GSL's key development objectives of economic growth and increased employment, while also helping to maintain the well-being of the Sri Lankan people, especially the poor who are most vulnerable to the short term dislocations caused by economic growth and inflation.

In addition, the USAID will continue support for low cost, innovative pilot activities to increase productivity and conserve energy.

Although retaining an approach of quick disbursing assistance, it will be confined to only those sectors where adequate GSL strategies, plans and institutional capability exist. The USAID will also undertake deliberate efforts, both in our ongoing and future assistance, to enhance the role of the private sector in Sri Lanka's development. In addition, increased attention will be given to strengthen the analytic, planning, implementation and management capabilities of Sri Lankan institutions which will play key implementing and support roles to future AID-assisted efforts.

The strategy will concentrate support in priority sectors of the GSL's Public Investment Program, where additional assistance is needed and where AID has both a legislative mandate and comparative advantage. These areas are:

- 1) Mahaweli Basin Development;
- 2) Food production and natural resource management; and
- 3) Human productivity and well-being.

B. Assistance Strategy and Program

The USAID has reassessed the strategy proposed in last year's CDSS. Based upon recent budgetary and implementation constraints faced by the GSL, the reduction by about 35% in the USAID's projected development assistance levels and other financial constraints over the FY 1983 to FY 1987 period, and projected additional staffing constraints, some modification is being made in the extent to which the USAID will move toward the performance indexed resource transfer (PIRT) mode of assistance. This mode was described in last year's CDSS and the FY 1983 Annual Budget Submission and has been undertaken to date through the Mahaweli Sector Support loan. Given the GSL's assistance needs through at least 1983, the USAID believes this mode of assistance is responsive to reducing constraints on the GSL's development budget and to providing quick-disbursing assistance. In addition, it is a flexible assistance instrument which allows us to quickly react to GSL policy changes. Its use, however, will be limited to those sectors where the GSL has developed or is developing a national strategy and subsequent investment plans and has the evidenced institutional capability to implement AID-supported activities. A few examples include

the agricultural sector where, through the PL 480, Title I program and selective project assistance, the USAID is encouraging the GSL to develop an integrated national agriculture/food/nutrition strategy and a comprehensive five to ten year agricultural investment plan. The GSL has agreed to the need for these and is currently organizing to undertake the development of the strategy.

Although much remains to be done, the aim is to have this strategy and the investment plan completed to permit the 1984-88 Public Investment Program (to be finalized in May 1983) to reflect the results of these major planning exercises. Other sectors and sub-sectors where the USAID believes the sectoral or PIRT mode is possible include irrigation; reforestation; and selected primary, preventive health, including pilot water and sanitation, and malaria control activities. As requested by the GSL, the USAID will provide technical assistance to the GSL in the development of strategies and comprehensive investment plans. Priority will be given to those key sectors where the USAID will consider future program investments such as agriculture, private sector development (subsequent to targetted project assistance), and the preventive health sector. In such cases, the USAID stands ready to provide additional institution building assistance. However, the USAID intends to give favorable consideration to sectors such as transportation where AID will not have a large or long term involvement, the U.S. clearly has a comparative advantage and a relatively small technical input in strategy or planning development has the potential to eliminate constraints to Sri Lanka's economic development. This is a means of leveraging relatively small amounts of AID funding to encourage follow-on investments from other donors or, we expect, the U.S. private sector.

The USAID will also continue project assistance where:

- 1) the technical requirements are high and detailed AID monitoring is required (eg., Mahaweli System B, Rainfed Agriculture Production and Marketing);
- 2) the purpose of assistance is institution building; or
- 3) it is more effective for the USAID to manage or be significantly involved in the management of the assistance (eg., private sector initiatives, training and small demonstration or pilot activities).

Although some modifications as discussed above will be made, we will continue to have a consolidation of our assistance into three general categories:

- 1) Accelerated Mahaweli Basin development;
- 2) Food production and natural resource management; and
- 3) Human productivity and well-being.

1. Accelerated Mahaweli Basin Development

The Accelerated Mahaweli Program (AMP) is the GSL's highest priority. It is considered a key to the country's primary objectives of food self-sufficiency and employment. It is supported by the World Bank and a host of other donors, and is the largest single investment of the USAID. In addition to its food production and employment benefits, the AMP will also provide land for poor, landless farmers and produce substantial hydro-electricity. The AMP consists of various headworks including the Kotmale, Victoria, Maduru Oya and Randenigala dams, plus land resettlement/development areas designated Systems A, B, C and D. When completed in the late 1980s, the program will bring 117,000 hectares under production, result in the settlement of more than 450,000 people, increase domestic rice production by 547,000 tons per year, provide employment - direct and indirect - for up to 175,000 people, and generate 500 megawatts of hydro-electric power.

AID's direct involvement is in System B. System B represents the largest land area under the AMP. When fully developed, it will provide irrigated agriculture for small farms totalling 37,400 hectares of primarily paddy land and 17,680 hectares of homestead owned by 43,000 voluntary settlers selected from rural districts throughout Sri Lanka. It will also provide off-farm employment for over 30,000 people. AID financing is being used for the design, supervision and construction of the main and branch canals on the left bank of System B. Canada is financing the Maduru Oya dam related to System B and the Transbasin Canal, while the GSL is responsible for the tertiary irrigation system, land development, infrastructure and settlement. Recently, Australia has indicated an interest in financing some downstream activities. The contract for construction is scheduled to be signed by July 1982, with completion of initial construction by September 1983 in time for the Maha planting. The first 400 worker-settlers are to be established in System B in July 1982 to begin land clearing and labor intensive canal work.

AID will also provide assistance in related critical areas grouped as environmental protection of the Mahaweli area as a follow-on to the comprehensive Environmental Assessment completed in 1980 by the U.S. firm of TAMS.

AID is also providing, under the Mahaweli Sector Support loan, the means for the GSL to maintain adequate levels of local currency investments in the AMP, specifically downstream efforts required to support resettlement such as basic roads, schools and related social infrastructure. This loan reimburses the GSL through an unrestricted special letter of credit which is used to finance imports from the U.S.

As construction and resettlement begin in System B, the USAID will closely follow the adequateness of settler support, including social and agricultural services, and, if necessary, direct our assistance to ensure their provision. The USAID will also press for the incorporation of lessons learned from such existing AID projects as Mahaweli Ganga Irrigation (in System H), Rice Research and Water Management into the System B undertaking. With encouragement from the USAID, the Accelerated Mahaweli Program has seen significant policy changes by the GSL which have resulted in increased participation by the U.S. and Sri Lankan private sectors in the program.

During the CDSS period, \$96.2 million in AID resources will be in support of the Accelerated Mahaweli Program.

2. Food Production and Natural Resource Management

Assistance in this category will be concentrated on improving irrigation and water management in smaller systems outside the Mahaweli program area; expanding food production and improving marketing for subsidiary crops grown under rainfed conditions; protecting Sri Lanka's dwindling forest resources, especially in critical watershed areas, and expanding alternative energy resources, including fuelwood and mini-hydro, and environmental enhancement.

