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Country Development Strategy Statement

FY 1986

Sri Lanka

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1985 - 89

UNITED STATES AID MISSION TO SRI LANKA

Prepared January 1984

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THE AMBASSADOR
OF THE
UNITED STATES OF AMERICA
Colombo, Sri Lanka

January 20, 1984

CHIEF OF MISSION COMMENTS

I am pleased to endorse the Country Development Strategy Statement Update prepared by the USAID Mission in Colombo. The Strategy reflects a continuation of U.S. emphasis in three major areas:

- (1) Accelerated Mahaweli Basin Development;
- (2) food production and natural resource management;
and
- (3) human productivity and well-being.

The development assistance levels proposed represent a shift of resources from the Mahaweli program to other agricultural-related activities, as well as increased investments in health and family planning and private enterprise development. I judge it extremely important to maintain these levels of assistance which reflect a continuing U.S. interest in Sri Lanka's democratic traditions, the improvement and recent strengthening of the relationship between Sri Lanka and the U.S., and the Government of Sri Lanka's efforts to maintain sound economic policies and expand the role of the private sector in the country's development.

The strategy, in my judgment, reflects a program of U.S. assistance that is responsive to Sri Lanka's development needs and priorities. I am pleased to support it.


John H. Reed

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INTRODUCTION

In response to AID/Washington's guidance, which includes the Asia Bureau experiment aimed at the relative simplification of the Country Development Strategy Statement (CDSS) presentation, our FY 1985-89 CDSS update focuses principally on the assistance strategy in Sri Lanka, workplan, and resources. Complementing and supplementing these sections, we are providing short sections dealing with the economy, including the projected longer term effects of the July 1983 civil disturbances, and an update of socio-economic indicators.

I. ECONOMIC OVERVIEW

While Sri Lanka continues to enunciate its commendable open economic policies, 1983 was not a good one for the Sri Lankan economy. The real GDP growth rate, having already slowed to 5.1% in 1982 from the 6% average achieved in 1979-81, was expected to fall to about 4.2% (an 18% drop from 1982) due partially to the serious July communal disturbances and to a drought which severely affected the Yala (minor) rice crop and the tree crop sector. The lack of rainfall also resulted in daily two hour power cuts during the last quarter of 1983 which continue. Tea production is at its lowest levels since 1965, but with record tea prices earnings are at an all time high. Tea prices are the only bright spot on the economic horizon.

The 1983 inflation rate was higher than anticipated at 15%. The debt service ratio is approaching 20% and is expected to continue to rise over the next several years. The present debt service burden is large considering the recent and prospective export performance. Foreign reserves are being depleted and the balance of payments situation is worsening as imports vastly exceed exports. It is doubtful that the high level of worker remittances will be maintained as employment opportunities in the Middle East and Africa decline.

The Government of Sri Lanka (GSL) 1984 capital budget is programmed to be 8% less than last year's, and the projected budget deficit is down by 23%, but even these reduced levels are considered too high by the IMF and the World Bank. Most

people expected a much tougher budget in light of the July disturbances and it is widely felt that the GSL failed to use the unfortunate opportunity provided by the disturbances to tighten up the budget. The Finance Minister did pave the way in his budget presentation for continued devaluation of the rupee which remains overvalued.

Major structural problems in the economy continue to be the slow growth of exports (both traditional and non-traditional), excessive protectionism and an inelastic tax base. The World Bank is currently considering a three-year \$210 million Structural Adjustment Loan which would require major changes in these structural areas before approval. Sri Lanka is currently in the middle of a troubled SDR 100 million IMF Stand-by Agreement the second tranche of which is at risk pending GSL economic policy actions (i.e., exchange rate, and tariff and budget reform) to meet IMF targets. Such actions are judged to be unlikely pending a political consensus and movement towards resolution of the communal issue. Higher tea prices and continued donor assistance are carrying the economy.

Thus, while the GSL remains committed to the basic policies of economic liberalization and an opening up of the economy, a strong determination to deal with structural imbalances and budgetary constraints will be required to maintain the support of the aid and international banking communities and to regain the track to self-sustained growth.

Probably the most damaging and long-term problem to arise from the disturbances is the resultant political divisiveness in the country and the lack of success to date in resolving the communal issue. The absence of political consensus and the need to placate major segments of society have made it difficult, if not impossible, for senior GSL officials to take tough stances on, for example, economic policy issues.

The loss of trained and entrepreneurial individuals, largely Tamil, but quite a few from other ethnic groups as well is another serious problem. There are no statistics on the number of people who have left, but many of the AID-assisted

projects have lost Tamil staff, the business community complains that some of their best people have emigrated, and several professional ranks have been very hard hit (e.g., doctors, engineers, accountants, computer specialists). Tamils are not the only ones leaving; Sinhalese too are departing. It will certainly be a long-term proposition to train replacements for those who have left.

Some have concluded that a component of the July disturbances was economic in nature - the "have nots" against the "haves" - especially in the second and third waves of unemployed youths who partook in the looting. To the extent this is true and given projections that employment opportunities in the Middle East and Africa will decline with falling oil revenues, the already serious unemployment problem, especially among the young, is likely to be exacerbated and further strain the political, social and economic fabric of the country.

The tourism sector has probably been the most severely affected industry. A 17% decrease in tourist arrivals was expected for all of 1983. However, barring any future problems, tourism should pick up during 1984 with the help of the recovery in the developed countries.

The most lasting impact will be the psychological one on all communities within Sri Lanka and especially on investors from abroad. Foreign investors, however, continue to visit Sri Lanka for discussions of investment opportunities. According to the GSL, investment approvals are on the increase, but we would expect a "wait and see" attitude to prevail for some time. The general feeling is that the country can survive the July disturbances, although another round of serious communal violence could put the country's future development in jeopardy.

II. UPDATE OF SOCIO-ECONOMIC INDICATORS

Since the change in the direction of the Sri Lankan economy in 1977 from a primarily socialist setting to an open economy, many changes have taken place in the sphere of socio-economic development.

Initially, there was a considerable improvement in the rate of unemployment, the development objective with the highest priority of the present government, with the rate declining from 24% in 1973 to 13.6% in 1981. However, the rate of expansion in employment opportunities now appears to be slowing down due to the difficulties of sustaining an over 6% average rate of growth experienced during the first four years under the open economic policy. During the period between 1978 to 1981, the total new employment generated amounted to 318,847 jobs, averaging about 80,000 per year in the organized sector. In 1982, the average fell to about 33,000, while the average number of new entrants to the labor force remained about 125,000. This decline will obviously push up the rate of unemployment.

Socio-economic indicators on education and mortality levels show continued progress and improvements. The school enrollment rate has gone up from 79.1% in 1971 to 91.5% in 1981. During the same period, the level of educational attainment has also gone up. The average percentage of the population who completed Grade V, for example, increased from 48% in 1971 to 66% in 1981. The literacy rate improved from an estimated 78.5% to 86.5% during the same period.

Due to the extensive health care system in the country, the crude death rate has continued to decline from 7.8 in 1976 to 6.1 per 1,000 population in 1981. The infant mortality rate has also declined progressively from 42.3 per 1,000 in 1977 to 37.7 in 1979. However, comparisons of the most recent nutrition survey with data from a 1975/76 survey show that nutritional status may have deteriorated slightly. In addition, the health care system focuses extensively on curative rather than preventive health care and is faced with a large shortfall in the number of trained medical personnel.

While these measures speak generally about the achievements in the area of socio-economic development, they also indicate the growing socio-economic demands in the years to come. Sri Lanka's population will continue to expand bringing the total population to a minimum of 20 million by the year 2000, an increase of about 5

million or 1/3 of the existing population. Estimates indicate that by the year 2000, 70% of the total population will be less than 30 years of age.

Given the country's natural and financial resource limitations, such increases will be difficult to accommodate while maintaining the present level of socio-economic development. Since 1979, a large number of consumer subsidies have been reduced and the allocation of financial resources on health, education, etc. have come down in real terms. A major reason for improved social development in the past has been programs such as the free food ration scheme which covered most of the population and was replaced in 1979 with the food stamp scheme for households earning less than Rs.300 per month (about one-half the population). The real value of the stamps has declined dramatically due to a 60% drop in purchasing power since 1979. While the recurrent GSL expenditures for education, health and food subsidies have increased from Rs.1.86 billion in 1974 to Rs.6.5 billion in 1984, these expenditures account for a decreasing share of total recurrent expenditures, from 41% to 22% between 1974 and 1984.

Indicators such as income distribution show that there has been little measurable improvement in the income shares of the low income households during the first few years under a liberalized economic policy. According to the 1980/81 socio-economic survey of the Department of Census and Statistics, the lowest 60% of the population received only 35.8% of the total income which compares with the share of 34.9% of the same group according to a 1969/70 socio-economic survey.

These indicators support the continuing emphasis the GSL has placed on employment and income generation, and give some tentative evidence that it is possible to have growth with equity. Continued growth, however, will be difficult to maintain given the demographic pressures facing the country.

III. STRATEGY

A. Validation of Strategy

The USAID program is designed overall to assist Sri Lanka in building the capacity for self-sustained growth. While this capacity has been set back by the

serious communal disturbances of July, and a reduced growth rate in 1983, the GSL's basically sound economic policies, including an expanded role for the private sector, still make this self-sustained growth objective attainable. Although the ODSS period will see a continuing shift of resources from Mahaweli construction to agricultural production, natural resource management, and human productivity and well-being, our strategy objectives (food production, employment generation and human productivity and well-being) remain unchanged.

