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IMPACT OF THE MULTI-YEAR TITLE III FOOD ASSISTANCE PROGRAM ON FOOD SECURITY IN SRI LANKA

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ADB	Asian Development Bank
A.I.D.	Agency for International Development
CFC	Ceylon Fisheries Corporation
CFHC	Ceylon Fisheries Harbours Corporation
CPI	Consumer Price Index
CWE	Cooperative Wholesale Establishment
DRC	Domestic resource cost
EPC	Effective protection coefficient
FSP	Food Stamp Program
GDP	Gross Domestic Product
GSL	Government of Sri Lanka
Ha	Hectare
IMF	International Monetary Fund
JEDB	Janatha Estate Development Board
JSP	*Janasaviya* Program
Mt	Metric ton
NGO	Non-governmental organization
NPC	Nominal protection coefficient
PFP	Policy Framework Paper
PL-480	Public Law 480, the basic legislation governing U.S. food aid
PRFSP	Poor Relief Food Stamp Program
PVO	Private voluntary organization
SRSPC	Sri Lanka State Plantations Corporation
USAID	U.S. Agency for International Development

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ABSTRACT

The objective of this study is to assess the impact of the current Title III program in Sri Lanka. As enhancing food security is an overriding objective of both U.S. food aid and USAID/Sri Lanka's Multi Year Food Assistance Plan, the report attempts to assess the impact of this assistance on food security in Sri Lanka. The assessment is conducted on the basis of the three central dimensions of food security: availability; access; and utilization.

Availability. Sri Lanka's food supply policy relies on domestic supplies, commercial imports and concessional imports to ensure adequate availability of food. PL-480 imports have contributed significantly to this policy goal. The absence of such assistance would likely have resulted in two detrimental effects on food security. First, reduced food availability would have caused disproportionate hardships to the poor, whose consumption levels are relatively low even under current supplies. Second, reduced food assistance would have led to diversion of resources from on-going and planned development activities to meet the shortfalls in food availability. The patterns of food production and imports in Sri Lanka suggest that PL-480 assistance has had no disincentives on production or commercial imports. First, concessional imports, now approximately 10 percent of total rice and wheat availability, have been falling. Second, the protection accorded to domestic rice producers has offset any potential negative production effects from PL-480 wheat shipments. Third, factors other than PL-480 have caused both rice and coconut production to stagnate. Fourth, commercial imports have increased while concessional imports have fallen, suggesting both that PL-480 shipments have not depressed domestic rice production and that they have added to, rather than reduced, food availability. Fifth, a significant proportion of counterpart funds have been allocated to crop research and extension, two important determinants of productivity in the long run.

Access. Strategies to ensure faster economic growth and provision of safety nets to protect the poor during structural adjustment tend to improve food accessibility at the household level. The PL-480 program has been used to maintain Sri Lanka's commitment to economic reform. The disbursement system for local currency proceeds is based on the achievement of specific benchmarks. Several policy reforms have been achieved under this system. Two of these relate to restructuring and privatization of the Ceylon Fisheries Harbours Corporation and reducing the export taxes on the plantation sector.

The Title III program has made positive contributions to government attempts to follow prudent fiscal policy consistent with economic liberalization. The program has contributed directly by providing grants to finance the budget deficit and indirectly by supporting privatization and public sector restructuring. The provision of a safety net in the form of a food stamp program to mitigate the potential short-run negative effects of structural adjustment on the real incomes of the poor is in place. Justifiably, this safety net program has been strongly supported by using counterpart funds from PL-480 wheat sales. The food stamp program provides about 10 percent of disposable income of the poorest 20 percent of the population. Elimination of present leakages would allow a larger transfer to the needy. The performance-based disbursement mechanism can be used to ensure better targeting of the food stamp program.

Utilization. Interventions to assist households in better utilization of available food has not received direct support from the PL-480 program. Recognizing the need for better coordination of Title III-supported activities with existing health and education efforts, a nutrition and health surveillance feasibility study has been recently carried out. Findings from this survey might identify cost-effective interventions to increase food security through proper food consumption/utilization.

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EXECUTIVE SUMMARY

I. BACKGROUND, STUDY OBJECTIVES, AND CONCEPTUAL FRAMEWORK

The U.S. foreign assistance program to Sri Lanka has included PL-480 Title I and Title III agreements since the 1950s. In 1991, under new food assistance legislation, the Title I and Title III were completely overhauled. Title I is now a relatively small concessional loan program administered by the United States Department of Agriculture with relatively little policy conditionality. Title III, a grant program, is USAID/Sri Lanka's major vehicle for policy reform.

In 1990, USAID/Sri Lanka prepared a Multi-Year Food Assistance Plan to support the Mission's strategic objectives and facilitate policy reform and structural adjustment of the Sri Lankan economy. Authorized in May 1991 for three years (FY92-94), the Title III agreement has four major objectives:

- to contribute to overall food security in Sri Lanka;
- to promote development of free, private sector-dominated agricultural markets;
- to maximize the development impact of food assistance by using it as a mechanism to promote economic and agricultural policy reform; and
- to provide critical balance-of-payments support during a period likely to be characterized by major efforts towards stabilization and structural adjustment.

The PL-480 Title III Agreement between USAID and the government of Sri Lanka (GSL) includes a provision for the periodic assessment of the impact of specific policy reform measures on Sri Lanka's food and agricultural sector. A mid-term evaluation of the Title III program was completed in October 1992. However, focusing primarily on the operation of the program and the validity of its performance-based policy reform design, the evaluation did not analyze the economic impact of the completed reforms. A major purpose of the present report is to fill this gap. Even though many of the reforms identified in the Title III agreement have yet to be completed, USAID Sri Lanka considers that such an assessment is timely because the original three-year program is in its last year and a three-year extension is being considered.

The major objective of this study is to assess the impact of the current Title III program in Sri Lanka. As enhancing food security is an overriding objective of both U.S. food aid and USAID/Sri Lanka's Multi-Year Food Assistance Plan, the report attempts to assess the impact of this assistance on food security in Sri Lanka.

In its Policy Determination issued in April 1992 (PD-19), A.I.D. identifies three central dimensions of food security: (1) availability; (2) access; and (3) utilization.

Food availability stresses *supply* of food not only from domestic production, but also from commercial and concessional imports. Thus defined, food availability is rooted in the premise that food security is enhanced when the potential efficiency gains from trade are fully realized. Access to food emphasizes effective *demand* and purchasing power of consumers, thus underscoring the inseparability of food security and poverty. Such inseparability highlights the need to interpret food security as a long-term objective that will be attained primarily through broad-based, equitable and sustainable economic

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development. Equity suggests that targeted food assistance to those who lack resources and income or other means for food security is an essential component of the economic development process. Nutrition, education and health programs are important means of improving utilization.

II. IMPROVING FOOD SECURITY THROUGH INCREASED FOOD AVAILABILITY

The average diet in Sri Lanka is dominated by rice, wheat and coconut. These three commodities together account for about 75 percent of food consumption in terms of energy intake. In particular, the two major starchy staples, rice and wheat, contribute about 55 percent of calorie supplies, with rice accounting for about 42 percent.

Rice yields showed a steady increase from about 2.4 mt/ha in 1978-79 to about 3.5 mt/ha in 1986-87. However, since 1985 rice output has actually fallen. Total availability has also fallen, despite the increase in rice imports.

There is no wheat production in Sri Lanka. Wheat is imported through commercial channels and donor assistance, with the former representing the largest percentage of total imports.

From 1965 to 1980, the average share of donor support in total imports was about 36 percent. Over the period from 1980 to 1992, donor-assisted imports accounted for roughly 45 percent of all imports. Since 1988, commercial imports have exceeded concessional imports each year.

In 1985-92, commercial wheat imports increased sharply and concessional imports declined. However, total imports increased — a pattern that contrasts with that prevailing in the rice market.

During the 1985-92 period, total rice and wheat availability declined. Since Title III has contributed one-third of total wheat availability, there would have been a more significant reduction in per capita availability in the absence of Title III wheat, unless commercial imports of wheat and/or rice increased to offset PL-480 shipments.