Under this assistance category, the USAID is concentrating on three program areas:

- (a) irrigation and water management;
- (b) rainfed agriculture production and marketing; and
- (c) alternative energy resources.

During the CDSS period, an estimated \$163.15 million will be provided to this category through development assistance and PL 480, Title I, support.

(a) Irrigation and Water Management

This program area will continue to be a major focus of USAID assistance over the CDSS period. While major funding and donor assistance are needed to help rehabilitate many of the irrigation systems in Sri Lanka, the USAID's proposed assistance will also focus on the "software" aspects of irrigation including systems operations and maintenance. This effort will build on the experience being gained under the current Water Management project and our institution building efforts with the Irrigation Department and other organizations involved in this sub-sector. Particular emphasis will be placed on better training to improve system operations and other institutional aspects, including the establishment of viable farmer organizations. The World Bank is already planning to draw upon the training and farmer organization aspects of AID's Water Management project for its Village Irrigation Rehabilitation project. The GSL is implementing a new Water Resources Act and an amended Irrigation Act which is expected to be passed prior to 1984. The significance of the proposed Water Resources Act is that it provides "umbrella" legislation setting forth a national water policy calling for the comprehensive and coordinated use of water and related resources by the GSL and water users. The amended Irrigation Act is to focus on the allocation, distribution, use and management of water in all major irrigation schemes.

Future USAID assistance in this program area will flow from a national irrigation sector survey which is planned to be carried out jointly by the GSL and AID in 1982. This survey is to, inter alia, make recommendations for the country's irrigation strategy for the mid-1980s and beyond, including any required organizational modifications or changes.

(b) Rainfed Agriculture Production and Marketing

About 70% of Sri Lanka's 16.2 million acres is classified as low rainfall (20-75 inches). About half (6 million acres) of this low rainfed land is classified as available and suitable for cultivation. However, only about 25% (1.6 million acres) of the area classified as cultivatable is actually cultivated on a continuing basis. The remainder of the land in this rainfed area is generally a shifting culture based on slash and burn

(chena) of the existing vegetative cover, then cropping until a decline in natural fertility forces a shift to new lands. Much of this chena cultivation is carried on as an adjunct to rice and coconut cultivation. However, there are many farm families primarily dependent on slash and burn, shifting culture for a livelihood.

This shifting crop culture, which is becoming more intensive as population pressure increases, thereby reducing the fallow period, changes and degrades the natural environment. The cultivation tends to be subsistence oriented. However, evidence indicates that farmers do respond to higher prices by increasing production (by increasing acreage). The GSL has identified the need for increasing food production in some areas presently subject to shifting culture through the creation of a technical and economic basis for stabilized, yield sustaining cultivation. In the long run, the adoption of this approach is judged essential to social and economic improvement of the area and achievement of Sri Lanka's agricultural growth and food self-sufficiency objectives. As Sri Lanka approaches rice self-sufficiency, more attention is being given to the role of subsidiary food crops in meeting these objectives.

The USAID will undertake efforts to increase production through the development of sustained yield farming systems suitable to small rainfed farms, including those where chena is practiced. The system would integrate various types of crops, forage and livestock. The marketing activity would be directed at the development of an improved marketing system for primarily producers of rainfed and other products other than paddy and plantation crops. This would include both improvement in operations of private and public entities that serve the farmer and development of new domestic and foreign markets for presently produced and new products.

Such efforts are justified for the following reasons: (1) to arrest declining productivity and soil degradation; (2) to diversify agriculture to subsidiary food crops production; (3) to improve rural employment and incomes in rainfed areas; and (4) to provide cheaper, nutritious substitutes for rice and flour for the rural poor.

Two actions by the GSL encourage AID's consideration of support to this program area. Firstly, the GSL has designed and is implementing a

program to grant land titles to farmers in possession of land in irrigated, chena and other non-irrigated areas. Secondly, the GSL has moved to extend price supports to maize, sorghum, groundnuts, cowpea, green gram, black gram, finger millet and sesame, plus four other crops grown under rainfed conditions.

To support our efforts in the agriculture sector, the USAID will negotiate self-help measures in this and future year's PL 480, Title I agreements which will be directed to key constraints in the sector. These measures will be measurable and provide evidence of progress towards overcoming these constraints. A principal self-help measure to be negotiated in the FY 1982 Agreement is the requirement that the GSL undertake the development of an integrated national agriculture/food/nutrition strategy and the preparation of a long-term (5 to 10 year), comprehensive investment plan. To be included in the strategy and investment plan is the future role of rainfed crop production and marketing.

(c) Alternative Energy Resources and Environmental Enhancement

This third program area will focus on critical rural energy and environmental problems.

A general background piece on the energy sector will precede the discussion of this program area.

Energy continues to be a vexing problem for GSL policy makers. During the 1981-85 period petroleum imports are expected to be about \$4 billion. Although petroleum products provided only 27% of the country's energy needs in 1980 (over 50% consumed by transportation sector), oil imports constituted 35% of net export earnings, up from 16% in 1977. Oil for transportation alone during the medium term (1981-1985) is projected to cost about \$2 billion. Actions to improve efficiency in the transport sector could help relieve the burden of oil payments.

Electricity provided 13% of the total energy consumed in 1980. Electricity generated by hydropower now needs to be supplemented by thermal sources to bridge the gap between demand and supply. At present, 89% of electricity is generated by hydropower, while the balance is from thermal sources.

Fuelwood is by far the most important source of energy in Sri Lanka, accounting for 60% of total energy used in 1980. Most of this energy, which is used in the rural domestic sector for cooking, comes from village woodlots, rubber replantation and indiscriminate forest destruction. Therefore, apart from its significance as a source of energy for rural people, fuelwood has significant environmental implications. The provision of fuelwood in adequate quantities to meet the increasing demands of the rural sector, while maintaining an environmentally acceptable forest cover, is judged to be Sri Lanka's most important energy problem.

Forest lands covered 44% of Sri Lanka's total land area in 1956. By 1976, the country's forest cover had been cut in half to 22% (3.5 million acres). If the present estimated rate of deforestation were to remain constant, Sri Lanka would be denuded of all its remaining forest cover in less than 30 years.

The depletion of Sri Lanka's forests has also created severe shortages of fuelwood required to meet the rural population's domestic energy requirements. Over 94% of Sri Lanka's rural population use firewood for cooking. Given the increasing prices of oil and kerosene, the demand for fuelwood has increased dramatically, especially in the rural sector. This increased demand, on top of the general scarcity of fuelwood, resulted in a doubling of price over the 1978 to 1980 period.

The AID-supported Mahaweli Environmental Assessment concluded that, in the upper catchment, annual soil losses range from .3 to 7 metric tons per hectare on well managed land. On poorly managed land, the losses range from 21 to 570 metric tons per hectare. Annual aggregate soil loss from mapped portions of the catchment is estimated to be 11.3 million tons per year. This is the equivalent of a 4,800 hectare annual productivity loss.