While there will continue to be a strong GSL emphasis in downstream development under the Mahaweli program, as evidenced by projected funding of about 40% of the \$1.2 billion total investment in the Mahaweli over the 1983-87 period, GSL resources will be increasingly allocated for other productive components and social infrastructure within the investment program.

The implementation of our approved strategy will reflect this resource shift, and be responsive to AID/Washington policies and the recently completed Asia Bureau Strategic Plan. In addition to our current efforts, increased emphasis will be given to expanding the role of the private sector in Sri Lanka's development, as well as constructive policy dialogue, institutional development, and technology transfer and research.

We will maintain 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.

Our FY 1985 ODSS established longer-term goals for each of these categories to be achieved during the 1984 to 1989 period. In addition, the FY 1985 Annual Budget Submission included an Action Plan which provided operational objectives for the 1984 to 1986 period linked to the longer-term goals of the ODSS. These goals and objectives are modified and updated, where necessary, in the Work Plan (Section IV)

of this year's ODSS update. Although many of our goals and objectives coincide well with those set forth in the Asia Bureau Strategic Plan's Management Guide, those presented in this ODSS are specifically related to our program in Sri Lanka and, thus, country, rather than region, specific.

The balance of this Strategy section of the ODSS update will focus on a brief summary of our assistance strategy, specific subjects requested by the Asia Bureau, and progress on the four program priority areas.

B. Summary of Assistance Strategy

1. Accelerated Mahaweli Basin Development Program (AMP)

The AMP continues to be the GSL's highest priority in that it is a key to the country's primary objectives of food self-reliance and employment. In addition, it will provide hydro power generation capacity to meet the growing demand for industrial and home uses. By 1986, major dams and canal construction of irrigation systems are expected to be completed. From 1986 onwards, the major thrust of the program will be the completion of downstream development.

AID's most direct involvement is in System B, where our future efforts (as described below) will support further agricultural and rural development. Our assistance to the AMP directly supports the Asia Bureau Strategic Plan's goal of increasing the output of basic foods to permit substantial improvement in the diets and incomes of poor people through irrigation and agricultural production. It also will support: (1) improvements or changes in policies in the areas of water management and water charges; (2) improvements in the institutional capacity of the GSL to plan, operate and maintain irrigation systems and to monitor settlement and agricultural production activities; (3) assistance in manpower planning and strategies to promote business enterprises; and (4) new techniques in design and construction, and methods of data collection, analysis, operation, management and implementation.

2. Food Production and Natural Resource Management

Under this category, the USAID strategy is to concentrate on four program areas: (1) irrigation and water management; (2) agriculture research, production, processing and marketing; (3) agricultural policy and planning; and (4) energy and natural resources conservation and management. In support of these program areas, the USAID will explore with the GSL the possibility of a multi-year Title III agreement which will address major policies in the agricultural sector, and build upon the agriculture, food and nutrition strategy and related investment program. This will result in an even closer integration of our food aid and development assistance programs.

The Asia Bureau Strategic Plan identifies five subsectors in which AID's agricultural strategy should concentrate; i.e., irrigation and water management; strengthening national agricultural research, extension and education systems; food policy and agricultural sector analysis; rainfed resources management; and agribusiness and off-farm employment. The USAID strategy fits well with the Bureau's Strategic Plan. As well, the ODSS links the bulk of our proposed efforts in energy, and environment and natural resources to the agricultural sector and with the priorities and objectives of the Strategic Plan.

a. Irrigation and Water Management: This program area will continue to be a major focus of AID assistance over the ODSS 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 focus on the "software" aspects of irrigation, including the greater efficiency of water use, farmer participation, and systems operations and maintenance. The successful completion of the Water Management project will set the stage for a larger AID-supported Irrigation Systems Management project to be initiated in FY 1985. The primary emphasis of the new effort will be the continued improvement of the institutional capacity of the GSL to better manage, operate and maintain irrigation systems with the full participation of farmers. The

project will concentrate on improving financial management of irrigation schemes, increasing the GSL capability in training, and improving the capacity for monitoring, evaluating and conducting research related to irrigation schemes. The project includes the introduction of water user associations on up to 20 schemes, improved operations and maintenance in about seven schemes, and rehabilitation of three schemes. The schemes in which operations and maintenance and rehabilitation activities are planned include about 58,000 acres and will impact upon about 21,000 farm families.

b. Agriculture Research, Production, Processing and Marketing: Increased production of subsidiary field crops is one of the highest priorities of both the GSL and USAID, and is an area of significant, largely untapped agricultural potential. These crops are grown by a large number of farmers throughout the country, many of them among the poorer elements of the population. The USAID's initial effort in this area is focusing upon improving the GSL's institutional capability to carry out research on subsidiary crops, and the upgrading of the private sector's seed production and marketing capability. However, as rice will remain clearly the most important food grain to the country, some support will continue to be provided to rice research. In addition, we will support farming systems research and explore the possibility of future AID assistance to agricultural marketing and food processing, and export development.

c. Agricultural Policy and Planning: There are currently a large number of GSL agencies with often overlapping responsibilities in the food and agriculture sector and consequent problems in coordinated program planning and implementation. Reliability of data is questionable and systematic analysis of data is seldom carried out. Building upon our ongoing assistance to the GSL's agriculture, food and nutrition strategy (more fully described below) and to the Marketing and Food Policy Division and the Information and Data Center of the Agrarian Research and Training

Institute, we will support further strengthening of the GSL's agricultural planning and analysis capabilities.

d. Energy and Natural Resources Conservation and Management: Fuelwood is by far the most important source of energy in Sri Lanka, accounting for about 55% of total energy used in 1982. Most of this energy, which is used by the domestic sector for cooking, comes from crown lands, village woodlots, and rubber and tea replantation. Therefore, apart from its significance as a source of energy, fuelwood has important environmental implications. The protection of watershed areas (including the upper Mahaweli catchment area) and the provision of increased sources of fuelwood are mandatory for increases in agricultural production and the improvement of rural incomes. Building upon the institution building, and fuelwood and reforestation efforts under the ongoing Reforestation and Watershed Management project, we will provide additional assistance in this area, with an emphasis on research in methodologies for soil stabilization and watershed management.

In addition, the USAID will give increased attention to assisting the GSL in the development and implementation of sound policies and plans in energy, environment and natural resources conservation and management. In energy, we will continue to support research, training and pilot efforts involving mini-hydro and other alternative energy sources, and the conservation of non-renewable energy resources. In environment, we will assist key GSL agencies in the development of the proper institutional and policy framework for implementing sustainable natural resource management strategies and plans.

3. Human Productivity and Well-Being

Under this assistance category, we will concentrate on: (1) health, family planning and nutrition; (2) low-income housing guarantees; (3) education and training; and (4) private enterprise development.

We believe our proposed strategy in the above areas is in consonance with the Agency policy guidelines and the Asia Bureau Strategic Plan. For example, our

proposed assistance in health and family planning will focus on selective interventions to strengthen the GSL's institutional capacity to deliver cost-effective preventive health services, including improved family planning services and ante- and post-natal care. While our proposed involvement in nutrition will be linked to the agriculture, food and nutrition strategy (see Section III.E.), we will continue to emphasize the targetting of Title II food to support the nutrition component of GSL's Maternal/Child Health program. In addition, we will explore the strengthening of nutrition surveillance under our future primary health care effort. With respect to our Housing Guarantee program, future efforts will continue to focus on the provision of low-cost housing to those in need, while encouraging further changes in GSL policies concerning cost recovery and an expanded private sector role. In education, our future efforts will stress institutional development. Our private sector efforts aim to strengthen and expand the role of the indigenous and U.S. private sectors in contributing to Sri Lanka's investment and development needs.

a. Health, Family Planning and Nutrition: Based upon our judgment of the health and productivity problems affecting Sri Lanka's people, the USAID is supporting malaria control efforts and a FY 1984 Water Supply and Sanitation Sector project. The continued AID assistance to malaria control is in accord with the Agency's health policy and is considered critical, especially in view of the resurgence of this disease in 1983.

The Water Supply and Sanitation (WS&S) Sector project is justified on the basis of the ranking of diarrheal and other water borne diseases as one of the leading causes of morbidity and mortality. The project is consistent with the findings and recommendations of the WS&S Decade Plan prepared by the GSL with AID assistance. Our effort is primarily an institution building effort consisting of the highest priority activities identified in the Decade Plan.

The results of the AID Health and Population Strategy review (see below) are nearing completion and will set the framework for our future assistance in these areas.