Coconut production, the third most important food staple in Sri Lanka, dropped sharply after 1985-86, increasing the pressure to expand imports of wheat and rice.

The food supply patterns described above indicate that average availability has been falling, as have donor-supported food supplies. Data from a recent survey indicate that households in the bottom 40 percent of the income range may be having per capita energy intake levels far below the recommended norms. For example, households in the poorest 20 percent consume well below the recommended allowances. This finding points to the fact that adequate nutritional standards for the poor are not being achieved. While short-run interventions such as the current food stamps scheme may be of assistance, the ultimate solution has to originate from increasing accessibility to food through increased real incomes. It also demonstrates the need to ensure that current food availability should not be allowed to decline, for the real income effects of food supply shortages affect the poor much more seriously than the relatively better-off segments of the population.

There is clear evidence that Sri Lanka's food supply policies have been driven by the key objective of ensuring an average per capita availability that would be in the region of the energy intake levels required to sustain a healthy and active life. Policy implementation has occurred through a mix of instruments, including commercial and concessional imports, promotion of domestic production and provision of a

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food safety net to assist the vulnerable. Food aid, particularly PL-480 imports which account for the bulk of food aid, has contributed significantly towards ensuring an adequate total food supply. The absence of external assistance would likely have had two important detrimental effects on food security in Sri Lanka. First, reduced food availability would have caused disproportionate hardships to the poor due to their relatively high price elasticities of demand for food. Second, scarce foreign exchange resources needed to finance other development activities would have been used to meet at least part of the food supply shortfall.

The patterns of food production and imports in Sri Lanka suggest that PL-480 assistance has had no disincentives on production or commercial imports. First, concessional imports, now approximately 10 percent of total rice and wheat availability, have been falling. Second, the protection accorded to domestic rice producers has offset any potential negative production effects from PL-480 wheat shipments. Third, factors other than PL-480 have caused both rice and coconut production to stagnate. Fourth, commercial imports have increased while concessional imports have fallen, suggesting both that PL-480 shipments have not depressed domestic rice production and that they have added to, rather than reduced, food availability. Fifth, a significant proportion of counterpart funds have been allocated to crop research and extension, two important determinants of productivity in the long run.

III. IMPROVING FOOD SECURITY BY IMPROVING ACCESS TO FOOD

III.A. Increasing Food Security by Promoting Broad-Based, Sustainable Economic Development

Food availability is only one determinant of food security. The lack of food accessibility at the household or individual level is another major obstacle to achieving an acceptable level of food security. As the most food insecure segments of the population are also typically the poorest segments of the population, and as poverty cannot be separated from the level and distribution of national income, food security cannot be separated from broad-based, sustainable economic development.

However, broad-based, sustainable economic development is only a necessary condition to improved food security. It is now widely accepted that economic development will not remove all people from food insecurity. Identifying potential food gaps among individuals and families lacking buying power is important, so that those who are by-passed by development can benefit from a public safety net providing food and/or income transfers.

Availability of a public safety net is particularly important in countries, such as Sri Lanka, where the poor are made more acutely disadvantaged by austerity measures adopted during periods of structural adjustment. Structural adjustment reforms may indeed cause transitory food insecurity even as they contribute to long-term food security by placing emphasis on sound economic policies for sustainable growth. For this reason, targeted food assistance can play a major role in alleviating food insecurity while reform is in progress.

III.A.1. The Role of Title III in Enabling Sri Lanka to Maintain its Commitment to the Structural Adjustment Program

Local sales proceeds from Title III commodity donations have been used to support Sri Lanka's policy reform agenda in the food and agricultural sector. These policy reforms have been identified by GSL (and concurred with by USAID, the World Bank and the International Monetary Fund) as necessary steps to achieve economic growth and poverty reduction.

As documented in the Sri Lanka Title III Mid-Term Evaluation prepared in October 1992, there is agreement among USAID and government officials that the performance-based disbursement system has served as an effective mechanism to expedite policy reform in Sri Lanka, thus enabling the country to maintain its commitment to the structural adjustment program. The disbursement system for local currency proceeds is based on the achievement of specific benchmarks. Those benchmarks generally contain a number of incremental and measurable steps that may start with preparation of an action plan or completion of a study to guide future actions. In other cases, the steps are simply designed to allow for gradual implementation of the reform. As the link between the reform and the release of funds may be exactly the stimulus required for the necessary steps to be taken by the various officials involved, the expectations underlying such a system is that it will provide GSL with an incentive to expedite implementation of the various steps needed to carry out a specific policy action.

In addition, by allowing the dialogue between GSL and USAID officials to concentrate on how to accelerate implementation of each benchmark, the disbursement system has enabled achievement of steady progress toward implementation of policies. More important, the system has strengthened GSL officials' hands in negotiations with the relevant ministries, departments and agencies to obtain implementation of such policies. The studies that have often been required in the initial benchmarks have been particularly useful in this regard, for the analyses contained in these studies have been instrumental in building the case for accelerating the needed adjustments.

Several policy reforms have been achieved under the performance-based disbursement system. Two of these reforms have concentrated on restructuring and privatization of the Ceylon Fisheries Harbours Corporation and on reducing the export taxes on the plantation sector. The two reform measures have had important fiscal and economic implications.

III.A.2. Contribution of Title III to Improving Management of Fiscal Policy

Soon after the break with the past that started in 1977, Sri Lanka embarked on a series of economic reforms that placed sound macroeconomic policies in the forefront of the adjustment process. In this perspective, positive steps were taken to prudently manage the economy by planning a fiscal policy consistent with the liberalization drive.

The Title III program has made positive contributions to the fiscal adjustment process, directly by providing grants to finance the deficit and indirectly by increasing privatization proceeds and lowering transfer payments as a result of its role in facilitating public sector rationalization.

Availability of local currency generated by the Title III program has obviated the need for additional resources that would otherwise have been mobilized through foreign sources, domestic borrowing and/or higher taxes to reduce the deficit, with potential adverse effects on the country's medium-term growth performance. In addition, by facilitating public sector rationalization, the Title III program has further contributed to increased fiscal discipline.

The program has also contributed to improving the composition of government revenue and management of the revenue and expenditure mix. As the share of the trade tax in tax revenue in Sri Lanka is well above that prevailing in other developing countries, elimination of the export taxes on tea and rubber in December 1992 was a major step towards improving tax revenue patterns. Elimination of these taxes also reflected GSL's conviction that the basic structure of the tax system needed to be adjusted if the revenue yield was to be increased on a sustainable basis to keep pace with expenditure requirements. Thus,

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reduction in export duties should be viewed as one element of a fiscal reform agenda that Title III has helped expedite. Other elements have included reduction of other inefficiencies in the tax structure through application of a wider direct and indirect tax base, reduced marginal rates for income taxes, and improved tax administration.

III.A.3. The Role of Title III in Accelerating Public Sector Rationalization for Private Sector Development

There is consensus that with a good natural resource base and strong human resources resulting from decades of dedicated efforts to improve education and health, Sri Lanka has a distinct long-term economic development potential. A major constraint to realizing this potential has been a large and inefficient public sector and the failure to tap the full capacity of a vigorous and dynamic private sector. Recognizing the potential role of the private sector in enlarging the country's economic base, Sri Lanka has recently embarked on a program to increase the efficiency of the public sector and redirect its role toward economic activities that contribute to the effectiveness of the private sector.

A step in this direction has been the restructuring and privatization of the Ceylon Fisheries Harbours Corporation (CFHC), a parastatal organization of the Ministry of Fisheries and Aquatic Resources. Restructuring of CFHC was based on a plan formulated in the Title III Agreement that included retrenchment of redundant CFHC employees, divestiture to the private sector and cooperatives of at least 50 percent of the net asset value of CFHC commercial facilities, and preparation of a plan for divestiture of remaining CFHC facilities.