The protection of the watershed areas (including the upper Mahaweli catchment area) and the provision of increased sources of fuelwood are mandatory for increases in agriculture production and the improvement of rural incomes.

Under the existing Reforestation and Watershed Management project, the USAID is supporting reforestation and the establishment of fuelwood plots. In addition, AID is strengthening the capability of the Forest

Department to plan and implement new, expanded national forestry programs. As a follow-on to or building upon this current effort, the USAID will provide additional assistance in this critical area. Based upon our assessment of the Forest Department's institutional capability at the completion of AID's current assistance, this follow-on effort may be a candidate for the PIRT mode.

In addition, the USAID will give increased attention to assisting the GSL in the development of energy policies and plans. We will also support research and pilot projects involving mini-hydro, solar and wind power. The power shortages of the past two years, projected again for this year, highlight the increasing need for Sri Lanka to develop additional sources of power. Even with the major and needed additions to power capacity promised by the Mahaweli, recent projections indicate that power demand will exceed projected supply by the late 1980s.

3. Human Productivity and Well-Being

The GSL's 1981-85 Public Investment Program calls for capital expenditures of about Rs:3.8 billion (\$206 million) and Rs.1.9 billion (\$103 million) in housing and water supply schemes, respectively. Other social programs (health, education and social welfare) entail expenditures of principally a recurrent nature. Altogether, recurrent expenditures on social overheads represented 23% of the GSL budget in 1980 and are expected to continue at this level until 1985.

As described previously, the GSL's redirection of resources to investment over the past four years has resulted in a decline in the quality and quantity of social services, which has been especially felt by low income families. This can be expected in a period of vibrant growth with its attendant dislocations. However, the GSL is seriously concerned that every effort be made to reduce hardships until the full benefits of growth are attained. The USAID will target assistance to help these low income families maintain an adequate level of health and nutritional status. Our assistance will also help train people to provide them with new economic skills. Under this assistance category, the USAID will concentrate on the following program areas:

- (a) Health, population and nutrition;
- (b) Low income housing guarantees;
- (c) Education and training; and
- (d) Private enterprise development.

During the CDSS period, \$131.65 million in development assistance and PL 480, Title II, commodities, plus housing guarantees of \$125 million will be provided.

(a) Health, Population and Nutrition

While Sri Lanka's social gains over the past 30 years have been impressive and appear better than many developing countries, they are still woefully inadequate. For example, serious health problems persist, with reported malaria cases of close to 50,000 per annum, apparent increases in cholera, 40% of hospital admissions due to waterborne diseases, and an infant mortality rate in some districts as high as 76 per 1,000. Less than 10% of the population have access to adequate potable water and sanitation facilities. It is clear that increased attention is needed in these areas.

The GSL's heavy capital investments in the Mahaweli are expected to start slowly to decline in 1983 and beyond. As they do so, the government is expected once again to focus more attention on the development and extension of social services. High on the GSL's list of priorities are improvements in water and sanitation and primary health care, with particular emphasis on the extension of services down to the village level and a greater emphasis on preventive health measures. Although 70% of the Ministry of Health's 1982 budget is devoted to recurrent costs, the Ministry has already begun to lay the ground work for a reform of health services. In 1981, the Ministry disseminated a White Paper proposing significant changes in the organization, structure and operation of public health services.

Among the major objectives set forth in the White Paper is the decentralization of health services to promote greater involvement of local communities in the provision of health services. Another important objective is to shift more resources into preventive health care while maintaining an effective curative health care system. Consequent to this policy shift, increased efforts are being made to train para-medical personnel who will work with rural communities.

In the health sector, the USAID will:

- i) continue assistance to the National Institute of Health Sciences, Kalutara, (NIHS) to strengthen the Institute as the national training center for assistant medical practitioners, public health inspectors, nurses and village-level health workers;
- ii) help strengthen primary health services and health education, particularly in those areas where the infant mortality rate exceeds the Asia Bureau's goal of 50 per 1,000 live births;
- iii) help extend primary health care services into the new settlement areas where AID is assisting in the development of irrigation systems and agricultural development projects;
- iv) continue to support, in conjunction with other donors, the GSL's Anti-Malaria Campaign, with special attention being given to strengthening institutional capabilities and existing infrastructure. (Such support will help to maintain the hard won gains of the past five years and prevent a resurgence of epidemic malaria - which would have serious adverse effects in the Mahaweli and other newly opened resettlement areas); and
- v) help strengthen the planning, operational and training capabilities of the National Water Supply and Drainage Board and other institutions involved in the improvement of water supply and sanitation services (WS&S); and support the provision of WS&S in those areas where the infant morbidity and mortality rates are high. The efforts will draw upon the experience gained under the Market Town Water Supply - Jaffna project and related health and water activities. In addition, the bilateral AID program supports indigenous and U.S. PVOs working to improve rural health, family planning and nutrition services and education.

The GSL, with AID assistance, has formulated a general Water Supply and Sanitation Decade plan for 1981-90. This includes a policy framework and general goals covering both urban and rural water and sanitation systems. To further these efforts, we plan to provide additional technical assistance to help complete a comprehensive sector strategy and rolling investment plan. When completed, these will provide the framework for continued IBRD, AID and other donor support. It is anticipated that the World Bank and some other donors will be involved in large, complex, relatively expensive urban

water supply systems, while AID will work on increasing the capacity of local organizations, both government agencies and private contractors, to construct and maintain small systems for market towns and other rural areas.

Adequate and clean domestic water supply and sanitation systems, coupled with a heavy emphasis on health education, are critical to the success of Sri Lanka's rural development efforts, including the Mahaweli and other irrigation and resettlement areas. The viability of many irrigation systems during periods of reduced flow is threatened by the demand for water for domestic use by the settler communities, eg., in the Gal Oya scheme it is estimated that an additional 5,000 acres of land could be irrigated with canal water diverted to domestic uses. Again, building upon our previous experience in the introduction of a domestically produced, low-cost hand pump and the availability of newly trained health workers from the National Institute of Health Sciences - Kalutara, our efforts will help the GSL to implement a rural water, sanitation and health program which includes: (i) upgrading of existing village water wells; (ii) relocating and developing new well water resources; (iii) developing an outreach program to demonstrate how people can be encouraged to use well water in lieu of irrigation water for domestic purposes; and (iv) providing improved health and environmental sanitation services.

To reduce the population growth rate, the GSL policy is to promote temporary family planning methods primarily through private voluntary organizations and use a Government financial incentive program to encourage voluntary sterilization. The sterilization program has been rather successful, but the use of spacing or temporary methods does not appear to be increasing. With a natural rate of population increase of 2.2%, additional efforts are required, but current political sensitivities suggest that efforts will continue to be low key for the next few years. The USAID will continue to support population requests through centrally-funded U.S. intermediaries and through our Development Services and Training and PVO Co-Financing projects. We will also support the needed expansion of family planning information and services in the primary health care program.