With respect to plans for the Title II program, AID's involvement in the School Feeding program will begin to phase out in FY 1985. By FY 1988, the phase out will be completed with total responsibility for the program assumed by the GSL. For the Maternal/Child Health program, current plans call for the expansion of food processing capacity which will permit an increase in the number of recipients, but a declining AID food input as increased use will be made of indigenous foods. This phase over to complete GSL responsibility would be achieved by FY 1990. The Commercial Marketing program is scheduled to be taken over by the GSL and/or private sector by FY 1986, after expanded production facilities come on stream.

b. Housing Guarantees: Adequate housing has been shown to have important impacts on health and well-being. The Housing Guarantee program, with modest grant funds, will continue to support low cost housing for the Sri Lankan people, while also providing support for the development of housing finance institutions and policy changes encouraging a predominant role for the private sector. The level of continued AID support for the CDSS period will be determined on the basis of evaluations of and our implementation experience with the program.

c. Education and Training: Evidence indicates the need to improve the quality and quantity of agriculture specialists in Sri Lanka. We have a continuing interest in agriculture education which stems from the success to date evidenced by AID's assistance to the Post-Graduate Institute of Agriculture and Faculty of Agriculture at the University of Peradeniya under the Agricultural Education Development project. We will assist the GSL in an assessment of the future demand for agriculture graduates in both the public and private sectors. The results of this assessment will determine what role, if any, AID should play in strengthening the undergraduate agriculture institutions in Sri Lanka.

The USAID will continue to concentrate our human resource development efforts on institution building, technical and managerial training, technology transfer and increasing the income generating skills of the rural poor. These efforts will be supported through the Development Training and Support and PVO Co-financing projects. Priority will be given to upgrading human resources in key development agencies, public and private, through both long and short-term training conducted overseas and in Sri Lanka. Such skills upgrading will be closely tied to present and future GSL and USAID program emphases and will concentrate on selected institutions. We also will remain sensitive to the possible need for additional, specific assistance for the professional resource development of Sri Lankan counterparts.

Our continued support to PVOs will be related to a greater extent to our strategy priorities and focus on strengthening the capacity of these private organizations to participate in development at local levels, in providing skills to improve the incomes of the poor, and in improving health and other social services to those most in need.

d. Private Enterprise Development: The GSL is actively supporting a greater role for the private sector in Sri Lanka's development. In support of this policy, the USAID is moving with a phased effort to foster greater private investment in Sri Lanka's development. The first phase, to be completed by FY 1987, includes a comprehensive assessment of the Sri Lankan private sector, the formulation of a sector development plan, assistance to specific institutions and entrepreneurial development programs, funding of pre-feasibility studies for investments that can yield more immediate impacts (e.g., agro-industry), and promotion of local and foreign investment. The assessment of the Sri Lankan private sector carried out by a U.S. consultant team was completed in August 1983. By FY 1985, the USAID's initial project effort directed at the private sector will be well into implementation and an evaluation of the project's progress will be undertaken. This evaluation will permit

any necessary modifications in the current project and lay the groundwork for the Private Enterprise Promotion II project envisioned for FY 1986.

It is expected that the second phase of the USAID's private enterprise efforts will focus on refining the sector strategy and plan; assisting the GSL to remove constraints to private sector expansion; expanding institutional, managerial, and entrepreneurial development; conducting pre-feasibility studies for other key areas in the sector development plan; and assisting selected investments, technology transfers or joint ventures that fall within AID's legislative mandate and areas of concentration.

C. Future Involvement in the Accelerated Mahaweli Development Program (AMP)

The lack of self-reliance in food production and unemployment are and will continue to be major problems in Sri Lanka. The AMP is the GSL's most important development effort. It will increase domestic food production, rural employment and incomes, and provide land to landless people. The AMP covers the Mahaweli Ganga and Maduru Oya river basins. It includes four large dams and extensive irrigation canal systems and irrigation support facilities such as roads, schools, dispensaries, and utilities. Social infrastructure in support of resettlement schemes in newly irrigated lands is an integral part of the program. When completed, the AMP will irrigate 117,000 hectares of land, resettle and create employment for 450,000 people, and increase the domestic production of rice and other food crops by about 570,000 metric tons per annum. In addition, the Program will result in the generation of an additional 500 megawatts of hydro-electric power.

Our future involvement in the AMP will focus on the downstream development of the left bank of the Maduru Oya System B, which is the largest single area under the AMP. The left bank area of System B totals 75,000 hectares and lies in the dry zone of central eastern Sri Lanka. When completed, it will irrigate 23,000 hectares of land and resettle 145,000 people. AID support will focus on bringing agricultural benefits to the left bank of System B, and will encourage the fullest use of the

private sector to attain these benefits. Activities to be considered for AID support include: the development of the tertiary irrigation system; on-farm development; agricultural experiment and demonstration facilities; settlement; agricultural inputs; and water system management, operations and maintenance. This future involvement will build upon our current effort in the design and construction of the main and branch canals in the left bank System B area. We view our future involvement in the Mahaweli Program as an effective vehicle to induce policy change and strengthen the GSL's institutional capacity in the areas of water management, water user charges, and irrigation systems operations and maintenance. Both technology transfer and research will play important roles with respect to our future involvement including experimental farms, groundwater investigations and development, and new irrigation structures and construction techniques. Private sector firms will be fully utilized during design and implementation, and the overall development of the area will provide new opportunities for private enterprises, shops and services.

D. Health and Population Sector Strategy

To assist in identifying major health and population problems and defining the most cost-effective assistance options, the USAID initiated a multi-phased Health and Population Strategy (HPS) process in mid-FY 1983. As part of the Strategy review, AID completed an epidemiological and demographic review; the World Bank conducted a mission focused on cost-effectiveness and efficiency of health and family planning services; then USAID carried out an evaluation of the National Institute of Health Sciences (NIHS), in the course of which a number of questions dealing with health manpower development were raised; and, finally, AID conducted a population sector review. Although the World Bank report is not yet available, and the NIHS/health training and population reports are still under review, a tentative summary of findings to date follows.

The epidemiological review highlighted the importance and geographic distribution of key morbidity and mortality problems such as diarrheal diseases,

malaria (already addressed by AID), nutrition, pre-natal/natal/post-natal care, and high parity or closely spaced child birth. The demographic review better defined the magnitude of the population problem, clearly indicating that, unless fertility is significantly decreased, the rate of natural increase in population (which has been relatively stable since 1970) will increase. An annual natural increase in population of about 330,000 persons is eroding the ability of the GSL and the economy to provide adequate food, jobs, housing, and education and health services. This steady population increase is also forcing up welfare expenditures and making it increasingly difficult for the GSL to reduce welfare expenditures and to accumulate savings for investment and further improvements in the quality of life for the bulk of the Sri Lankan people. (For a fuller discussion of population and development in Sri Lanka, see the Annex).

At the same time, important institutional problems and other constraints have been identified which lower the technical and administrative feasibility of possible health and population assistance options. The Ministry of Health (MOH) has a slowly changing, but still curative orientation. There are unresolved questions regarding the financing, the focus, cost, the degree of community participation, and operational aspects of the MOH's planned Primary Health Care (PHC) scheme. High vacancy rates among and poor supervision of medical officers, public health nurses, public health inspectors and family health workers undermine the system's delivery capacity. A combination of very high curative demand (over two annual outpatient visits per capita), provision of free health care, and high tertiary care expenditures have created a system which the World Bank estimates is 20% underfunded, with limited financial flexibility because of heavy mortgaging for recurrent costs. Finally, poor coordination, frequent organizational and leadership changes, limited implementation capacity, and conflicting pressures make it difficult for the system to accelerate the pace of orderly progress. On the population side, the constraints are similar, since the MOH delivers 90% of family planning services. However,

additional constraints on the population front are: weak coordination of population activities between non-government organizations and the GSL's Population Division of the Ministry of Plan Implementation; reemergence of political sensitivity to certain aspects of family planning following the communal disturbances in July 1983; the lack of a clear consensus in the MOH regarding the relative importance of family planning; and the low priority currently attached by the Ministry of Finance and Planning to the need for additional resources for family planning.

The areas we are actively exploring as candidates for AID assistance include diarrheal disease control (including oral rehydration therapy); family planning; selective primary health care; health systems management and manpower development; preventive health education; and selective private sector health care development.

Although the HPS process has provided a vehicle for a very useful policy dialogue which is impacting on health planning, a clear consensus regarding the framework of an AID-assisted health and family planning project will require additional dialogue at the GSL ministerial level which we are actively pursuing. We believe that additional health and population investments would be worthy of AID bilateral support and would be cost effective, if the major constraints noted above can be adequately addressed.

E. Agriculture, Food and Nutrition Strategy

The GSL is in the process of developing a national agriculture, food and nutrition strategy, which is expected to improve coordination of the numerous public and private agencies involved in agriculture, and the allocation and use of resources through establishment of national priorities. The GSL had previously made known to the United Nations' World Food Council its intention to undertake development of the strategy, and committed itself to this undertaking in the FY 1982 PL 480, Title I Agreement. The National Planning Division of the Ministry of Finance and Planning is responsible for coordination and preparation of the strategy.

The strategy exercise was officially launched in April 1983 by a two-day workshop at which the various institutions were briefed regarding strategy implementation plans, and their input solicited. Eight task forces were subsequently established to review sub-sectors and develop their own strategy proposals, including policy options. Various independent studies have been undertaken to supplement the work of the task forces (e.g., marketing of subsidiary field crops, rural credit).

In support of the strategy exercise, AID has agreed to provide technical assistance, training and a limited amount of commodities. In addition, AID funded the initial workshop and will fund a second workshop in early 1984. The Government of the Netherlands has also committed about \$500,000 in support of the strategy and follow-on activities.