Divestiture of CFHC has resulted in significant reduction in expenditure used to finance CFHC non-economic activities and substantial revenue from the lease of land and buildings and the sale of machinery. While the role played by Title III in bringing about such a positive outcome is in itself important, a more significant function accomplished by the Title III program may have been that rationalization of CFHC was implemented at a time when public sector restructuring and privatization had just emerged as an important component of Sri Lanka's economic adjustment efforts. By facilitating rationalization of CFHC, the program has in fact capitalized on an opportunity to build a constituency for privatization, to make the concepts and mechanics of public sector rationalization more widely accepted, and to build the momentum for later, more complex restructuring and divestiture programs in trade, food marketing, and tree-crop plantations.

III.A.4. Contribution of Title III to the Development of a More Rational Tree Crops Subsector: Removing Export Taxes on Tea and Rubber Exports

The tree crops subsector of Sri Lanka has performed poorly for over twenty years. In the early 1980s, tea, rubber and coconut produced nearly a quarter of national revenue and over half of total export earnings. Ten years later, the revenue contribution declined to one-twentieth and exports to one-quarter of the total. Export market shares generally declined. Tea declined from 22 percent in 1981 to 18 percent in 1989, competing with newcomers such as Kenya and China. In rubber, the share also dropped whereas Thailand's share rose sharply. Sri Lanka is not a major supplier of coconut products to the international market because of its large internal demand. Sri Lanka's international market share is less than 3 percent.

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Losses in the two state corporations that managed two-thirds of the production were significant whereas the private sector had positive profits, for example, in 1984 and 1985. In the two state corporations, the cumulative loss by 1990 was over Rs. 3 billion and the cumulative debt was Rs. 5 billion. In 1992, these two state corporations were financially bankrupt and needed infusion of funds from the Treasury. For instance, during 1983-90 one of the two corporation's revenue grew at a rate of 14 percent per annum while its debt increased at 50 percent per annum.

In the tree crop subsector, both state and private producers have been heavily taxed to provide government revenue to support other sectors. This subsector has been taxed directly through a mixture of ad valorem taxes, export duties and cess. The largest tax is the export duty. These duties were significant. In 1981, the export tax was 29 percent of export value for tea and 55 percent for rubber. After the restructuring of the state plantation sector in 1992, the export duty on tea and rubber and the ad valorem tax on tea were removed in December 1992.

Removing export taxes and moving to privatization are steps towards a more rational tree crops subsector development strategy. While export taxes may have been optimal in the beginning in that the tax revenue generated exceeded production losses from the tax, overtime production losses exceeded the export tax revenue generated. Production by the private sector has performed better than state production. This and other findings suggest that using funds from the Title III rupee account to aid in privatization should be given serious consideration. Other problems will also need to be addressed. For example, high wage rates have had negative production effects. Further, privatization will have to take into account reduced labor demand and whether displaced labor can be absorbed into the overall economy.

III.B. Improving Access to Food Among the Disadvantaged: The Poor Relief Food Stamp Program

The provision of safety nets to mitigate the potential short-run negative effects of structural adjustment on real incomes of the poor is increasingly being viewed as a prerequisite for the effective management of the expected transition from a controlled economy to a market-friendly open economy. Justifiably, this recognition has loomed large in the selection of the portfolio for use of counterpart funds in Sri Lanka's PL-480 Title III program.

Of the total counterpart funds generated from Title III wheat sales, 43 percent in 1991, and 30 percent in 1992 were used to support the Poor Relief Food Stamp Program (PRFSP) — the major safety net in Sri Lanka. These contributions constituted approximately 5 percent of the PRFSP budget in 1991 and 1992.

When the initial Food Stamp Program (FSP) was introduced in 1979 to replace long standing food ration issues and food price subsidies, it came as a strategic and timely introduction of a safety net in the context of the economic reforms that were being undertaken to reduce government intervention in the economy and allow markets to play a greater role towards increasing economic efficiency and development. The name change from the original FSP to the PRFSP in 1986 was intended to emphasize the fact that this safety-net program is meant to benefit the poor only.

Eligibility for PRFSP is based on household income, assets and consumption, and therefore is not adjusted for family size or composition. However, on the benefit side there is a partial adjustment insofar as the number of household members eligible to receive food stamps varies according to household income level. In the lowest income category, all members do receive food stamps. In addition, the value of food stamps is adjusted by age in order to target benefits more effectively at households with young children. Food stamps can be used to buy food stuff, specified in a list that includes rice and wheat, at non-subsidized prices. Each household is also given a stamp to purchase kerosene.

The justification for continuation of this safety-net program may be illustrated by the fact that after about 15 years of economic reforms that have led to relatively high rates of growth, about 20 to 25 percent of the households have not been able to fully participate in the new opportunities for income enhancement. Recent data indicate that the bottom 20 percent of all households, whose nutritional welfare deteriorated from an already low level in the immediate aftermath of economic reforms, have begun to recover but their consumption levels still represents only 60 to 70 percent of adequacy.

PRFSP is intended to increase nutritional welfare of households by increasing their disposable incomes. It is estimated that food stamp income contributed about 10 percent of the disposable incomes of the poorest 20 percent and about 6 percent in the next 20 percent of households in 1990-91. In 1981-82, these shares were 14 percent and 9 percent, respectively. In terms of possible calorie purchases, these incremental incomes bring about 115 additional calories per capita per day, contributing about 8 percent of total calorie consumption by the lowest 20 percent of households in 1990-91. This level of calorie contribution reflects a 30 percent reduction relative to the contribution food stamps made in 1981-82. While the nominal value of food stamps was doubled between 1981-82 and 1990-91, the increase has not been sufficient to compensate for inflation. There should have been at least a 325 percent increase in the food stamps value to compensate for the erosion of real value of this income transfer. Given the budgetary constraints, there is an urgent need to eliminate "leakages" of transfers to upper income households and strengthen the program meant for the needy. Conversely, when leakages occur, the cost-effectiveness of the program in relation to the intended target group diminishes.

Two major attempts (one in 1986 and the other in 1991) have been undertaken towards better targeting. In both attempts, the target groups were well identified but restructuring was not completed. The last intervention was conducted with direct and active community participation to identify the needy households. Relative to an income cut-off level of Rs. 700 per month, about 45 percent of the existing recipients were found to be non-eligible. Most of these were households having regular income earners with incomes exceeding the cut-off level. It should be administratively feasible and socially justifiable to remove such households from PRFSP rolls and redistribute the savings among the needy. PRFSP presently gives benefits to all newly identified poor households in the target group. Hence, it is likely that a vast majority of the intended beneficiaries are receiving these benefits.

The total budget of the PRFSP was about Rs. 3 billion in 1991 and 1992. In 1993, it may be in the region of Rs. 2.7 billion and may account for about 14 percent of all transfers to the household sector and about 2 percent of total government expenditure. Projections for the next three years show that the budget would decrease to Rs. 2 billion in 1994 and to Rs. 1.7 billion in 1996. It would require about Rs. 2.7 billion each year during this period if food stamps were to be indexed.

From the perspective of assistance to vulnerable sections to increase their nutritional welfare, the PRFSP could be considered effective and reasonably efficient. This portends that the use of part of PL-480 Title III counterpart funds in this program has been productive in terms of the goals of this food assistance program. The PRFSP, given its high degree of effectiveness in assisting the poor in a transitory period of economic growth, may deserve a much higher focus and share of the assistance that the PL480 Title III program can provide.

IV. ENHANCING FOOD SECURITY THROUGH IMPROVED FOOD UTILIZATION

Just as increased availability of food will not necessarily be accompanied by improved access among the poorest segments of the population, the capacity to grow or purchase sufficient food does not ensure adequate individual consumption/utilization. Adequate utilization implies adequate intake of calories, but also adequate intake of vitamins, protein, minerals, and fiber. Due to illness, personal tastes, poor eating habits, cultural practices that limit consumption of a nutritionally adequate diet, lack of knowledge, or simply inadequate household processing and storage, improved access to food will not necessarily lead to adequate nutrition.

A review of Sri Lanka's Title III-supported development activities, including those supported by the private voluntary organization (PVO) program, reveals that this third component of food security has not been sufficiently emphasized.