A direct bilateral population program might be requested by the GSL in future years.

The policies of the GSL have always reflected a high degree of concern for the general well-being of the people and efforts have been consistently made to help the poor. Food subsidies have thus been an element in Sri Lanka's social welfare system. In 1979, the GSL shifted from a general food subsidy program to a food stamp program for the needy. Prices of foods were also decontrolled and allowed to rise to a free market level. The GSL is currently considering changes in the food stamp program which would further rationalize and improve it. For example, consideration is being given to maintaining the value of food stamps by pegging their value to a given quantity of rice. These changes would mitigate the negative impact on food consumption and nutrition that has occurred as a result of the drastic decrease in food stamp values since 1979.

Several GSL studies of nutritional status and ongoing nutritional programs are completed or underway. The PL 480, Title II, School Feeding and Maternal Child Health programs are currently being evaluated by AID and the GSL. Since the results of this evaluation are critical to future planning, we consider it premature to make projections of PL 480, Title II, requirements during the CDSS period. Thus, we have straight-lined the program at the FY 1983 level. Recommendations regarding future program directions and magnitudes will be made in the FY 1984 Annual Budget Submission. However, the GSL and USAID believe that continuation of the Title II program, as improved, will be critical during this difficult economic transition period. It is currently estimated that about 50% of Sri Lanka's school children are chronically malnourished.

(b) Low-Cost Housing Guarantees

Adequate housing has been shown to have important impacts on health and well-being in several pilot projects. Therefore, the continuation of the Housing Guaranty Program (from non-appropriated funds) will be essential to the GSL goals of improving the quality of life of its citizens. The guarantees and modest grant support to the GSL housing program will be for low cost, aided self-help housing, slum and shanty upgrading, and the improvement of housing policies and institutional capability to plan and implement a sound, long range housing program.

(c) Education and Training

Our assistance for human resources development is concentrated largely on institution building, technical or managerial training, and increasing the income-earning skills of poor rural groups. Since substantial investments are being made in the formal education system by the World Bank and other donors, we have tailored our efforts to meet specific requests for management, vocational and technical training. Such training is provided, first, as an integral part of our regular projects. We will also increase assistance to local training organizations (especially for the training of trainers) and meet other special training needs under the Development Services and Training (and its planned successor) and the PVO Co-Financing projects. The Development Services and Training Project thus supports the improvement of training, research, and consulting activities at such key institutions as the Agrarian Research and Training Institute and the Sri Lanka Institute for Development Administration. Our PVO Co-Financing project has helped to strengthen private organizations which provide vocational or agricultural skills to out-of-school youths. It also supports a special effort to assist women in 400 villages to improve their income generation activities.

Our Agricultural Education Development Project is an important effort to improve the quantity and quality of agricultural specialists. Although the project is still new, evidence already exists that AID's relatively small amount of assistance (\$7.5 million) will have a significant impact on agriculture and rural development through better educated/trained educators, researchers, policy makers and private entrepreneurs. The impressive potential benefits of our efforts at the University of Peradeniya, plus the increasing demand for agriculturalists in both the newly settled areas and the private sector, have caused the GSL to request USAID assistance for Sri Lanka's new undergraduate agriculture schools which may follow the U.S. land grant model. Upgrading staff and facilities at these institutions will greatly improve the quality and number of graduates available to the public and private sectors and those continuing their education at the Post-Graduate Institute of Agriculture (PGIA) at Peradeniya. The new schools are geographically located to provide better coverage of

training needs in the eastern, southern, and northern regions. The USAID will assist these undergraduate programs as a logical follow-up to its efforts at the PGIA and University of Peradeniya. Our assistance will be timed to begin toward the end of the CDSS period, when our current Agricultural Education Development project is scheduled for completion.

(d) Private Enterprise Development

The GSL leadership realizes that, if the country's development goals are to be attained, the private sector will have to play a much greater role in all areas of the economy. The private sector has a critical part to play in providing increased investment, employment and incomes which can move Sri Lanka to a self-sustaining growth path.

In support of this policy, the USAID has encouraged the increased participation of the Sri Lankan and U.S. private sectors in the implementation of our on-going projects. Under several projects (Mahaweli Basin Development I and II, Market Town Water Supply - Jaffna, Water Management, and Development Services and Training), we have sought well-qualified U.S. contractors and have encouraged them to sub-contract elements of design, construction and technical assistance to Sri Lankan private firms. We expect that these efforts will have the following benefits: (i) the expansion of the capabilities of Sri Lankan firms; (ii) the merging of U.S. and Sri Lanka talents to expedite project implementation; and (iii) decreased costs to AID through the utilization of both U.S. and well-qualified, but lower cost, Sri Lankan firms in project implementation.

Beginning in FY 1982, the USAID will assist the GSL in a phased effort to create the proper environment to foster greater private investment in the country's development. The first phase of the USAID's effort will focus upon completing a comprehensive assessment of the Sri Lankan private sector and the formulation of a sector development plan. Concurrent with this planning effort, specific institutions and entrepreneurial development programs will be assisted and pre-feasibility studies will be funded for the development of already identified areas (eg., agro-industry) that can yield more immediate impacts. The experiences with institution building, training, and resource development will be fed back to the sector planners to help produce a viable sector strategy and development plan. The second phase of the USAID's efforts will focus on refining the sector strategy

and plan, expanding institutional and entrepreneurial development efforts, conducting pre-feasibility studies for other key areas in the sector development plan, the financing of full feasibility studies, and directly assisting selected investments, technology transfers or joint ventures that fall within AID's legislative mandate and areas of concentration.

C. Assistance Levels and Staff

Total assistance levels in this CDSS update reflect, in effect, a straight-lining in monetary and a decline in real terms of assistance during the CDSS period. The total assistance level represents a 21% decrease and in development assistance a 34.8% decrease from last year's CDSS planning figures. The total assistance levels are comprised of development assistance, PL 480 food aid and Housing Guarantees.

Development assistance represents the largest part of the total program (about 52%), although at a substantially reduced level. Details of the proposed development assistance program are contained in Section III.B.

The PL 480 program is considered an integral part of our program strategy for it will provide quick-disbursing aid which will assist the GSL to meet its food and nutrition needs, a continuing balance of payments problem and budgetary deficits. It will also selectively support AID development programs in agriculture and health. In addition, the USAID will tighten up on the self-help measures and use of proceeds to ensure that key constraints, such as the absence of a national food/agriculture/nutrition strategy, are addressed. Self-help measures will also support the GSL's objective of food self-sufficiency and sector and sub-sectoral priorities of both the GSL and USAID. The PL 480, Title I levels remain the same as proposed in last year's CDSS, i.e., a continuation of PL 480 wheat imports at a level of 135,000 metric tons of wheat grain through FY 1984, declining thereafter at a 20% rate annually through FY 1987. The future direction and content of the Title I program will be influenced by the upcoming February/March 1982 AID Impact Evaluation. The USAID's recommendations for changes will be contained in our FY 1984 Annual Budget Submission.