To date six task force studies are under review and several special studies have been completed. At this time, it is unclear whether the GSL will complete the draft of the strategy by its ambitious March 31, 1984, target date. However, considerable information is expected to be available from the strategy exercise by then to establish national priorities for incorporation in the upcoming 1984-88 Public Investment Program. The GSL has demonstrated enthusiasm and commitment to complete the initial strategy and to institutionalize the process among the line agencies so that the strategy can be periodically updated.

The strategy exercise has been helpful to AID and other donors in identifying potential points of intervention and improving upon donor coordination. The current strategy-related work has greatly increased GSL awareness of the need to strengthen its overall agriculture planning and analysis capacity. AID's close association with the strategy is laying a foundation for a possible Title III program and continued support through our proposed Agriculture Planning and Analysis effort.

Work to date with the strategy has highlighted the need to better prioritize and coordinate agriculture research which is now conducted by seven different ministries. USAID, through its previous efforts in rice research, has assisted in the

development of a good foundation in field crop research, which will be further strengthened by the new subsidiary field crop-oriented research project. Our reforestation effort has a major research component which we plan to expand in a follow-on forestry project in the future. In addition, USAID will explore with the GSL further support to agriculture research, including horticulture and farming systems.

Other priority areas being highlighted by the strategy and of interest to the USAID include: agricultural education (including mid-level technical training); management and administrative training for senior level officials; agriculture marketing, food processing and technology; minor export crop development; and off-farm employment. As the strategy work progresses, we will be in a position to further develop our agriculture and rural development strategy, giving geographic emphasis to the extent practical to the Mahaweli System B and Gal Oya areas, thus, reinforcing USAID's previous investment in these areas.

F. Progress in Four Program Priority Areas

Our FY 1985 ODSS established goals to be attained by our program in the four program priority areas through 1988. While some of these goals now require modification, progress is evident in several important areas. This section will focus on these modifications and the most important areas of progress.

1. Policy Dialogue

As previously noted, considerable progress is being made by the GSL, with support from AID and other donors, in the development of its agriculture, food and nutrition strategy. From this initial strategy will flow the proposed future investments to be made in the agriculture sector. This prioritization of future agriculture sector activities will significantly affect our and other donor programs.

A policy dialogue between the GSL and the USAID on the issue of irrigation system operations and maintenance (O&M) was begun in 1979. This dialogue has resulted in considerably increased attention to and progress in this important area.

Improvements of O&M have been a major focus of our existing irrigation project portfolio. The Water Management project includes training to operations staff at Gal Oya and in-country training in water management to technical staff country-wide. Also included is the development of an operations model and technical assistance in fields such as equipment operations, maintenance and repair. Under the Mahaweli Basin II project, an irrigation O&M manual has been prepared to be used by all Mahaweli-administered systems.

A study under AID's Water Management Synthesis project pointed out the weakness of the institutional basis for irrigation management and concluded that substantial changes in GSL policies may be necessary, along with significant changes of perspectives and organizations in the Ministry of Land and Land Development (MLLD) or the Department of Irrigation. This led to the inclusion of a condition precedent to our Water Management project requiring the establishment of a multidisciplinary cell. This cell would establish a performance monitoring system and identify and analyze problems of irrigation systems island-wide. The GSL has acknowledged the seriousness of the deficiencies in irrigation management and has undertaken a restructuring of the Irrigation Department by establishing a new Division of Irrigation Management (which will include the functions of the cell) within the MLLD. This Division will have a multidisciplinary makeup and focus on agricultural production issues.

A matter of continuing dialogue between the USAID, as well as other donors, and the GSL has been the inadequate financial resources devoted to O&M, resulting in the deterioration of irrigation systems and premature requirements for rehabilitation. In order to establish financially self-supporting systems, the GSL has announced a new system of water charges to go into effect in 1984 and the establishment of a fund to be used expressly for O&M. The fee collection and allocation system will be administered by the new Division of Irrigation Management and will be assisted by our planned Irrigation Systems Management project.

The USAID discussion of water management policy issues will continue, with particular emphasis to be placed on commitment to O&M. The USAID is presently designing two major projects (Irrigation Systems Management and Mahaweli Agriculture and Rural Development) which include major components dealing with O&M. Both projects will include appropriate mechanisms to assure that a GSL commitment to O&M is forthcoming. These mechanisms will include appropriate conditions precedent, submission of annual O&M plans, and annual reviews. With the achievements to date, and the new approaches being considered under planned projects, a significant impact is being and will be made in GSL policies relating to irrigation O&M.

In another area of policy dialogue, under the Phase II Housing Guarantee program, AID is supporting the provision of low cost housing, and the strengthening and improvement of the GSL's capacity to develop its housing programs from a policy, planning and implementation standpoint on an economically self-sustaining basis. This is being accomplished by: (1) encouraging the development and implementation of a comprehensive housing policy; (2) improving the mechanism for establishing and servicing loans for shelter and related infrastructure, including the initiation of interest charges, to put GSL programs on a self-sustaining basis; (3) increasing the capacity for appropriate data collection and management; and (4) strengthening the housing finance institutions in the servicing of shelter for low income households.

The USAID is continuing its discussions with the GSL on health policy issues. Following our negative reaction to the Ministry of Health's request for capital assistance to support a major construction program of health facilities, we indicated areas where improvements in existing health systems could be made and the type of assistance AID might provide in addressing existing problems. The studies and reviews carried out in connection with the Health and Population Strategy have all served as vehicles for further policy dialogue on such questions as community participation in the costs of health care, the need for more emphasis on improved family planning services and for a national health manpower development plan, and various other

management and administration problems. We will continue this policy dialogue as discussions regarding a proposed FY 1985 Preventive Health and Family Planning Services project evolve.

With respect to a national energy policy and plans, the World Bank is assisting the GSL in their development. The primary AID role is to assist the GSL in the initial implementation of selective components of these plans and in the development of policies and plans which promote sustainable natural resource development.

2. Private Sector

To an increasing extent, the bulk of our projects include efforts to expand the role of the private sector in Sri Lanka's development. We are promoting the private sector production of certified seed, and participation in the provision of agricultural inputs and in marketing farm produce. In our irrigation and water supply and sanitation efforts, we are contributing to developing the capacity of local private contractors. In addition, we are supporting the development of private marketing and credit organizations in the Mahaweli and other irrigation areas, as well as the local manufacture and fabrication of components for water supply systems.

Our direct assistance effort under the Private Enterprise Promotion project is currently under implementation. This effort will:

- (1) enhance the private sector's ability to conduct effective, high-level dialogue with GSL decision-makers on all policies affecting the private sector's interests;
- (2) promote increased private sector investment in the economy, including foreign joint ventures;
- (3) build the capacity of existing public and private institutions to deliver better management training and entrepreneur development services to the private sector;
- (4) provide other selected technical assistance or training support required by the private sector; and

(5) create a new, self-supporting institution, the Sri Lanka Business Development Center (SLBDC), through which a comprehensive program to expand the private sector's role in Sri Lanka will be generated.

Experience over the next 12-18 months will indicate where additional AID resources can best be utilized. The Private Enterprise Promotion II project will focus on the major constraints to private sector development that emerge from this experience. This may include, for example, a major investment in a management training institution, or the capitalization of a specific investment or feasibility study fund that meets the special requirements of a targeted group of investors. It will almost certainly continue support for policy-related research carried out by the SLBDC or other institutions. Our objective is to support a mix of interventions that will have the greatest impact over the medium-term in promoting a dynamic, expanding private sector that assumes a leadership role in Sri Lanka's economic development.

We are progressing with efforts to increase U.S. agro-industrial investments through AID/Washington and USAID support for the Joint Agricultural Consultative Committee established for this purpose. Initial indications reflect the potential for U.S. investments which will transfer U.S. technology, while expanding employment and income opportunities for the Sri Lankan people.

3. Technology Transfer and Research

Progress in moving towards the goals we established in last year's ODS is evident.

The Forest Department is improving its capability to carry out forestry and forest products research and to use appropriate technology for its reforestation and fuelwood activities.

Although considerable progress has been made in strengthening the GSL's rice research capability, this will not be entirely self-sustaining by the end of 1988. Limited additional AID-support in rice research will be provided through our

Diversified Agriculture Research project, while other donor assistance is likely to continue for the ODS period.

We expect to begin implementation of the Diversified Agriculture Research project in late 1984. A meaningful degree of training, technology transfer, and facilities improvement will be completed by the end of 1988. However, the production impact of this project is not expected until late in its life, i.e., 1990 and beyond. In addition to our support of research on subsidiary field crops, we plan to assist in the introduction and institutionalization of a farming systems research approach within the Department of Agriculture. This approach is aimed at moving the farmer and his farming operation to the center of research, extension and training activities.

The goal established for experimentation in non-traditional energy resources is being modified to reflect our efforts in carrying out public and private sector energy conservation and management training.

Some progress has been made in expanding the degree of collaboration between Sri Lanka and relevant international and regional research institutions. The GSL's Department of Agriculture, for example, already collaborates with several of these institutions, e.g., IRRI and ICRISAT, and our Diversified Agriculture Research project will support a further strengthening of these and other similar relationships.