Recognizing the need for better coordination of Title III-supported activities with existing health and education efforts, a nutritional and health surveillance feasibility study was recently carried out by GSL with USAID assistance. The study recommended a national survey system to monitor nutrition and health in Sri Lanka. With substantial funding and technical assistance from USAID, the survey was initiated in the current fiscal year as a first step in the implementation of a surveillance program to alleviate food insecurity induced by inadequate food utilization/consumption.

A survey report will be completed by the end of 1993. On the basis of survey findings, a separate report will be prepared that will identify problem areas where further analysis will be needed. Of particular interest to USAID are cost-effective mechanisms for assessing and monitoring the prevalence of nutritional factors affecting child and maternal survival rates, such as micronutrient deficiencies. Emphasis will also be placed on practical methods for controlling such deficiencies that are consistent with USAID's strategic framework and its PL-480 goals and objectives.

Thus, the semi-annual nutrition surveillance survey will not only allow policy makers to track changes in a number of food security indicators, but it will also review the current situation and identify new or modified efforts that will increase food security through proper utilization.

While some of these potential interventions may require large-scale regional or national efforts, other remedial measures may be integrated into the PVO program. As Title III-funded PVO activities have thus far concentrated on interventions aimed at improving access to food by the disadvantaged, USAID/Sri Lanka may wish to encourage PVOs to place more emphasis on enhancing food security through improved food utilization. This objective may be accomplished, for instance, through projects teaching urban households how to raise a home garden, can food, or obtain sanitary water. Targeting women might be particularly cost-effective. As women are often responsible for meal preparation and nutrition education, targeting women can do much to improve food security through better food consumption and utilization.

V. SUGGESTED AREAS OF CONCENTRATION

The multiple dimensions of food security outlined above suggest that, to be effective, the Title III program in Sri Lanka should concentrate on a limited number of key interventions. Given funding limitations, the general rule is to use PL-480 resources where payoffs are highest to promote food security. While the nutrition surveillance survey may identify cost-effective interventions to increase food security through proper food consumption/utilization, USAID/Sri Lanka may wish to continue to focus its attention on improving both food availability and accessibility.

The following five areas offer significant potential for furthering this objective: (1) Enhance efficiency of the food stamp program through better targeting. (2) Liberalize the wheat market, including imports and distribution. (3) Leverage more efficient rice trade policies. Such an effort may require preparation of a pricing and disincentives study to guide implementation of the policy reform measures. (4) Expand the accelerated land surveying/titling program. (5) Facilitate restructuring of the tree crop subsector. Such an intervention should include in-depth analysis of how to mitigate the effects of restructuring on displaced workers. The performance-based disbursement system and judicious allocation of counterpart funds may be combined to implement the above policy measures.

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CHAPTER 1
INTRODUCTION

1.1. BACKGROUND: OVERVIEW OF THE SRI LANKA TITLE III PROGRAM

The U.S. foreign assistance program to Sri Lanka has included PL-480 Title I and Title III agreements since the 1950s.[1] In 1991, under new food assistance legislation, the Title I and Title III were completely overhauled. Title I is now a relatively small concessional loan program administered by the United States Department of Agriculture (USDA) with relatively little policy conditionality. Title III, a grant program, is USAID/Sri Lanka's major vehicle for policy reform.

In 1990, USAID/Sri Lanka prepared a Multi-Year Food Assistance Plan (MYFAP) to support the Mission's strategic objectives and facilitate policy reform and structural adjustment of the Sri Lankan economy. Authorized in May 1991 for three years (FY92-94),[2] the Title III agreement has four major objectives:

- to contribute to overall food security for Sri Lanka;
- to promote development of free, private sector-dominated agricultural markets;
- to maximize the development impact of food assistance by using it as a mechanism to promote economic and agricultural policy reform; and
- to provide critical balance-of-payments support during a period likely to be characterized by major efforts towards stabilization and structural adjustment,

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[1] The Agricultural Trade Development and Assistance Act of 1954, also known as Public Law 480 (PL-480), authorizes the President to establish the U.S. Food for Peace Program. The Food for Peace Program is composed of Title I, Trade and Development Assistance; Title II, Emergency and Private Assistance; Title III, food for Development; Title V, Farmer-to-Farmer Program; and Title VI, Enterprise for the Americas Initiative. Title IV, General Authorities and Requirements, provides administrative requirements for the food aid program, including Title III.

The statute directs the Secretary of Agriculture to administer Title I and the Administrator of the Agency for International Development (A.I.D.) to administer Titles II and III. Title II food aid and dollar grants (to Private Voluntary Organizations and Cooperatives under Section 202(e) of PL-480), is administered by A.I.D.'s Food and Humanitarian Assistance Bureau (FHA). Title III is administered by A.I.D.'s regional bureaus and A.I.D. Missions in consultation with FHA.

[2] The multi-year plan was initially proposed as a five-year, $165 million program. However, following discussions with A.I.D./W, it was scaled down to a three-year, $105 million program, with the implicit assumption that it would be extended to its original size upon demonstration of satisfactory implementation and impact.

1.2. STUDY OBJECTIVES AND CONCEPTUAL FRAMEWORK

1.2.1. Study Objectives

The PL-480 Title III Agreement between USAID and GSL includes provision for the periodic assessment of the impact of specific policy reform measures on Sri Lanka's food and agricultural sector. A mid-term evaluation of the Title III program was completed in October 1992. However, focusing primarily on the operation of the program and the validity of its performance-based policy reform design, the evaluation did not analyze the economic impact of the completed reforms. The main objective of the present report is to fill this gap. Even though many of the reforms identified in the Title III agreement have yet to be implemented, USAID Sri Lanka considers that such an assessment is timely because the original three-year program is in its last year and a three-year extension is being considered.

1.2.2. Conceptual Framework: Food Security and its Dimensions

The United States provides agricultural commodity assistance, or food aid, to foreign countries to combat hunger and malnutrition, encourage development, and promote U.S. foreign policy goals. The Agricultural Trade Development and Assistance Act of 1954, as amended, widely known as Public Law 480, provides the primary legal framework for food aid. The 1990 Agricultural Development and Trade Act made several major changes in food aid, including restructuring of Title III of the act to create a grant assistance program.

Section 301 of Title III authorizes the Administrator of A.I.D. to negotiate and execute bilateral grant agreements with least developed countries to provide commodities to support their economic development activities. PL-480 mandates that A.I.D. make available Title III assistance on a multi-year basis. A multi-year commitment can give the recipient a major incentive, as well as sufficient time, to engage in program actions and policy reform efforts that it may not otherwise pursue under single-year commitments. It can also offer greater opportunities for missions to integrate food with other forms of development assistance.

Multi-year programs may be proposed for up to five years. To make judgements about program continuation, A.I.D. reviews progress towards achieving program objectives. In making such a determination, it considers the extent to which the country is meeting program and policy performance indicators. Once negotiated, the Title III agreement may be amended annually, or more frequently if justified, to accommodate unforseen problems in implementation or changes in a country situation, to authorize additional grants for specified commodities or to revise other aspects, such as adjustments in commodity or local currency uses.

The Trade Act of 1990 stresses several developmental themes to be supported by mission policy and program initiatives, including support of nutrition improvement and child survival initiatives; privatization of food and agricultural distribution systems; and promotion of broad-based, equitable, and sustainable development. However, as the overall goal of the Title III program is the enhancement of food security in the developing world, improved food security is one of the most important considerations in A.I.D.'s decisions to enter into new or extend existing Title III agreements and is a key factor in determining the eligibility and country priority for Title III programs. Progress in enhancing food security is indeed one key objective against which the United States General Accounting Office (GAO) prepares biannual evaluations of the Title II and Title III programs. Progress towards achieving food security in each country receiving U.S. food assistance is also the focus of the World Food Day Report, the President's

Report to the U.S. Congress.

The major objective of this study is to assess the impact of the current Title III program in Sri Lanka. As enhancing food security is an overriding objective of both U.S. food aid and USAID/Sri Lanka's Multi-Year Food Assistance Plan, the report will seek to assess the impact of this assistance on food security in Sri Lanka.