The PL 480, Title II program levels have been straight-lined subject to the results of the currently ongoing evaluation. Again, recommendations for modifications in this program will be contained in our FY 1984 Annual Budget Submission.

The USAID proposes to continue the Housing Guarantee Program throughout the CDSS period. The program will be directed to low-cost housing; institution building; and policy changes, including the principle of cost recovery and encouragement of the private sector.

Although the level of U.S. assistance proposed is lower than in last year's CDSS, other U.S. trade and investment resources are increasing and will play an increasing role in Sri Lanka's development. For the first half of 1981, the U.S. remained Sri Lanka's first export market and the fifth largest source of imports. Sri Lanka's trade with the U.S. continues to increase substantially, having reached a level of \$116 million in exports and over \$90 million in imports in 1980. Encouraged by the GSL's economic reforms and tax and incentive packages, U.S. foreign investment increased from \$500,000 in 1978 to about \$6 million in 1980. Pending investments by U.S. firms in the Foreign Investment Promotion Zone and mineral processing have the potential of moving the U.S. from a minor to a major source of foreign investment in Sri Lanka. Increasing efforts by Sri Lanka to attract potential investors here and to send investment missions abroad, including to the United States, to meet and promote investments are expected to result in further U.S. and other foreign investments.

With regard to expected external assistance, the previous support given to Sri Lanka by the IBRD-led Aid Group has resulted in a substantial pipeline. While aid disbursements are expected to accelerate temporarily as utilization of the pipeline (especially for the Mahaweli Program) increases, aid commitments are not expected to grow as rapidly as in recent years. New aid commitments for 1981 are estimated to have been \$830 million which was \$130 million short of the World Bank's recommended level. Due to the large pipeline of commitments, the World Bank has recommended a reduced level of \$550 million for new commitments for 1982. On the aid disbursement side, the World Bank has estimated levels of \$412 million and \$575 million for 1981 and 1982, respectively. These are somewhat higher than the levels projected by the GSL and contained in Annex C.

We believe that a level of U.S. assistance higher than proposed herein is warranted on the basis of our overall interests here and Sri Lanka's need and potential to reach a path of self-sustaining growth and, consequently, to become an aid graduate. However, the level proposed generally reflects

AID/Washington's guidance which includes a projection of more limited resources over the CDSS period.

As last year, the USAID is making no U.S. direct hire staff projections, given current and projected AID staffing constraints. Relative to program size and complexity, the USAID/Sri Lanka is understaffed. However, we believe the program presented in this CDSS can be implemented with only marginal changes over the CDSS period in the size and composition of the U.S. direct hire staff. Critical to our ability to implement this program is the need for an improvement in our ability to attract and retain skilled foreign national employees. The USAID is reviewing possible options to economize on what we judge will be increasingly limited direct hire positions, while enabling our effective implementation of the AID program in Sri Lanka.

PROPOSED ASSISTANCE PROGRAM

FY 1983-1987 - \$ Millions

Categories	1983	1984	1985	1986	1987	Total
1. Mahaweli Basin Development						
System B - Left Bank	25.0	10.0	-	-	-	35.0
Mahaweli Sector Support	10.7	5.5	-	-	-	16.2
Mahaweli Environmental Protection	-	5.0	-	-	-	5.0
Mahaweli Downstream Development	-	-	10.0	15.0	15.0	40.0
2. Food Production and Natural Resource Management						
Irrigation and Water Management	3.6	7.0	8.5	7.5	-	26.6
Rainfed Agricultural Production and Marketing	-	5.0	5.0	5.0	3.5	18.5
Alternative Energy Resources and Environmental Enhancement	1.8	-	10.0	-	10.0	21.8
PL 480, Title I (non-add)	(25.0)	(25.0)	(20.0)	(15.0)	(11.25)	(96.25)
3. Human Productivity and Well-Being						
Health, Population and Nutrition	-	7.5	10.0	15.0	10.0	42.5
Housing Guarantees (non-add)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(125.0)
PL 480, Title II (non-add) Private and Voluntary Organizations	.5	(5.75)	(5.75)	(5.75)	(5.75)	(28.75)
Development Services and Training (and successor)	1.5	.5	.5	.5	.5	2.5
Agricultural Education	-	2.0	2.0	2.0	2.0	9.5
Private Enterprise Development	4.9	-	-	5.0	10.0	15.0
		5.0	6.0	7.5	10.0	33.4
Development Assistance	48.0	47.5	52.0	57.5	61.0	276.0
Housing Guarantees	25.0	25.0	25.0	25.0	25.0	125.0
PL 480, Title I	25.0	25.0	20.0	15.0	11.25	96.25
PL 480, Title II	5.75	5.75	5.75	5.75	5.75	28.75
Total U.S. Assistance	<u>103.75</u>	<u>103.25</u>	<u>102.75</u>	<u>103.25</u>	<u>103.00</u>	<u>526.00</u>

MACRO-ECONOMIC ANALYSIS

1. Introduction

The year 1981 was predicted to be a most difficult year for Sri Lanka. A number of serious problems emerged during the year which required the introduction of several economic reforms, leading to projections of a considerable downturn in economic expansion and growth performance. Public spending was subject to two revisions, bringing it down to 16% of GDP, as against 27% in 1980. These revisions were necessary to deal with rising inflation and a sharply deteriorating balance of payments, the two problems which emerged during 1980 and continued through the early part of 1981. In addition, a continued world economic recession kept the prices, as well as demands, for Sri Lanka's major exports depressed throughout the year. Nonetheless, the 1981 Sri Lankan economy did surprisingly well with an estimated growth rate of around 5.8%. In spite of economic constraints, the GSL maintained its liberalized economic policies and, in some areas, added new incentives to increase production and promote exports.

The increase in agricultural production is expected to be about 6.0% in 1981, well above the satisfactory growth rate of 3.0% in 1980. This results from over an estimated 3% increase in paddy production and the substantial recovery in tea production from its worst production record experienced in 1980. Compared to 1980, tea production in 1981 will be about 9% higher, with a total volume of 208 million kilograms. Rubber production remained stagnant due to drought conditions prevailing in the country during the first half of the year and low prices. Coconut production, although experiencing a substantial drop during the first half of the year, recovered to record a 4% increase over 1980. Industrial production also suffered heavily during the first half of the year due to serious power shortages. When the power supply situation returned to normal, industrial production gradually recovered and, according to tentative estimates, the industrial output is expected to be about 5% higher than in 1980. The recovery expected in state sector industries, most of which remained closed for up to one-and-a-half months, was not forthcoming with output of some of the leading state sector industries

expected to be below 1980. The construction industry grew moderately at around 6%. This is lower than during the 1978-80 period due to a reduction in construction activities resulting from cuts in development expenditures. The service sector maintained its past momentum with a growth rate of around 6.5%.