The USAID arranged with the Natural Resources Energy and Science Authority (NRESA) in Sri Lanka to function as the coordinating agency for proposals under AID's Innovative Scientific Research project. This arrangement has been a great help to Sri Lankan scientists as NRESA provides a useful service in handling the procurement of scientific materials and equipment, as well as providing administrative support. This arrangement has enabled NRESA to strengthen its staff and provide improved services to local scientists. Three research projects dealing with problems in the agricultural sector have already been funded by AID and are strengthening the research capabilities of the Faculty of Agriculture at the University of Peradeniya

and the principal rice research institution in the country. Another, which is expected to be approved shortly, will facilitate research at the GSL's Coconut Research Institute. The USAID is also participating in the AID-financed National Academy of Science project which provides a means of further assistance to local scientists.

With respect to the Research Priority Implementation Plans, covering agriculture, fuelwood, biomedical research on tropical diseases, we had yet to receive these at the time of the ODSS update preparation. However, we were closely involved in the visit of the AID/Washington team which refined the plan for agriculture. Therefore, our comments are limited to the draft agriculture research plan. We understand this plan will emphasize, in order of priority:

- (1) sustained, high productivity in relatively favorable natural resource areas, particularly in irrigated agriculture with emphasis on irrigation management;
- (2) sustained production in less favorable natural resource areas;
- (3) food and agriculture policy, including nutrition, food self-reliance, food security, and equitable growth; and
- (4) crop and animal protection (pre and post-harvest) by most cost-effective and environmentally acceptable means.

The USAID-proposed projects, described elsewhere, in Mahaweli Agriculture and Rural Development, Irrigation Systems Management, and Diversified Agriculture Research constitute the core of the Mission's agricultural program over the next five years and relate closely to the first priority noted above. All of these projects will support research in irrigated agriculture through infrastructural development, technical assistance and training, with particular emphases on improved organizational procedures and management practices, and on soil and water management combined with varietal selection and improvement for production of the subsidiary field crops under irrigation. Priority area 2 is also being addressed through the Diversified Agriculture Research project, which proposes to employ a "farming

systems" approach to determination of research priorities for sustained, rainfed, upland agriculture. Ongoing and planned projects in forestry and watershed management include major research components, and constitute another important facet of the overall program in rainfed resources management.

Priority area 3, food and agriculture policy, is currently being addressed through the national agriculture, food and nutrition strategy activity. USAID assistance to the strategy is primarily in the area of research, specifically the identification and prioritization of infrastructural, informational and policy constraints to development of key sub-sectors. The planned Agricultural Planning and Analysis project will continue this work, expanding on the research program initiated under the strategy and developing the GSL's ability to undertake research and analysis in the area of food and agriculture policy.

Research in crop protection (priority 4) is also included as an important component in the Diversified Agriculture Research project. Proposed new projects in Agricultural Marketing and Food Processing, and Agricultural Education and Training are also relevant to the stated research priorities, the latter to address the training of agricultural researchers and the former to include direct research in post-harvest crop protection. A possible Agricultural Export Development project will also include a research component which may address both rainfed and irrigated production as well as crop protection.

4. Training and Institutional Development

The major share of participant training over the CDSS period is expected to be supported through our various projects. Concurrently, we intend to utilize a substantial portion of our FY 1985 Development Training and Support project for participant training. Training under this new project will differ from that previously provided by:

(1) including longer-term, degree-level education (partially in response to outmigration of professionals and others following the July disturbances);

(2) training more people in fewer institutions, seeking to upgrade selected institutions;

(3) doing more in the area of management/administrative training for technical personnel in AID/GSL priority sectors who are now in senior administrative positions, but lack management skills;

(4) emphasizing technical and managerial training for women in line with a new GSL priority of moving more women into senior positions throughout the economy;

(5) to the extent practicable, strengthening human resources in areas in which AID/GSL plan to work, to help minimize the continuing problem of having key project personnel absent on long-term training for critical years of project implementation; and

(6) strengthening in-country capabilities to assess manpower deficiencies and develop and implement manpower improvement plans over the near and medium term.

The GSL capability to generate and analyze agricultural data has been enhanced already through our assistance to: (1) the Marketing and Food Policy Division (MFPD) of the Agrarian Research and Training Institute; (2) various short-term training programs; and (3) work related to the national agriculture, food and nutrition strategy. Our assistance to MFPD is aimed at increasing the dissemination of marketing information to producers, traders, and consumers. This information is to cover a greater range of agricultural commodities, be provided with greater speed and frequency, and have greater statistical validity.

The agricultural policy and planning capabilities of the GSL also are being strengthened through the strategy effort, and will be further addressed in our proposed Agriculture Planning and Analysis project.

On reflection, we have determined that it is not practical for Sri Lanka to be capable of producing all the needed quantity and quality of agricultural graduates by 1989. The demand is too low in certain specialities to make it practical to develop an in-country educational program to cover all areas. Additionally, training abroad

is desirable to a degree to minimize "in-breeding." Thus, while we would expect that the agricultural system in Sri Lanka will be capable of producing most of the graduates by 1989, some overseas training will continue to be desirable.

Our Water Supply and Sanitation Sector project will help strengthen the linkages between water and sanitation systems construction, health education, community involvement, and user fees, as well as, rationalizing investments in these systems.

We will continue to support an expansion of the role and institutional development of PVOs under our, to date, successful and extended PVO Co-financing project. In addition, our private sector efforts will build the capacity of public and private institutions to deliver improved management training and entrepreneur services to the private sector.

The USAID will continue to provide technical assistance for the development of strategies and comprehensive plans, and for the improvement of institutional capacity to carry out such plans. Priority will be given where the USAID is considering future program investments such as agriculture, private sector development and preventive health and family planning. However, we also intend to give consideration to areas such as energy, the environment, and transportation where AID will not have a large involvement, but clearly has a comparative advantage and where a small technical input in strategy or planning has the potential to eliminate constraints to the country's development.

IV. WORK PLAN

A. Analytical Work

The major piece of analytical work to be completed is the GSL's agriculture, food and nutrition strategy, which is heavily supported by AID. (See Section III.E. for a full discussion of this effort.) In 1984, the major emphasis will be on synthesizing the data from the various studies into a coherent strategy, from which

the GSL will develop investments for the 1984-88 period. This exercise will, of course, greatly influence our future assistance in these areas.

The study of the GSL's food stamp program and the analysis of the GSL's nutritional status survey will continue with AID-financed assistance from the International Food Policy Research Institute. The results will feed into the agriculture, food and nutrition strategy and will yield data on the changes in nutritional status since the GSL switch from a food ration to a food stamp program. The data also will guide our decisions on any possible assistance with respect to nutrition interventions.

Other agricultural research will come from the Diversified Agriculture Research project, with about two-thirds of the planned budget devoted to agronomic, farming systems, and socio-economic research.

As mentioned previously, an assessment of the future demand for agricultural graduates will be undertaken with a view towards a future Agricultural Education project, and as input into a possible Agricultural Planning and Analysis project.

Under our support to the Mahaweli Development Program, increased attention will be given to socio-economic research dealing with settlement problems and the maximization of the employment potential by expanding on the work done to date by Dr. Thayer Scudder, a development anthropologist.

Using data from the several previously mentioned reviews of health and population in Sri Lanka, the USAID in FY 1984 will complete its Health and Population Strategy (See Section III.D.). This Strategy will be the basis for our future assistance in these areas.

Our assistance to the Department of Census and Statistics will continue with a national survey of household economic activities in 1984, and a labor force and socio-economic survey in 1985. These surveys will provide district level data for national planning and policy making, and help AID and other donors in the development of proposed assistance to Sri Lanka.

The GSL's completion of a National Coastal Zone Management Plan, with AID assistance, is expected to be completed by 1986 and will provide the most comprehensive data base available with respect to coastal resources in Sri Lanka and associated development options. We will utilize this information to identify strategic areas for possible future assistance.

Additional analytical work will be undertaken with respect to the need for and feasibility of several future AID-assisted projects, including agricultural marketing and food processing, agricultural export development, and off-farm employment.

B. PID and PP Schedules

Given the extreme difficulty and lack of accuracy involved in projecting the completion of project documentation, we are limiting the time frame of our projections to FYs 1984/85. Ideally, all PIDs should be submitted to AID/Washington along with the spring submission of the Annual Budget Submission, and PPs before the end of the fiscal year prior to proposed obligation. These ideals are too seldom met. Generally, we will plan in FY 1986 and beyond to submit PIDs as close to the fall submittal date for our Congressional Presentation as possible, and PPs by the end of the first quarter of the fiscal year of obligation. Our ability to undertake the necessary project analytical and design work, plus giving increased emphasis to project implementation, will require an adequate number of personnel and, for USDH, their timely assignment to post.

Table I presents our PID and PP schedules for FY 1984/85.