The Agricultural Trade Development and Assistance Act of 1990 defines food security as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." In its Food Security Determination issued in April 1992 (PD-19), A.I.D. provides a broad definition of food security, incorporating the legislative definition, for the purpose of resource programming directed to food security objectives. According to PD-19, food security will be achieved "when all people at all times have both physical and economic access to sufficient food to meet their dietary needs for a productive and healthy life."

PD-19 identifies three central dimensions of food security: (i) availability, (ii) access and (iii) utilization. Food ***availability*** is adequate when

> sufficient quantities of appropriate and necessary types of food from domestic production, commercial imports or donors other than A.I.D. are consistently available to the individuals or are within reasonable proximity to them or are within their reach.

Food ***access*** can be achieved when

> individuals have adequate incomes or other resources to purchase or barter to obtain levels of appropriate foods needed to maintain consumption of an adequate diet/nutrition level.

Food ***utilization/consumption*** is adequate when

> food is properly used; proper food processing and storage techniques are employed; adequate knowledge of nutrition and child care techniques exists and is applied; and adequate health and sanitation services exist.

A wide range of factors may contribute to inadequate food utilization, including inadequate knowledge and practice of health techniques, such as those related to proper nutrition, child care and sanitation. Hence, nutrition, education and health programs are important means of improving utilization.

Food availability highlights *supply* of food not only from domestic production, but also from commercial and concessional imports. Thus defined, food availability is rooted in the premise that food security is enhanced when the potential efficiency gains from trade are fully realized. Hence the need to interpret the food security mandate broadly: it is often more efficient for a country to achieve a balanced production strategy for food and export crops using a thriving export sector to finance food imports for domestic consumption. In effect, self-sufficiency policies (promoted, for instance, through inappropriate pricing, marketing, tax and tariff policies) can deny a nation the benefits of comparative advantage and of rapid economic growth which provides a dividend to finance national needs, including food security through enhanced access to available food supplies.

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Access to food emphasizes effective *demand* and purchasing power of consumers, thus underscoring the inseparability of food security and poverty. Such inseparability highlights the need to interpret food security as a long-term objective that will be attained primarily through broad-based, sustainable economic development.

A detailed analysis of a broad-based, equitable and sustainable development strategy is provided in a May 1992 A.I.D. Food Security Discussion Paper (Tweeten et al., 1992). While recognizing the critical importance of both availability and utilization, the paper deliberately emphasizes food accessibility. A recurrent theme in this emphasis is that food accessibility has two central components: (1) broad-based, sustainable economic progress relying on the private sector under supportive public policies to raise most people out of income and food insecurity; and (2) targeted food and other transfers to those who lack resources and income or other means for food security.

Both of these components will be stressed in the present study when analyzing the role of the Title III program in improving accessibility to food in Sri Lanka.

1.3. METHODOLOGY AND ORGANIZATION OF THE REPORT

This study was prepared for USAID/Sri Lanka in September-October 1993 under the Food Aid Programming and Management Indefinite Quantity Contract (IQC). Analysis in the report is based on existing documents and previous studies, as well as on interviews with various USAID and Sri Lankan officials, representatives of international organizations, and staff members of development projects. An initial presentation of the results was made to USAID/Sri Lanka in preparation for the final report.

The report is organized into four chapters and several annexes. Following the introductory material in this chapter, a review of the impact of the Title III food aid program on food security in Sri Lanka is presented in Chapters 2-4. Those three chapters reflect the three dimensions of food security discussed above, namely food availability, access and utilization. The discussion of food accessibility in Chapter 3 is divided into two major sections, reflecting the need for a dual approach to increasing access to food: a broad-based economic development strategy, and the provision of a food and income safety net. Annex A suggests a number of indicators that can be used to monitor the effects of the Multi-Year Title III on food security in Sri Lanka. Other major annexes contain technical material and supplementary data to support the analysis summarized in the main report.

CHAPTER 2
IMPROVED FOOD SECURITY
THROUGH INCREASED FOOD AVAILABILITY

The average diet in Sri Lanka is dominated by rice, wheat and coconut. These three commodities together account for about 75 percent of food consumption in terms of energy intake. In particular, the two major starchy staples, rice and wheat, contribute about 55 percent of calories, with rice accounting for about 42 percent. According to data in the national food balance sheets, per capita calorie availability has been quite close to the recommended level of energy intake, which the Medical Research Institute of Sri Lanka has set at 2,200 calories per capita, in association with the World Health Organization.

Wheat is not produced in Sri Lanka. Imports consist of PL-480 shipments and commercial imports. The latter accounts for the larger percentage of total wheat imports.

2.1. RICE, WHEAT AND COCONUTS

2.1.1. The Rice Sector

The contribution of the agricultural sector to the Gross National Product (GDP) is about 25 percent, and about one-quarter of this contribution may be attributed to the rice sector. Production and distribution activities in this sector directly affect a large part of the population, giving rice a very important role in the political economy. Paddy production is dominated by small production units. According to the Agricultural Census of 1982, 40 percent of the paddy units are below one acre and account for 12 percent of the total area of 1.8 million acres. Nearly two-thirds account for 30 percent of the area. The rice sector provides employment to about 40 percent of the agricultural labor force.

Past agricultural policies emphasized rice production to such an extent that its development was viewed as synonymous with agricultural development. The sector's overall incentive structure reflected the unprecedented patronage given to rice to achieve the multiple goals of food self-sufficiency, food security, enhancement of rural incomes, generation of new income-earning opportunities, easing of the population pressure in the coastal areas (through human settlement projects associated with irrigation schemes for rice production), and protection of consumer welfare.

Policy actions to assist the development of the rice sector included large-scale public investments to develop infrastructure (mainly irrigation schemes and land settlements), subsidies for production (under-priced fertilizer, free irrigation and land use in settlement areas and almost no direct taxation of the sector) and consumption (subsidized rice distribution to consumers, including farmers), and government procurement agencies to ensure guaranteed (floor) prices to producers. Presently, subsidized rice distribution has been replaced by a food stamps scheme.

Domestic rice production grew nearly three-fold between 1960 and 1992, increasing from an average of about 620,000 mt in 1960-62 to 1,550,000 mt in 1990-92. The estimated growth rate of rice output, taking into account all inter-year variations between 1960 and 1990, has been about 4 percent per year. Annual output increases were most impressive after 1976 and up to 1985. The growth rate of 5.3 percent registered during this period was significantly different from the growth rate of 3 percent observed in 1960-76. However, the lower output levels since 1985 have reduced this growth rate.

The output growth for 1976-85 was due to a number of factors, including the cumulative effect of past investments as well as the trade policies adopted after 1977. On the international trade side, a protectionist import policy (exercised through an import monopoly) provide relatively high rates of nominal protection (NPR).[3] In the 1970s, NPRs were substantial, reaching at times over 100 percent. In the 1980s, these rates varied between 10 to 30 percent.[4]

The growth in area and yield that accounted for the observed rice output rate of 4 percent in 1960-88 were 1.5 percent and 2.5 percent, respectively. The contribution of yield increases to output growth was about 63 percent, while 37 percent of the output growth came from area increases. In 1960-76, the growth rate in output was 3 percent and the area harvested and yield per ha grew at 1.6 percent and 1.4 percent, respectively. The contribution from yield growth was less than 50 percent during the same period. However, in 1976-88, the growth in yields (2.9 percent) completely dominated the output growth of 3.1 percent.

Rice production showed a steady increase from about 2.4 mt per ha in 1978-79 to about 3.5 mt per ha in 1986-87. Since 1985, rice output has actually fallen and rice imports have increased. In spite of the increase in rice imports, total rice availability actually declined (See Annex I). Several reasons account for the decrease in rice production, including the fall in effective protection and the decline in real international prices for basic food commodities.