A relatively lower inflation rate appears to be a major redeeming factor in 1981. According to GSL sources, the inflation rate in 1981 was around 19%. More recent information forecasts a higher underlying rate of about 22%, but this still compares very favorably with the inflation rate of well over 30% in 1980. The monetary reforms introduced by the Central Bank in April 1981, along with reduced public spending played a significant role in reducing the rate of inflation in 1981. The narrow money supply (M_1) grew marginally with a 2% increase in 1981, compared to a 23% increase in 1980, while the broad money supply (M_2) rose moderately by 22% compared to the 32% increase in 1980. Domestic credit expansion also reported a substantial drop during the first nine-months of 1981, leading to projections that annual credit expansion will remain below 30%, compared to a 70% growth in 1980. In addition, the decline in external assets moderately contributed to a reduction in the expansionary impact of an increase in money supply and helped to reduce the inflation rate in 1981. However, the Consumer Price Index (CPI) reported an average increase of 24% in 1981 with reference to food prices. Considering that expenditure on food accounts for about 55% of the total expenditure of households in Sri Lanka and the widespread poverty in the country, increased food costs means added hardships, especially to families at the low end of the income scale.

There was no major increase in private investment inflows in 1981, in spite of continued incentives for foreign investors and an extended investment campaign program to attract foreign investments. The Central Bank estimates the total private capital inflow, including investments outside the Greater Colombo Economic Commission (GCEC), at \$50.6 million in 1981, slightly above the 1980 level. The GCEC approved 18 projects in 1981 worth Rs.1.663 billion (\$86 million) compared to 43 projects worth Rs.1.657 billion (\$100 million) in 1980. At the end of 1981, there were 75 firm investment agreements with the GCEC and, of this total, 45

were already in the production stage, with 27 garment and 18 non-garment factories. Investment outside the Free Trade Zone, within the jurisdiction of the Foreign Investment Advisory Committee (FIAC), appears to be improved with 76 projects worth Rs. 2.742 billion (\$146 million) reported during the first half of the year, compared to 137 projects worth Rs. 3.639 billion (\$220 million) approved in all of 1980.

Public spending is expected to rise sharply in 1982, according to the Rs. 42 billion (\$2.2 billion) budget presented in Parliament in November 1981. About 50% of the total expenditure or Rs. 20.9 billion (\$1.1 billion) is allocated for development expenditure, an increase of more than 50% compared to 1981. Two of the lead projects, the Accelerated Mahaweli Development Program and the Housing Program, account for about 40% of the total development expenditures. The 1982 revenue is estimated at Rs. 19.3 billion (\$1.0 billion), an increase of 19% compared to 1981 and representing 48% of total budget expenditures. The large 1982 budget deficit of Rs. 21.2 billion (\$1.1 billion) is expected to be financed from both foreign and domestic sources. With a total of Rs. 14 billion (\$725 million) or 68% of the total deficit expected to be financed from grants, bilateral and multilateral assistance, the success of the GSL in carrying out its 1982 development program largely depends on foreign assistance. Among domestic sources, borrowings from the non-banking private sector are expected to account for approximately 18%, leaving the remaining 14% to be financed from the sales of Treasury Bills.

Given the high public spending planned for 1982, inflation is likely to be the major problem confronted by the economy in 1982. Some analysts predict the grim economic experience of 1980 will be repeated in 1982. The rate of inflation may well depend inversely on the level of foreign assistance. If this level falls short of the target, financing the deficit will have to be met from additional domestic borrowings or increased sales of the Treasury Bills. There is little likelihood of reaching the 1982 foreign assistance target on the basis of projections currently available and past experience with delays in project assistance implementation. The other option is, of course, to curtail the level of expenditures contained in the budget. This carries with it the political risk of deferring even further the benefits of massive investments already

made in such programs as the Mahaweli, with national elections scheduled for 1983 and 1984.

2. Balance of Payments:

The Central Bank provisionally estimates the 1981 trade deficit at Rs. 15.4 billion (\$793 million) resulting from expenditures on imports amounting to Rs. 36.9 billion (\$1.912 billion) and earnings from exports amount to Rs. 21.6 billion (\$1.112 billion). The current account deficit is expected to be about Rs. 11.6 billion (\$599 million), which is substantially below the predictions of a deficit of over Rs. 14.5 billion (\$752 million) at the beginning of the year. In contrast to 1980, the 1981 current account deficit declined by more than 20%. The reason for this improvement has been the considerable slow down in the increase of prices and volume of imports. The prices of all imports grew moderately at an average rate of around 12% compared to 50% in 1980, while the increase in volume remained less than 6% compared to 20% in 1980. In 1981, the drop in the volume of imports can largely be attributable to public expenditure cuts and restrictions on domestic credit imposed through monetary reforms. Expenditures on oil imports remained the major item of the total value of imports accounting for 24%. In terms of gross export earnings, oil imports represented 43%.

Table 1 presents the details of balance of payments for 1981 and 1982 including the anticipated sources of financing the external resource gap. The 1981 external resource gap is expected to be around Rs. 12.9 billion (\$665.9 million) which is about 28% lower than 1980. With an overall surplus of Rs. 388 million (\$20.1 million) in the balance of payments, it appears that Sri Lanka did not encounter serious difficulties in financing the 1981 gap. A steady growth in external assistance, along with increased tourist receipts and remittances from Sri Lankans working abroad made significant contributions in relieving pressure on balance of payments in 1981. In addition, the resumption of the IMF credit facilities and the subsequent releases of SDR's amounting to \$162.0 million under EFF and CFF schemes also helped partially to offset additional problems in balance of payments. At the end of November 1981, gross international reserves stood at Rs. 8.7 billion (\$425 million), a 20% increase in rupee terms and 4% increase in dollar terms compared to the balance at the end of 1980. This level of external assets will be sufficient to meet

two-and-a-half months needs of imports. There has also been a corresponding increase of net international reserves from Rs.1.4 billion (\$ 86 million) in December 1980 to Rs.2.9 billion (\$ 150 million) in November 1981. This suggests that the balance of payments was not subject to additional pressures in 1981, as was the case in 1980.

The balance of payments will again reach critical proportions in 1982 with a widening trade deficit in the region of \$1.266 billion. Current estimates, in dollar terms, indicate that the value of export earnings will increase only by 12%, while the value of imports will increase sharply by 32%. The increased value of imports in 1982 will partly result from higher import prices and from an increased volume of imports. A major impetus for the growth in volume of imports will be the increased public spending planned in 1982, increasing investment and intermediate goods imports substantially. A further decline in consumer goods imports is, however, expected in 1982, resulting from slackening demand due to higher prices.

With development programs moving ahead and the uncertainty of hydro-power supply, the demand for oil products is likely to grow by more than 6% in 1982, while the price of oil products is expected to increase by about 5%. Consequently, the expenditure on oil products will increase to 27% of total expenditures on imports. Although consumer subsidies on oil products have been substantially reduced to dampen domestic demand, further reduction in demand for oil products cannot easily be made because of the increasing dependency of the economy on these.