C. Staffing

Relative to program size, complexity, and our current and projected design and implementation workload, the USAID/Sri Lanka is understaffed. This problem is complicated by the slowness in filling vacancies. Assuming that the Asia Bureau Experiment will prove successful, we would look for some modest increase in our U.S. direct hire ceiling over the ODS period, while, to the extent possible, increasing the use of institutional and personal services contractors. This increase will be in

TABLE 1

PID AND PP SCHEDULES

| <u>PROJECT NUMBER</u> | <u>PROJECT TITLE</u> | <u>PLANNED FY OF INITIAL OBLIGATION</u> | <u>MONTH/YEAR PID COMPLETED</u> | <u>MONTH/YEAR PP COMPLETED</u> |
|-----------------------|--|---|---------------------------------|--------------------------------|
| 383-0058 | Diversified Agriculture Research | 1984 | N/A | 5/84 |
| 383-0088 | Water Supply and Sanitation | 1984 | 11/83 | 7/84 |
| 383-0080 | Irrigation Systems Management | 1985 | 12/83 | 12/84 |
| 383-0086 | Muhaweli Agriculture and Rural Development | 1985 | 2/84 | 2/85 |
| 383-0085 | Development Training and Support | 1985 | 5/84 | 12/84 |
| 383-0081 | Preventive Health and Family Planning Services | 1985 | 7/84 | 7/85 |
| 383-0083 | Agricultural Planning and Analysis | 1985 (Shelf) | 9/84 | 6/85 |

technical fields such as agriculture and health where new initiatives are planned and additional direct-hire staff required. Concurrently, we will make some revisions to the composition of the U.S. and Sri Lankan professional staff to reflect modifications in our strategy and the proposed make up of our assistance portfolio. As has been our policy, the bulk of any additional Sri Lankan professional and support staff will be on a contractual, rather than direct hire, basis.

D. Evaluation Plan

Over the CDSS period, the USAID will focus principally on the evaluation of projects within our portfolio. Major program evaluations of the Title I and II programs were conducted in FY 1982, and we have no plans at this time to conduct other major program reviews. Table II includes the latest revisions to our FY 1984/85 Evaluation Plan as contained in the FY 1985 Annual Budget Submission (ABS), as well as our tentative schedule for evaluations for the FY 1986-89 period. The ABS Evaluation Plan also contained the proposed purpose and content of most of the evaluations scheduled for FY 1984/85 and, therefore, these are not repeated here.

E. Special Concern

We are concerned that an adequate level of grant funding be provided over the CDSS period to permit us to continue to respond meaningfully to the program emphases of AID. Over the CDSS period, grant requirements are estimated to be about 45% of the development assistance proposed. Historically, Sri Lanka has received a low proportion of grant assistance relative to other, higher income, countries in the Asia Bureau. Our recent experience has been that the Asia Bureau and Agency have been unable to provide the level of grant funds required and justifiable for our program in Sri Lanka. Over the past several years, our program has shifted from one emphasizing resource transfers to one focused on the priorities of policy dialogue, the private sector, technology transfer and research, and institutional development. On the basis of development status, including its low level of per capita income and increasing debt service burden, Sri Lanka should receive the bulk of its donor

TABLE II
EVALUATION PLAN - 1984 TO 1989

| | <u>FY 1984</u> | <u>FY 1985</u> | <u>FY 1986</u> | <u>FY 1987</u> | <u>FY 1988</u> | <u>FY 1989</u> |
|--|----------------|--|----------------------|----------------|----------------------|------------------|
| 383-0040 Rice Research | | EOP June | | | | |
| 383-0041 Paddy Storage and Processing | EOP January | | | | | |
| 383-0043 Malaria Control | | Annual Multi-donor Evaluation in June/July | | | | |
| | | | USAID MT Sept. | | USAID EOP Nov. | |
| 383-0044 Development Services and Training | ID March | | | | | |
| 383-0045 Agricultural Base Mapping | EOP June | | | | | |
| 383-0049 Agricultural Education Development | | | | EOP Oct. | | |
| 383-0055 Reforestation and Watershed Mgmt. | | MT Nov. | | EOP Aug. | | |
| 383-0056 Mahaweli Basin Development I* | | AE July | AE July | | | |
| 383-0057 Water Management | AE January | | EOP January | | | |
| 383-0060 PVO Co-financing | | | MT June | | | EOP September |
| 383-0062 National Institute of Health Sciences, Kalutara | | | EOP Nov. | | | |
| 383-0063 Market Town Water Supply, Jaffna | | ID Nov. | EOP Oct. | | | |
| 383-0073 Mahaweli Basin Development II* | | MT July | EOP July | | | |
| 383-0075 Mahaweli Environment | | | ID September | | EOP Nov. | |
| 383-0078 Mahaweli Sector Support | | EOP Oct. | | | | |
| 383-0082 Private Enterprise Promotion | | ID September | | | | |
| 383-HG-001 Low Income Housing Guarantee Program | | Annual Reviews in June | | | | |

Note: EOP = End-of-Project
 MT = Mid-term
 AE = Annual Evaluation
 ID = In-depth
 * Concurrent evaluations of Phases I and II

assistance on the most favorable of terms. Concurrently, the type of project initiatives being stressed by the USAID include substantial technical assistance and training components, and are often non-revenue generating in nature, thus qualifying them for grant funding. Although we will use loan financing for new initiatives where appropriate, our ability to continue to be responsive to Agency priorities and Sri Lanka's development needs will suffer unless this problem can be adequately addressed.

F. Benchmarks for Measuring Progress Towards ODSS Objectives

Our FY 1985 ODSS established longer-term goals for each of the assistance categories making up our future program for the 1984 to 1989 period. In addition, the FY 1985 ABS included operational objectives for the 1984-86 period linked to the longer-term goals of the ODSS. In this Section, these goals and objectives are provided and, where necessary, modified and updated.

1. Accelerated Mahaweli Basin Development

a. Five Year Goals:

(1) 20,000 families will have been settled on the left bank of System B (where AID is financing the irrigation infrastructure) and the necessary social and agricultural infrastructure (schools, clinics, extension centers, farm-to-market roads, etc.) will be in place.

(2) Approximately 52,000 additional metric tons of paddy and 2,100 metric tons of subsidiary crops will be produced annually.

(3) Four national reserves should be in place surrounding the settlement areas, and wildlife relocated from the settlement areas into the reserves.

b. Two Year Operational Objectives:

(1) Over 13,500 farm families (about 67,500 people) will be already settled in the left bank area, contributing to increased employment for an additional 28,000 people.

(2) About 160 kilometers of truck and market roads will be in service.

(3) Over 13,500 hectares of new lands will be under paddy production, contributing to an expected addition from the entire Accelerated Mahaweli Program of 107,000 tons of paddy production valued at about \$20 million per annum. In addition, the value of increased production from other food crops would be increased by over \$750,000 per annum.

(4) Wildlife reserves will be legally established and the institutional strengthening of the Department of Wildlife Conservation underway.

2. Food Production and Natural Resource Management

a. Irrigation and Water Management

(1) Five Year Goals:

(a) A Division of Irrigation Management within the ministry responsible for irrigation to be structured and staffed to provide country-wide guidance and support on effective water management.

(b) Systems and procedures will be developed and in place for cost-effective rehabilitation of irrigation systems.

(c) The Gal Oya irrigation system will be fully rehabilitated and utilizing effective water management techniques.

(d) Effective O&M systems will be in place on a country-wide basis, with increased farmer participation.

(e) Three irrigation systems in the process of being rehabilitated and improved water management practices instituted to allow full agricultural production.

(2) Two Year Operational Objectives:

(a) Irrigated acreage in the Gal Oya irrigation system will be increased by 18,000 acres with a resultant increase in paddy production of 19,000 tons annually.

(b) Replicable technology both for operations and maintenance and farmer organization will be developed that can be applied to other irrigation systems.

b. Agriculture Research, Production, Processing and Marketing

(1) Five Year Goals:

(a) Eight research stations will be in the process of being fully staffed, equipped, and facilities constructed for applied research in selected subsidiary crops.

(b) Seed quality control measures will be in effect for subsidiary field crops, with certified seed production increasingly in the private sector.

(c) A 20% increase in the production of subsidiary crops.

(d) The Extension Service will be strengthened relative to subsidiary field crops and gradually re-oriented towards the more effective transfer of research results to farmers.

(e) An integrated market development program for subsidiary field crops will be in effect.

(f) Improved policies to rationalize and support public and private investments in the agricultural sector will be in effect.

(2) Two Year Operational Objective:

Move ahead with initial implementation of the Diversified Agriculture Research project, and multi-year Title III program, and complete analyses related to possible new projects in agricultural export development and agricultural marketing and food processing.

c. Agricultural Policy, Planning and Analysis

(1) Five Year Goals:

(a) A system for the ongoing review and refinement of the agriculture, food and nutrition strategy will be in place.

(b) A system for the collection, analysis, and dissemination of both production and marketing data will be in the process of being institutionalized.

(c) The improved capacity of the GSL to carry out agricultural project appraisal, monitoring and evaluation will be in evidence.

(2) Two Year Operational Objectives:

It is expected that the Agricultural Planning and Analysis project will be in only the initial stages of implementation by 1986, thus no operational objectives other than those related to our continued support for the completion of the agriculture, food and nutrition strategy, and the strengthening of the National Planning Division of the Ministry of Finance and Planning are set forth at this time.

d. Energy and Natural Resources Conservation and Management

(1) Five Year Goals:

(a) Research, extension and training elements of our Reforestation and Watershed Management project become lead elements of the forestry master plan.

(b) The Forest Department will have the capacity to plant 15,000 acres annually, and the organization and staff necessary to protect existing and newly-planted forests.

(c) China Bay Forestry College will have the capacity to graduate 45 forest guards and rangers annually.

(d) A new research center for forestry related studies will be established.

(e) The Forestry Extension Service will be established and operational.

(f) A national energy management and conservation program will be established.

(g) Determination of cost effective renewable energy technologies and pilot testing will be completed.

(h) National environmental and natural resources planning and management capability will be established.

(i) Replication of suitable technologies will be in process, with a large private sector involvement.