2.1.2. The Wheat Sector

The entry of wheat flour into the Sri Lankan diet was a slow process because wheat was generally considered a less preferred cereal. Wheat consumption was, however, popular in the tree crops plantation sector. With increased urbanization and a conscious government policy to ensure an adequate supply of cereals with a commodity that allowed substantial savings relative to rice imports during most of the 1950s and 1960s, wheat flour came to stay as a part of the staple diet. However, this policy was not allowed to interfere with government objectives of increasing domestic rice production for which large scale investments were made to improve the technological and infrastructural base.

Wheat has been imported both in the form of wheat flour and as grain to be milled locally. Total wheat imports, which averaged about 350,000 mt to 400,000 mt of wheat flour equivalents per year in the mid-1960s, increased to about 550,000 mt to 600,000 mt by the end of 1970s. Total wheat imports declined substantially in 1980-84, a period that experienced a sharp increase in rice production. A renewed pattern of increases has taken place since 1985. As discussed earlier, this period also experienced the on-set of stagnation in domestic rice productivity. Increased availability of wheat in recent years has occurred mainly to meet additional demand from population increases.

Wheat has been imported both through commercial channels and donor assistance. Although the relative contribution of donor assistance fluctuated widely in 1965-80, the average share of donor support in total

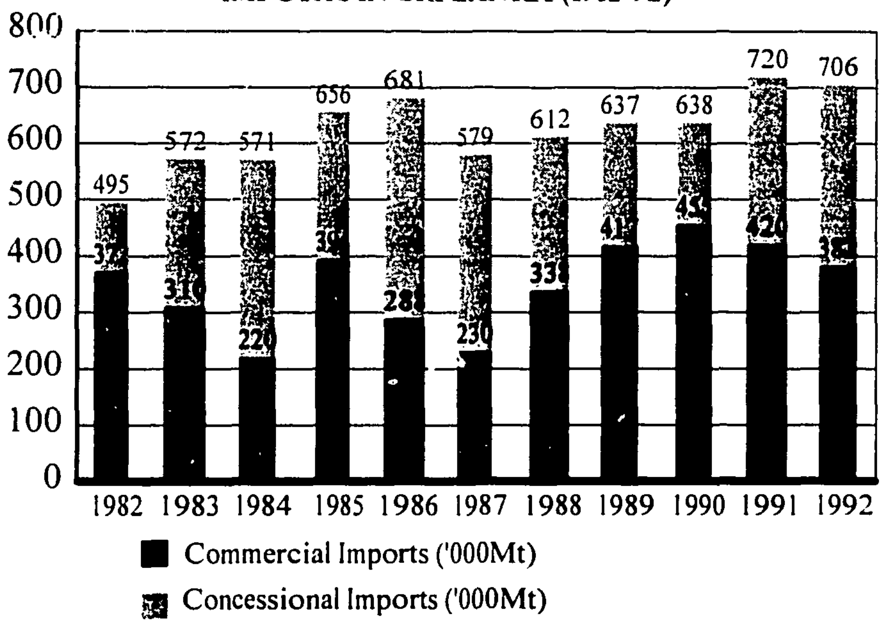
[3] The NPR is the ratio of farmgate price to the border price of rice expressed as a percentage.

[4] For example, a study of rice production at the regional level in the 1989-90 season estimated the NPRs at 2 percent to 15 percent, when considering the possibility of a 10 percent overvaluation of the rupee (Edirisinghe et al., 1991). The same study also estimated that the average effective rate of protection (EPR) at 30 percent to 42 percent, depending on the irrigation technology and when border prices are evaluated at the official exchange rate. Under a scenario of a 10 percent overvaluation of the rupee, the EPRs tend to be lower but remain positive ranging from 14 to 23 percent.

imports was bout 36 percent. PL-480 assistance loomed large in overall donor support. In 1980-92, donor-assisted imports accounted for about 45 percent of all imports PL-480 assistance was 77 percent of all donor support during the same period. In general, PL-480 programs have provided a major proportion of food aid in cereals to Sri Lanka.

Figure 2.1 shows commercial and concessional wheat imports in 1982-92. Since 1988, commercial imports have exceeded concessional imports each year. Since 1986, commercial imports have tended to increase while concessional imports have tended to decline. However, total imports have increased. Such a pattern contrasts sharply with that prevailing in the rice sector.

Figure 2.1
COMMERCIAL AND CONCESSIONAL WHEAT IMPORTS IN SRI LANKA (1982-92)



2.1.3. Rice and Weat Availability

Table 2.1 shows total and per capita rice and wheat availability in 1986-92. The 1986 level of 159 kg/capita was above all other years. Note also that the 1986-90 average of 139 kg/capita was approximately the same as for 1991 and 1992. It is worth noting that Title III shipments generated an increase in per capita availability of rice and wheat from an average of 131 kg/capita in 1987-89 to an average of 140 kg/capita in 1990-92.

During the 1985-92 period, total rice and wheat availability declined and so did per capita availability. However, it is important to emphasize that in the absence of Title III shipments there would have been a significant reduction in per capita availability, unless commercial imports of wheat and/or rice increased to offset PL-480 shipments.

Table 2.1. Total and Per Capita Rice and Wheat Availability in Sri Lanka, (1986-92)				
Year	000 MT		Kg/Capita	
	Total	Title III	Total	Title III
1986	2,560		159	
1987	2,041		125	
1988	2,384		143	
1989	2,087		124	
1990	2,433		143	
Average 1986-90	**2,301**		**139**	
1991	2,379	254	138	15
1992	2,438	223	140	13
Data Sources: Borsdorf 1993, Tables 15, 17 and Appendix VIII, Table 1				

2.1.4. Coconut Supplies

In addition to rice and wheat, coconuts are an important food ingredient in Sri Lanka. Consumption of coconut (both direct products and coconut oil) accounts for about 20 percent of the average calorie consumption. Coconut production dropped sharply after 1985-86 (see Annex I). Since only a small percentage of coconuts is exported, most of the output is consumed domestically. Per capita availability has been falling since 1985-86, exacerbating the pressure to expand imports of wheat and rice. The decline in coconut production has had a major impact on per capita food availability, partly because cereal imports have not increased proportionately.

2.2. CONCLUSIONS

The patterns of food supplies described above indicate that average availability has been falling, as have donor-supported food supplies. Data from a recent household survey show that households in the bottom 40 percent of the income range have per capita energy intake levels far below the recommended norms. For example, households in the poorest 20 percent consume well below the recommended allowances. Estimated per capita consumption of calories in this quintile is 1,298 in the urban areas, 1,555 in the rural areas, and 1,714 in the estate sector. In the next quintile, these levels are 1,670, 1,994 and 2,178 for the urban, rural and estate sector, respectively. Such a distribution suggests that nutritional standards for the poor are not being achieved.

While short-run interventions such as the current food stamps scheme may assist the poorer segments of the population, the ultimate solution has to originate from increasing accessibility to food through increased real incomes. The consumption patterns described above provide strong evidence that current availability should not be allowed to decline, as the real income effects of food supply shortages affect the poor much more seriously than the relatively better-off segments of the population.

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There is clear evidence that Sri Lanka's food supply policies have been driven by the key objective of ensuring an average per capita availability that would be in the region of the energy intake levels required to sustain a healthy and active life. Policy implementation has occurred through a mix of instruments: commercial imports, acceptance of donor assistance, promotion of domestic production and provision of a public safety net to assist the vulnerable. Food aid, especially PL-480 which accounts for the bulk of food aid, has contributed significantly towards achieving adequate food supplies. The absence of such external assistance would likely have had two detrimental effects. First, the immediate impact of reduced food availability would have caused disproportionate hardships to the poor given their relatively high price elasticities of demand for food. Second, the adverse impact on developmental efforts that may have resulted from diversion of scarce foreign resources to meet at least part of the food shortfall that a withdrawal of foreign assistance may have generated.