The unfinanced external resource gap is projected to reach \$1.068 billion in 1982. A major share of this external gap is expected to be financed from foreign grants and loans and, according to current estimates, the proportion of the external resource gap accounted for by these sources is around 70%. If Sri Lanka can mobilize this high level of external assistance, meeting the external resource gap will not be a difficult task, assuming that the IMF credit facilities will continue to be made available. If, on the other hand, Sri Lanka fails in its efforts to reach the target for external assistance, further drawdowns of already low external assets or additional commercial borrowings will be required.

TABLE 1

Balance of Payments (\$ Million)

	<u>1981</u> *	<u>1982</u> **
<u>Merchandise</u>		
Exports	1,119.8	1,250
Imports	1,912.8	2,516
Trade Balance	<u>- 793.0</u>	<u>-1,266</u>
Services (net)	14.2	50.0
Receipts	(301.0)	(360.0)
Payments	(286.8)	(310.0)
Goods and Services	<u>-778.8</u>	<u>-1,216.0</u>
Private Transfers	179.4	229.0
Current Account	-599.4	-987.0
Capital Repayments	<u>- 66.5</u>	<u>- 81.0</u>
External Resource Gap	<u>-665.9</u>	<u>-1,068.0</u>
<u>Financed from:</u>		
Official Grants	168.7	223.0
Direct Investments (net)	50.7	56.0
Private Sector Loans <u>a/</u>	148.7	120.0
Public Sector Long Term Loans <u>b/</u>	299.7	528.0
SDR Allocation	14.2	14.0
Errors and Omissions	20.1	- 25.0
Overall Balance	36.1	-152.0

* Provisional

** Estimate

a/ including Foreign Currency Banking Unit Loan of \$68.4 million for GCEC for 1981.b/ including Euro Currency Loans amounting to \$86.1 million for 1981.

Source: Central Bank of Ceylon and Ministry of Finance and Planning.

AGRICULTURAL POLICIES IN SRI LANKA

The current development policies of the GSL give priority to agricultural development, with a major thrust on the objective of achieving food self sufficiency. Present agricultural sector policies are directed towards increasing agricultural production, while also effecting improvements in rural settlement, employment and the nutritive status of the rural poor.

The GSL's single largest effort is the Accelerated Mahaweli Program (AMP). The projected capital cost of the AMP exceeds 30% of the GSL's total capital for 1981-85. Upon completion it will add 117,000 hectares of irrigated area, resettle a population of 450,000, increase employment opportunities by 175,000 and increase rice production by 547,000 tons per year. Also included in the land and irrigation development plans of the GSL is the rehabilitation and settlement of several medium and minor irrigation systems.

Apart from land development and settlement, the GSL has also undertaken policy reforms to improve land tenure, to provide and ensure benefits of owner operation and security of tenure. The implementation of this program began in 1981 under which 700,000 holdings settled under former colonization schemes and currently enjoying only lease titles will be provided with ownership titles. In addition, an estimated 600,000 families in encroachment areas occupying 92,000 hectares will be provided with permanent titles.

Having recognized the necessity for strategic, overall land use planning, the GSL has established in 1980 a Land Use Policy Planning Division within the Ministry of Lands and Land Development. Steps have been taken to produce detailed maps of 1/10,000 and 1/50,000 scale replacing the presently available 1/63,360 (1 inch/1 mile) scale maps.

In the context of proper land use, GSL began a massive reforestation and afforestation program in 1980. A plan for this purpose was completed by the Forest Department, targeting 1.6 million hectares of forest cover, with .94 million hectares as forest reserves. The plan targets annual forest planting of 10,000 to 12,000 hectares including 3,000 hectares for fuelwood and 6,600 hectares for timber. The progress to date, despite financial and resource limitations, has been above the annual targets. A more detailed national forest inventory is to commence shortly.

In addition to the capital investment policies detailed above towards agricultural growth, the GSL's recurrent expenditure budget also provides for several items in support of agricultural development activities. Of principal interest among these is general agricultural research and development policies. The GSL, in pursuing new directions for its agricultural development activities, particularly in the food sector, has adopted three major policies in respect of agricultural research, extension and related services. Firstly, it has decentralized research activities on a regional basis and is in the process of establishing eight regional research centers to conduct adaptive research in the different agro-climatic regions of the island. Adoption of a totally new approach in extension, i.e., the T & V (Training and Visiting) system, is the second policy effort which is designed to ensure more effective information transfer between researchers and farmers. Regional training centers are being established for the conduct of this extension program. Thirdly, the GSL has decided to strengthen the Agricultural Development Authority (ADA), established after the change of Government in 1977. The ADA has the principal function of integrating field level activities including research, extension, input supplies, credit and marketing.

Apart from the above overall policies, GSL has several on-going pricing and subsidy policies designed to attain sustained growth in agriculture.

Subsidy policies could be divided into two categories - general subsidies extended to all agricultural crops and crop specific subsidies.

The fertilizer subsidy program is the most important of the general subsidies. It is acknowledged to be a significant contributor to the growth achieved in the agricultural sector. A very high rate of subsidy ranging from 85% to 55% of cost was in effect until early 1981, when, due to increases in world prices and the GSL's budgetary constraints, total expenditures on the fertilizer subsidy were limited to Rs.1,000 million and subsidy rates reduced to a lower range of 75% to 30%. However, output prices, especially in the food sector, have risen to more-or-less totally negate the effect of fertilizer cost increases. In the plantation sector, on the

other hand, where output prices did not rise adequately, new policies were adopted in late 1981 to reduce export taxes and to extend low cost credit facilities for fertilizer use.

With regard to the crop specific policies, the food sector receives low cost credits implemented through the rural credit, rural bank programs and the Bank of Ceylon sub-offices through the island-wide network of Agrarian Service Centers. Although discouraged by high rate of default in the past, the GSL is pursuing its effort to strengthen the credit program and make it more effective and available to poor, primary producers. A joint-liability scheme has been successfully carried out on a pilot scale and is to be extended soon. Further, the Asian Development Bank is assisting the GSL to establish a Rural Credit Project to train local bank staff.

An Agricultural Insurance program operates to reduce the risks involved in peasant agriculture. An Agricultural Insurance Board has been established for this purpose. The program, which has been in operation for several years now, also has suffered severe set backs due to low premia collection from low risk areas, resulting in high indemnity payments in high risk areas. Moves are afoot to strengthen this service through differential premium rates and by tying this program to the credit program.

The plantation and the minor export crops sector, which is essentially the perennial crop sector, benefits from policies suited to the long gestation periods inherent to this sector. Several subsidies are provided for both new plantings and for replanting. The subsidies include the free supply of planting material, cost of land preparation and soil conservation, cost of establishment, and fertilizer use and management in the early years of growth. In addition, low cost credit facilities are also extended. Part of the costs are recovered through export taxes and cesses. As these are primarily export crops, export taxes are adjusted with changes in the cost of production and world market prices to ensure sustained growth of this sector.