(2) Two Year Operational Objective:

(a) 1985 will be the pivotal year for the Reforestation and Watershed Management project as a number of critical preparatory steps will be completed (i.e., long and most short-term training completed, Forest College facilities and faculty in

place, and extension service established). At that point, the integration of the various separate programs (e.g., village-run fuelwood plots, fire control, wood utilization research) into a cohesive national effort will take place.

(b) Initial AID assistance to the GSL in the development and implementation of sound policies and plans in energy, environment and natural resources management and conservation will be completed.

(c) Support will continue to research, training and pilot efforts involving mini-hydro and other alternative energy resources and the conservation of non-renewable energy resources.

3. Human Productivity and Well-Being

a. Health, Family Planning and Nutrition

(1) Five Year Goals:

(a) An improved system of preventive health services, including expanded family planning services, will be operational throughout much of the country with multi-donor support.

(b) The National Institute of Health Sciences for training para-medical personnel will be equipped and staffed to supply a significant share of the country's needs for such personnel.

(c) The MCH Title II program will be increased to 650,000 recipients, but with a much larger proportion of inputs from indigenous resources.

(d) Title II food assistance will be phased out of the school feeding program.

(e) The institutional capacity for designing, implementing and managing potable water and sanitation systems will have been improved.

(f) Selected private sector construction firms will have the capacity for constructing medium-sized water systems.

(g) About five market town water systems with integrated sanitation, health education and outreach, and water quality monitoring programs will be functioning with increased community participation.

(h) Reported cases of malaria will be reduced to an incidence of two per thousand.

(i) The Anti-malaria Campaign will have reduced spraying operations and will be relying on other means of vector control to support a stratified spraying program.

(j) There will be increasing access of the people to family planning services through the primary health care systems.

(2) Two Year Operational Objectives:

(a) By the end of the Malaria Control project extension in 1986, it is expected that: (1) a stable surveillance network will be in place; and (2) initial steps will be taken to incorporate malaria control elements into the primary health system.

(b) By 1985, the Water Supply and Sanitation Sector project is expected to have begun implementation.

(c) Initial implementation will be underway on the Preventive Health and Family Planning Services project.

(d) AID's involvement in the School Feeding program will begin to phase out in FY 1985, and by FY 1988, the phase out will be completed with total responsibility for the program assumed by the GSL. For the Maternal/Child Health program, current plans call for the expansion of food processing capacity which will permit an increase in the number of recipients, but a declining AID food input as increased use will be made of indigenous foods. This phase over to complete GSL responsibility would be achieved by FY 1990. The Commercial Marketing program is scheduled to be taken over by the GSL and/or private sector by FY 1986, after expanded production facilities come on stream.

b. Low Cost Housing Guarantees

(1) Five Year Goals:

(a) Housing finance institutions will be strengthened to more effectively service low income housing needs.

(b) The GSL policy of devoting its housing resources to the very poorest will be in full implementation.

(c) The private sector will have an expanded role in the financing of low-cost housing.

(2) Two Year Operational Objective:

The Phase II Housing Guarantee Program will be completed successfully.

c. Education and Training

(1) Five Year Goals:

(a) A complete analysis of manpower needs upon which the GSL can develop its agricultural education plans will have been completed and used as the basis for further investments.

(b) At least two agricultural colleges will be in the process of being staffed and equipped, assuming continued AID support to such colleges.

(c) The College of Agriculture and Post Graduate Institute of Agriculture at Peradeniya will have been fully staffed and equipped.

(d) The curricula of undergraduate and post graduate training of the College of Agriculture and Post Graduate Institute of Agriculture will have been revised and updated to accommodate the special needs of agro-industry.

(2) Two Year Operational Objectives:

(a) Assist the GSL in undertaking an assessment of the future demand for agriculture graduates in both the public and private sectors. This assessment is expected to be completed by early FY 1985, and the results will determine what role, if any, AID should play in strengthening the undergraduate agriculture institutions in Sri Lanka.

(b) Under the proposed Development Training and Support project, give priority to upgrading human resources in key development agencies, public and private, through both long and short-term training conducted overseas and in Sri Lanka. Such skills

upgrading will be closely tied to present and future GSL and USAID program emphases and will concentrate on selected institutions.

d. Private Enterprise Promotion

(1) Five Year Goals:

(a) The institutional capability for managerial training at all levels (senior managers to small entrepreneurs) will be established.

(b) There will be increasing activity of both foreign and local private sectors in agro-processing (both within and outside the Mahaweli area).

(c) There will be an increasing share by the private sector in overall investment with a concomitant drop in the public sector's share.

(2) Two Year Operational Objective:

By FY 1985, the USAID's initial project effort directed at the private sector will be well into implementation. In addition to the completed assessment, further results expected during 1984 include an action plan for the private sector adopted by the GSL, legal status established for the Sri Lanka Business Development Center, initial pre-feasibility studies completed, and the technical assistance consultant team in place. By the end of FY 1985, an evaluation of the project's progress will be undertaken. This evaluation will permit any necessary modifications in the current project and lay the groundwork for the Private Enterprise Promotion II project envisioned for FY 1986.

V. RESOURCES

The total assistance levels proposed consist of development assistance, PL 480 food aid, and housing guarantees.

The funding levels for the three general categories of development assistance reflect the shift of AID resources from Mahaweli Basin Development to food production and natural resource management, and, to a lesser extent, human productivity and well-being. Under the food production and natural resource category, we project several new initiatives which will respond to the export promotion, private sector

and employment creation priorities of the GSL. It also includes resources to continue reforestation and watershed management efforts and to undertake new efforts such as natural resource conservation. In the human productivity and well-being category, we plan to move forward with support for a preventive health and family planning effort which will aim to reduce mortality and address serious morbidity problems, thereby, increasing the productivity of the Sri Lankan people. Concurrently, we will support GSL efforts to decrease the natural rate of population growth through support for the expansion and increased effectiveness of family planning services. We also will increase support for the training of Sri Lankan technicians and professionals and for the strengthening of public and private institutions. We also propose to increase future support for the further development of the Sri Lankan private sector. Special attention will be paid to the needs of small and medium-sized enterprises, and potentials for supporting these in the rural sector. The USAID believes the proposed program is responsive to the emphases of the Agency, and that the maintenance of the resource levels requested will permit us to move forward with additional initiatives, such as a substantial private enterprise development effort, critical to Sri Lanka's development.

The ODS period will see the development of a multi-year Title III program which will be closely linked to the GSL's completed agriculture, food and nutrition strategy and future investment programs. By 1988, the Title II School Feeding program will be phased over to the GSL; while AID food input begins to decline for the Maternal Child Health program, as increased use is made of indigenous foods. The Commercial Marketing program will be phased over to the GSL and/or private sector by FY 1986.

We propose to continue the Housing Guarantee program over the ODS period. The program will support the provision of housing to low income people, while supporting the development of housing finance institutions, improved GSL housing policies, and an expanded role for the private sector.

The U.S. assistance proposed reflects AID/Washington's guidance including Approved Assistance Planning Levels. However, we understand the FY 1985 development assistance level may be reduced to \$41.5 million, all of the reduction in our proposed grant component of the program.

Although we recognize the budget constraints facing AID, it is extremely important that the levels proposed be maintained. On the political side, our proposed assistance will contribute further to solidifying and strengthening the excellent and improved relationship between the U.S. and a free and democratic Sri Lanka. This relationship has recently contributed to agreement on an expanded Voice of America station, the establishment of a Peace Corps program which aims to strengthen the teaching of English in the country, and the continuation of the GSL policy which permits ready access of friendly naval vessels, including those of the U.S., to Sri Lankan ports. Any sizable decline in U.S. assistance risks being interpreted by the GSL as a bellwether of declining U.S. interest in further strengthening our bilateral ties. From the development perspective, U.S. assistance will contribute to the country's steady movement on the path to self-sustained growth. Sri Lanka currently represents a country whose economic policies are generally sound, where the private sector is being encouraged to expand and contribute to national development, where political stability is being restored, and where donor assistance can be both more effectively and efficiently used.