It would be difficult to argue that PL-480 shipments have had negative production effects in Sri Lanka. First, concessional imports, now approximating only 10 percent of total rice and wheat availability, have been falling. Second, the positive effective rate of protection for domestic rice has likely offset any potential negative production effects from PL-480 wheat imports. Third, factors other than PL-480 have caused both rice and coconut production to stagnate. Fourth, concessional imports have increased while concessional imports have fallen, suggesting both that PL-480 shipments have not depressed rice production and that they have added to, rather than reduced, food availability. Fifth, a significant proportion of counterpart funds have been allocated to crop research and extension, two important determinants of productivity in the long run.[5]

[5] For a more detailed and more technical disincentive analysis of the Title III program in Sri Lanka, refer to Annex B.

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CHAPTER 3
INCREASING FOOD SECURITY BY IMPROVING ACCESS TO FOOD

Food availability is only one determinant of food security. The lack of food accessibility at the household or individual level is another major obstacle to achieving an acceptable level of food security. As the most food insecure segments of the population are also typically the poorest segments of the population, and as poverty cannot be separated from the level and distribution of national income, food security cannot be separated from broad-based, equitable and sustainable economic development.

However, such development is only a necessary condition to improved food security. It is now widely accepted that economic development will not remove all people from food insecurity. Identifying potential food gaps among individuals and families lacking buying power is important, so that those who are by-passed by development can benefit from a public safety net providing food and/or income transfers.

Availability of a public safety net is particularly important in countries such as Sri Lanka, where the poor are made more acutely disadvantaged by austerity measures adopted during periods of structural adjustment. Structural adjustment reforms may indeed cause transitory food insecurity even as they contribute to long-term food security by placing emphasis on economic policies for sustainable growth. For this reason, targeted food assistance can play a major role in alleviating food insecurity while reform is in progress.

This chapter investigates the role of Title III in improving food accessibility in Sri Lanka. The investigation is presented in two parts, reflecting the need for a dual approach to increasing access to food: a broad-based economic development strategy, and the provision of a food and income safety net. The first part focuses on the role of Title III in enabling Sri Lanka to maintain its commitment to the structural adjustment program and sustain its efforts toward economic progress. The second part of the chapter assesses the impact of Title III on reducing the burden of adjustment by reaching the disadvantaged through the food stamps scheme.

3.1. IMPROVING FOOD SECURITY BY PROMOTING BROAD-BASED, SUSTAINABLE ECONOMIC DEVELOPMENT

3.1.1. The Role of Title III in Enabling Sri Lanka to Maintain its Commitment to the Structural Adjustment Program

The Agricultural Development and Trade Act of 1990 emphasizes that food aid programs should be coordinated and integrated with other U.S. development assistance objectives and programs for the recipient country, and with the recipient country's overall development strategy. Coordination and integration are facilitated by the capability to make multi-year commitments and by the strong focus of the program on economic development.

In this perspective, USAID missions may use Title III agreements as a tool for advancing the policy dialogue with the recipient country, program the commodities as balance-of-payments assistance to support policy reform, sell the commodities to governmental or non-governmental entities and jointly program the sales proceeds for specific development activities, for sector support or to support policy reform.

It is within this framework that the GSL and USAID/Sri Lanka signed a three-year $105 million Title III Program Agreement on 11 June 1991. In determining whether to proceed each year, USAID reviews Sri Lanka's performance in satisfying the terms and conditions of the agreement, including the extent to which the country is making significant development reforms.

The agreement provides for the donation by the United States government of approximately $35 million of wheat per year. Provision is also made for the application to development programs of local currency generated by commodity sales, upon meeting of agreed benchmarks, a procedure called Performance-Based Disbursement.

The wheat is delivered to the state-owned Cooperative Wholesale Establishment (CWE) for milling at the Prima Mill facility and distributed for sale as flour. CWE is required to pay for the wheat in local currency at a negotiated dollar price, based on prices of comparable commercial imports, converted at the highest legal exchange rate prevailing on the date of the transfer of the commodity.

The amount in Sri Lankan rupees is to be paid into a special account in the Central Bank. Ten percent of this amount is to be transferred immediately to a USAID account for the use of indigenous non-governmental organizations (NGOs) and programmed in conjunction with other USAID-financed activities implemented by such organizations. The balance of the local currency, released according to the performance-based disbursement method, is to be made available for the support of ministries and activities jointly determined by USAID and GSL.

Each local currency agreement identifies the specific tangible results or achievements (referred to as performance indicators) anticipated from the activity for which local currency proceeds are provided. USAID permits the release of local currency proceeds upon achievement of specific outputs or benchmarks specified in the plan of operations. GSL in turn disburses agreed upon amounts of such proceeds to designated government recipient agencies in support of such recipient agencies' development activities.[6]

Local sales proceeds from Title III commodity donations have been used to support Sri Lanka's policy reform agenda in the food and agricultural sector. These policy reforms have been identified by GSL (and concurred with by USAID, the World Bank and the International Monetary Fund) as necessary steps to achieve economic growth and poverty reduction. In developing the policy reform measures supported by the Title III agreement, USAID has relied on current project experience as well as on the ongoing policy dialogue between the GSL and its donors. In this perspective, the policy conditions included in the agreement are consistent with the Sri Lanka Policy Framework Papers (PFPs), prepared each year by the GSL with the joint assistance of the World Bank and the IMF. The PFPs outline the country's medium-term objectives and reflect the understandings reached between the GSL, the World Bank and the IMF on the framework for medium-term economic adjustment.

The list of reform measures supported by the Title III agreement includes: (1) implementation of a plan

[6] A diagrammatic representation of the Sri Lanka PL-480 Title III management procedures is provided as Annex F of this report. Utilization of the program's counterpart funds for 1991-1992, by department and activity within each department, is detailed in Annex G.

to restructure and privatize the Ceylon Fisheries Harbours Corporations; (2) implementation of an extensive survey and land titling program; (3) improving plant quarantine procedures; (4) phasing out export taxes on tea, rubber and coconut; (5) liberalization of food imports and trade; (6) restructuring the Agricultural Insurance Board to reduce operating deficits and improve services to farmers; and (7) expanding private sector participation in the agricultural sector.

Formal review meetings of a joint committee comprised of GSL and USAID officials are held each quarter to assess achievements of the agreed upon performance indicators or policy measures, and specific outputs or benchmarks.[7] The quarterly reviews are used not only to verify progress to date, but also serve as a forum to designate the specific recipient agencies to which each tranche of local currency proceeds is to be transferred from the PL-480 special account.

As documented in the Sri Lanka Title III Mid-Term Evaluation prepared in October 1992, there is agreement among USAID and government officials that the performance-based disbursement system has served as an effective mechanism to expedite policy reform in Sri Lanka, thus enabling the country to maintain its commitment to the structural adjustment program. As previously noted, the disbursement system for local currency proceeds is based on the achievement of specific benchmarks. Those benchmarks generally contain a number of incremental and measurable steps that may start with preparation of an action plan or completion of a study to guide future actions. In other cases, the steps are simply designed to allow for gradual implementation of the reform. As the link between the reform and the release of funds may be exactly the stimulus required for the necessary steps to be taken by the various officials involved, the expectation underlying such a system is that it will provide GSL with an incentive to expedite implementation of the various steps needed to carry out a specific policy action.

In addition, by allowing the dialogue between GSL and USAID officials to concentrate on how to accelerate implementation of each benchmark, the disbursement system has enabled achievement of steady progress toward implementation of policies. More important, the system has strengthened GSL officials' hands in negotiations with the relevant ministries, departments and agencies to obtain implementation of such policies. The studies that were often required in the initial benchmarks were particularly useful in this regard, as the analyses contained in these studies were instrumental in building the case for accelerating the needed adjustments.

Several policy reforms have been achieved under the performance-based disbursement system outlined in this section. Two of these reforms have concentrated on restructuring and privatization of the Ceylon Fisheries Harbours Corporation and on reducing the export taxes on the plantation sector. The two reform measures have had important fiscal and economic implications that will be investigated in the following sections.

3.1.2. Contribution of Title III to Improving Management of Fiscal Policy

Sound management of fiscal policy plays a critical role in shaping the course and patterns of national economic growth and food security. The overall size of the government budget is determined by the willingness of the government to run and finance budget deficits, and its willingness and ability to tax the domestic economy to produce revenue. Both the level and pattern of financing have important macroeconomic implications and are critical for stabilization and adjustment.