Pricing policies have been gaining greater attention since 1978. A support price for paddy under the Guaranteed Price Scheme (GPS) has been in operation since the early 1950s. However, since 1980, the GPS has in effect become a floor price for rice, the open market price being as much as

60% to 90% higher. Consequently, a major part of paddy procurement, processing and marketing has been taken over by the private sector.

In a bid to avoid adverse tendencies such as monopolistic control and manipulated prices from building up in the private sector, the GSL adopted policies in early 1981 for buffer stocking to ensure fair prices to farmers during the harvest season and reasonable prices to consumers in the event of scarcity. Beginning in 1981, Paddy Marketing Board (PMB) and the Food Department contracted for purchasing on a negotiated (by calling public tenders) price at the onset of each season.

Another major pricing policy was in respect to subsidiary food crops, which include pulses, grain legumes and cereals other than rice. A Floor Price Scheme (FPS) was initiated in late 1979 to reduce the risks in marketing. Revised floor prices for the selected crops are announced at the beginning of each season and the floor price computation allows a reasonable margin of profit above the anticipated cost of production, so that even in case of a glut or an unfavorable market, the producer gets a reasonable return. Since the reduction of marketing risks through such floor prices in 1979, an increase in the production of subsidiary food crops has been observed. Initially, only 8 crops were covered by the FPS, but by 1981 the scheme has been extended to a total of 13 crops, namely, soyabean, gingelly, chillies, cowpea, greengram, maize, blackgram, sorgum, groundnuts, potatoes, tumeric, bombay onions and millet.

While the above policies are the primary policies supporting agricultural growth, a number of other GSL policies also affect agricultural production.

Liberalization of commercial imports of all items including food can act as a disincentive to local production. This has often been quoted as the reason for the reduced production of subsidiary food crops in the post-1977 period. However, the subsidy and the floor pricing policies have been adopted to counter this problem. Removal of the consumer subsidy on flour in early 1980, which resulted in an almost doubling of prices was instrumental in the rapid increase in the price of rice and, consequent, increase in production. It is likely that such increases in the prices of flour and rice will lead to a higher demand for subsidiary food crops and

promote the growth of this sector. To facilitate this, GSL is considering redirecting its focus from irrigated rice to high-land, subsidiary food crop production. The drylands, where most of the subsidiary food crops are grown, are to receive special attention in the 1981-85 period. The major objectives are to shift from a low yielding, land degrading slash-and-burn farming to a more settled and stable system where productivity will be sustained.

Private sector participation in agricultural development has taken a major leap since the policy changes introduced in 1977. Previously, essentially private sector participants were peasant, primary producers producing at or slightly above the subsistence level of agriculture. At present, the major share of procurement, processing and marketing has been taken over by the private sector as commercial enterprises. In 1981, a record import of sugar was handled by the private sector. Such sudden private sector participation in imports was not anticipated which caused the GSL temporary difficulties in disposing of higher priced, less competitive imports by the public sector. However, new policy changes are being made to monitor, control and plan food imports and distribution. Also, the GSL is providing tax incentives and other benefits to attract foreign investments in both production and post-production activities in agriculture.

With regard to the future, the GSL has recognized the need to develop a national, integrated agriculture/food/nutrition strategy. To develop a work plan for preparing this strategy, the GSL is in the process of setting up a Central Planning Unit within the National Planning Division of the Ministry of Finance and Planning. Subsequent to the development of this strategy, the GSL is planning to prepare a long term, comprehensive investment plan which will form the basis for the allocation of resources to the sector under the rolling, five year Public Investment Program.

AID DISBURSEMENTS 1981

(\$ Millions)

Donors	Project Assistance		Commodity Assistance		Total
	Loans *	Grants **	Loans *	Grants **	
1. Multilateral					
ADB	7.09				7.09
IBRD/IDA	21.92				21.92
IFAD	2.66				2.66
EEC		9.17		3.48	12.65
UN Group		0.12			0.12
WFP		-		-	-
Sub Total	31.67	9.29		3.48	44.44
2. DAC					
Australia				4.57	4.57
Canada	9.31		4.34		13.65
Denmark	1.92		0.56		2.48
France	3.45		4.21	0.96	8.62
Germany (FRG)	1.48	0.51			1.99
India	0.15		0.69 a/		0.84
Japan	3.68	7.34	15.12 a/	8.72	34.86
Netherlands			21.38 a/	16.28	37.66
Norway		0.72			0.72
Sweden		17.64			17.64
UK		34.06		0.03	34.09
USA	7.61	3.53	21.22	4.68	37.04
Finland				0.72	0.72
Switzerland			0.22		0.22
Sub Total	27.60	63.80	67.74	35.96	195.10
3. Communist					
China	9.40				9.40
USSR	0.07				0.07
Sub Total	9.47				9.47
4. Other					
Kuwait	2.46				2.46
OPEC	0.65		9.00 b/		9.65
UAE	0.76				0.76
Switzerland					
Iraq					
Euro-currency			75.00 a/		75.00
Sub Total	3.87		84.00		87.87
TOTALS	72.61	73.09	151.74	39.44	336.88

- Note: a/ Commercial credits
- b/ Balance of Payment support
- * Loan disbursements are for thep period - January to
October 1981 only
- ** Grant disbursements are for the period - January to
September 1981 only
- Source: External Resources Department, Ministry of Finance
and Planning.

PROJECTED AID DISBURSEMENTS 1982

(\$ Millions)

<u>Donors</u>	<u>Project Assistance</u>		<u>Commodity Assistance</u>		<u>Total</u>
	Loans *	Grants **	Loans *	Grants **	
1. Multilateral					
ADB	40.90				40.90
IBRD/IDA	103.05				103.05
IFAD	2.50				2.50
EEC	4.00	8.70		3.50	16.20
UN Group		2.50			2.50
WFP		0.50			0.50
Others		3.00			3.00
Sub Total	150.45	14.70		3.50	168.65
2. DAC					
Australia				3.75	3.75
Belgium		0.70			0.70
Canada	20.15	1.00		10.00	31.15
Denmark		0.50			0.50
France	9.00		5.00	1.00	15.00
Finland		1.00		0.50	1.50
Germany (FRG)	63.20	1.60	6.75	1.00	72.55
India	0.50	0.50	8.00 a/		9.00
Japan	23.00	5.72	20.00 a/	7.50	56.22
Netherlands	1.15	2.04	15.00 a/	4.00	22.19
Norway		2.50		7.50	10.00
Sweden		20.35			20.35
Switzerland		0.20	8.00		8.20
UK		45.70			45.70
USA	35.85	3.00	17.50	5.00	61.35
Sub Total	152.85	84.81	80.25	40.25	358.16
3. Communist					
China	5.00				5.00
USSR					
Sub Total	5.00				5.00
4. Other					
Kuwait					
OPEC					
UAE	1.60				1.60
Saudi Arabia	4.00				4.00
Sub Total	5.60				5.60
TOTALS	313.90	99.51	80.25	43.75	537.41

Note: a/ Commercial credits

Source: Dept. of External Resources,
Ministry of Finance and Planning.