PROPOSED ASSISTANCE PROGRAM
FY 1985 TO 1989 - \$ Millions

| <u>CATEGORIES</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>TOTAL</u> |
|--|--------------------------|-------------------------|---------------------------|---------------------------|----------------------------|-----------------------------|
| 1. Mahaweli Basin Development | | | | | | |
| System B - Left Bank | 17.8 | - | - | - | - | 17.8 |
| Mahaweli Agriculture and Rural Development | <u>7.0</u> | <u>12.0</u> | <u>10.0</u> | <u>3.0</u> | <u>3.0</u> | <u>35.0</u> |
| Sub-total | <u>24.8</u> | <u>12.0</u> | <u>10.0</u> | <u>3.0</u> | <u>3.0</u> | <u>52.8</u> |
| 2. Food Production and Natural Resource Management | | | | | | |
| Irrigation and Water Mgmt. Agricultural Research, Production, Processing and Marketing | 4.0 | 5.0 | 5.0 | 5.0 | - | 19.0 |
| Agricultural Planning and Analysis | 2.5 | 12.7 | 12.0 | 10.5 | 11.0 | 48.7 |
| PL 480, Title III (non-add) | - | 2.3 | 2.1 | 2.6 | - | 7.0 |
| Off-farm Employment | (26.0) | (27.0) | (27.0) | (27.0) | (27.0) | (134.0) |
| Energy and Natural Resources Conservation and Mgmt. | - | - | - | 10.0 | 18.0 | 28.0 |
| Sub-total | <u>2.4</u> <u>8.9</u> | <u>-</u> <u>20.0</u> | <u>5.0</u> <u>24.1</u> | <u>7.0</u> <u>35.1</u> | <u>10.0</u> <u>39.0</u> | <u>24.4</u> <u>127.1</u> |
| 3. Human Productivity and Well-Being | | | | | | |
| Health and Family Planning | 8.1 | 11.1 | 7.9 | 5.9 | 6.0 | 39.0 |
| PL 480, Title II (non-add) | (3.6) | (2.9) | (2.0) | (1.1) | (.8) | (10.4) |
| Private and Voluntary Organizations | 1.2 | .9 | 1.0 | - | - | 3.1 |
| Development Training and Support | 1.0 | 1.0 | 1.0 | 2.0 | 3.0 | 8.0 |
| Agricultural Education | - | - | 5.0 | 7.0 | 5.0 | 17.0 |
| Private Enterprise Development | - | 6.0 | 7.0 | 7.0 | 8.0 | 28.0 |
| Housing Guarantees (non-add) | (15.0) | (-) | (25.0) | (-) | (25.0) | (65.0) |
| Sub-total | <u>10.3</u> | <u>19.0</u> | <u>21.9</u> | <u>21.9</u> | <u>22.0</u> | <u>95.1</u> |
| <hr/> | | | | | | |
| Development Assistance | 44.0 | 51.0 | 56.0 | 60.0 | 64.0 | 275.0 |
| Housing Guarantees | 15.0 | - | 25.0 | - | 25.0 | 65.0 |
| PL 480, Title III | 26.0 | 27.0 | 27.0 | 27.0 | 27.0 | 134.0 |
| PL 480, Title II | <u>3.6</u> | <u>2.9</u> | <u>2.0</u> | <u>1.1</u> | <u>.8</u> | <u>10.4</u> |
| Total U.S. Assistance | <u>88.6</u> | <u>80.9</u> | <u>110.0</u> | <u>88.1</u> | <u>116.8</u> | <u>484.4</u> |

POPULATION AND DEVELOPMENT1. Population Density

Since 1946, the population of Sri Lanka has increased by 134% from 6.657 million to around 15.6 million in mid-1983. During this period, the population density increased from 103 persons per square kilometer (km.) to 235 persons per square km. This density is exceeded by only three of the 19 countries in south and southeast Asia (Singapore, Maldives and Bangladesh). Because the economy of Sri Lanka is primarily agricultural, population density is important. The density per square km. of arable land is 592 in Sri Lanka, which is over 55% higher than in neighboring India, Nepal and Pakistan. The average agricultural area per capita in 1980 of .15 hectares is lower than Thailand (.34), Philippines (.19), Pakistan (.25), Nepal (.17), Malaysia (.32), India (.25) and Burma (.24). With one of the highest population densities in Asia, Sri Lanka's past population growth trends and future projections are critical considerations for social and economic development.

2. Fertility

The Total Fertility Rate (TFR, or expected children per woman if age specific fertility rates remain unchanged) has fallen in Sri Lanka from 4.23 in 1970 to around 3.5 to 3.6 in 1980, due to rising age of marriage and reduced marital fertility rates. However, both of these factors causing the decline have recently moderated. With current mean age of marriage at 27.9 years for males and 24.4 years for females, and with the improvement in the ratio of males age 25-29 to females age 20-24 (from 73.4% in 1971 to 97.2% in 1981), it is unlikely that the degree of late marriage or non-marriage will continue to increase. Conversely, although the TFR decrease has recently moderated, it has untapped potential for decrease, since 67% of reproductive age couples indicate they want no more children, but only 24% use modern contraceptive methods.

The Crude Birth Rate (CBR) gradually declined from 30.4 per 1,000 population in 1971 to 27.5 in 1974. Since 1974, the CBR has been relatively stable (estimated at 27.3 in 1982), while the Crude Death Rate (CDR) has continued to decline. The CBR's lack of decline since 1974 has been due to the large increase in the number of women in reproductive age groups. The number of women of reproductive age increased 33% from 1971 to 1981 and is expected to increase another 16% from 1981 to 1991.

3. Population Growth

If the present fertility rate remains unchanged, Sri Lanka's population will rise to 23 million in 17 years (an increase of 53%) and to 36 million by the year 2025, an increase of 140% over today's level. If replacement level fertility (Net Reproduction Rate or NRR=1.0, which means each existing mother on average is replaced with one surviving daughter) is reached in the years 2000 to 2005 (in 17 to 22 years), Sri Lanka's population will increase to 21.8 million in the year 2001; and if replacement level fertility is maintained beyond 2001, the population will ultimately stabilize at 30.6 million. For the NRR to reach 1.0 by 2001, the 1980 TFR of around 3.55 would have to decline to 2.15 by 2001. This would be a TFR decline of 1.4 in 21 years, or 0.067 per year. During the 1970s the TFR declined at around 0.068 per year, but it is unrealistic to expect that this rate of decline will continue, since the TFR has been declining at a decreasing rate. In summary, the population is expected to reach 19.7 to 23.0 million in the year 2001, depending upon the degree of fertility decline. Sri Lanka should prepare for a population of at least 21 million in 2001 and at least 30 million before growth ceases 40 to 50 years later.

Sri Lanka's population growth rate has decreased from around 2.1% in 1970 to around 1.7% in 1982. The principal reason for this decline has been out-migration for employment abroad. The average annual net migration rate 1970 to 1980 was -3.4 per 1,000. In 1981 and 1982, this rate is believed to have increased to around 5.0 per 1,000, but substantiating data are not yet available. In any case, out-migration is likely to taper off and may even reverse itself due to reduction in employment

opportunities abroad, especially in the Middle East and Africa. In addition, emigrants consume food and social services in Sri Lanka for at least 20 years prior to departure. For these reasons, development planners need to focus principally on the rate of natural increase, rather than the population growth rate.

Sri Lanka's rate of natural increase (births minus deaths) has actually increased since 1975 from 19.3 per 1,000 to 21.3 per 1,000 in 1982. However, since 1970 the annual rate of natural increase has been relatively stable at around 2.1% to 2.2% with a low of 1.85% in 1974 (due to the food shortages which increased the death rate) and a high of 2.27% in 1971. Sri Lanka's estimated 2.13% rate of natural increase in 1982 is higher than that of India (2.0%), Indonesia (1.7%), Thailand (2.1%) and China (1.4%). While the rate of natural increase has remained relatively stable, the net annual increment to the population continues to grow. Sri Lanka increased by an estimated 246,200 persons in 1974; 273,900 in 1976; 308,700 in 1978; 317,900 in 1980; and 329,000 in 1982. Each day in Sri Lanka there are around 1,160 births and 255 deaths. This means an additional 905 persons daily and over 330,000 annually are added to the population.

4. Population and Development

To maintain equilibrium in human resource development, supplies of food, clothing, housing, education, health, transport and employment must keep pace with population growth. Since these supplies must grow to serve an additional 905 people every day, it is a serious challenge just to maintain equilibrium, and ever more difficult to progress. In most aspects of development, Sri Lanka is making progress, but this rate of progress is clearly being eroded by population growth.

The average agricultural land holding has fallen from 2.68 acres in 1962 to 1.95 acres in 1982 (27% in 20 years). While paddy yield increased roughly by 60% from 1971-81, per capita paddy yield increased only 35%. Per capita calorie supply in Sri Lanka has actually declined from 2,230 in 1971 to 2,200 in 1981, and a recent

analysis by David Sahn has indicated that the nutritional status of the population is worsening.

While health care expenditures have increased 405% during the 1970-80 period, per capita health care expenditures have increased only 352%, and still the system is about 20% under-funded. From 1970 to 1980, the annual number of inpatients increased from 2.054 million to 2.334 million and outpatients from 29.690 million to 31.891 million. During the same period, the persons per doctor increased from 6,477 to 7,186 and persons per hospital from 27,503 to 30,704. These increasing demands have contributed to lower access and quality of health services.

Sri Lanka has been actively encouraging resettlement schemes in the dry zone since the 1930s. Between 1935-68, over 83,000 allottees were settled on almost 600,000 acres, but the allotment size has been reduced over time from 8 to 2.75 acres. Under the current Accelerated Mahaweli Development program, it is anticipated that around 140,000 families will be settled in the newly irrigated areas. With an average family size of 5.6 persons, the Mahaweli Program will absorb about 784,000 people, the equivalent of roughly 27 months of population growth in Sri Lanka. The Mahaweli Program is expected to generate employment for around 450,000 persons. Over the next decade, the Free Trade Zone is expected to add another 60,000 jobs (around 6,000 per year). However, from 1980 to 2005 the population of working age (15-64) will increase by 6.215 million or roughly 249,000 per year, putting serious pressure on the economy to create the necessary employment opportunities.

In the field of education, from 1971 to 1981 the percentage completing primary education has increased from 50.7 to 68.2 for males and from 42.4 to 62.3 for females. However, the student population per school has increased from 1,262 in 1970 to 1,516 in 1980, creating strains on existing capacity.

During the years 1977-80, the Government of Sri Lanka (GSL) built 246,841 subsidized housing units which should accommodate 1.382 million people. The natural