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[7] A detailed list of performance indicators and specific outputs for 1991-1992 is provided as Annex H of this report.

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Soon after the break with the past that started in 1977, Sri Lanka embarked on a series of economic reforms that placed sound macroeconomic policies in the forefront of the adjustment process. In this perspective, positive steps were taken to prudently manage the economy by planning a fiscal policy consistent with the liberalization drive. This section reviews recent experience in managing the country's fiscal deficit. The overall size of the fiscal deficit will first be examined. As reducing the burden of the fiscal deficit can be achieved through a reduction in public expenditure and/or an increase in government revenue, management of the expenditure and revenue mix will then be investigated. The contribution of the Title III program to improved management of both the level and composition of the deficit will be highlighted throughout the section.

3.1.2.1. Overall Size of the Budget Deficit

Government fiscal operations in Sri Lanka are described in Table 3.1 and Figure 3.1 below. Reflecting major adjustment efforts toward reducing a persistently large fiscal deficit (the deficit averaged more than 14 percent of GDP between 1980 and 1988, and was as high as 23 percent in 1980), the budgetary outturn marked considerable improvement in the past four years. The overall adjustment has indeed been impressive during those years, as the budget deficit fell by more than 8 percent of GDP between 1988 and 1992.

A notable exception occurred in 1991 when fiscal management deteriorated substantially (the budget deficit increased from 9.9 percent of GDP in 1990 to approximately 12 percent in 1991), reflecting intensified civil conflict in the North and East, increasing expenditure on refugees, and the high labor retrenchment costs resulting from public sector restructuring.[8]

The fiscal outlook improved considerably in 1992. With total revenue remaining nearly unchanged at about 20 percent of GDP, a 7 percent fall in current expenditure (from 22.5 to 21 percent of GDP) caused the budget deficit (before grants) to fall to 7.4 percent of GDP — a major step toward sustainable adjustment and macroeconomic stability.

The Title III program has made positive contributions to the fiscal adjustment process, directly by providing grants to finance the deficit and indirectly by increasing privatization proceeds and lowering transfer payments as a result of its role in facilitating public sector rationalization.

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[8] Current expenditure on defense increased by more than 50 percent (from Rs. million 6,736 to Rs. million 10,317) between 1990 and 1991. Pension payments doubled in 1991 and remained high in 1992 as a result of the retrenchment program for government employees. Pension payments amounted to Rs. million 8,832 in 1991 and Rs. million 8,041 in 1992 (Central Bank of Sri Lanka 1993a, Tables 1.52 and 1.53).

Figure 3.1
Trends in Fiscal Magnitudes
in Sri Lanka (1988-92)

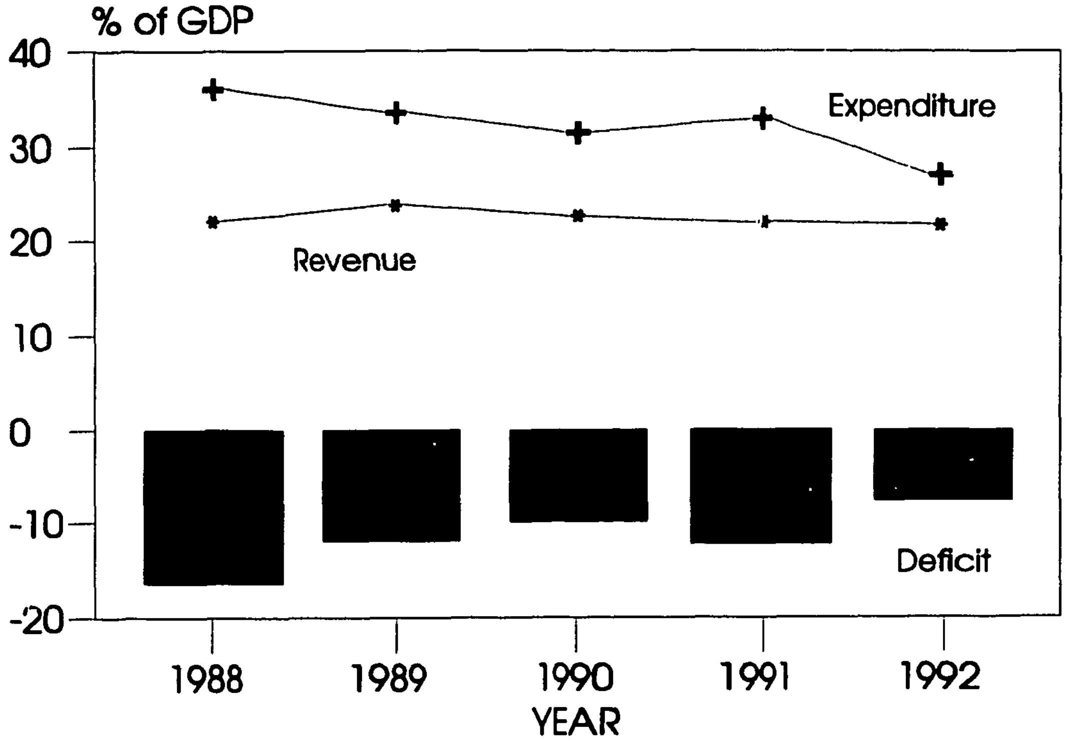

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Table 3.1. Government Fiscal Operations
as a Percentage of GDP, 1988-92

Item/Year	1988	1989	1990	1991	1992
Total Revenue & Grants	21.8	24.0	23.2	22.6	22.3
▪ Total Revenue	16.8	21.4	21.1	20.4	20.3
— Tax Revenue	16.2	18.9	19.0	18.3	18.1
— Non-tax Revenue	2.6	2.6	2.1	2.2	2.2
▪ Grants	3.0	2.5	2.1	2.1	2.0
Expenditure & Net Lending	34.5	32.6	31.0	32.1	27.8
▪ Current Expenditure	20.8	22.6	22.3	22.5	21.0
— Exp. on Goods & Services	9.3	10.1	9.4	9.6	9.2
— Interest Payments	5.7	5.7	6.4	5.9	6.0
•Foreign	1.3	1.3	1.1	1.0	1.1
•Domestic	4.4	4.4	5.3	4.8	4.9
— Transfers & Subsidies	5.8	6.8	6.5	6.9	5.7
•To Public Corps.	0.7	0.9	0.8	0.5	0.4
•To Other Sectors	5.1	5.9	5.7	6.4	5.3
▪ Capital Expenditure	10.3	8.2	6.0	7.0	6.7
▪ Net Lending	3.4	1.8	2.8	2.6	0.1
Budget Deficit (before grants)	-15.7	-11.2	-9.9	-11.8	-7.4
Budget Deficit (after grants)	-12.7	-8.6	-7.8	-9.5	-5.5
Financing	12.7	8.6	7.8	9.5	5.5
▪ Foreign Borrowings	3.2	2.4	3.6	5.2	1.9
▪ Domestic Borrowings	9.5	4.9	5.2	4.3	3.6

Data Source: Central Bank of Sri Lanka, 1993a, Tables 1.50 - 1.52

Local currency generated by the Title III program in the last two years amounted to more than 16 percent of total grants and about 4 percent of the budget deficit.[9] Availability of such funds have obviated the need for additional resources that would otherwise have been mobilized through foreign sources, domestic borrowing and/or higher taxes to reduce the deficit. Financing the deficit through higher taxes may create inefficiencies and affect the country's growth performance. Financing the deficit through advances from the Central Bank (i.e., an increase in the money supply) would increase an already significant inflationary pressure.[10] Domestic borrowing increases interest rates, crowding out non-public borrowing and private investment.

Further foreign and/or domestic borrowing would also carry debt service obligations with adverse effects on medium- and long-term growth. In effect, an important consideration in assessing sustainability of the budget deficit is the rate at which foreign and domestic debt is growing. Examination of Sri Lanka's debt burden reveals that interest payments increased by more than 40 percent between 1980 and 1992. Outlays on account of interest payments in 1992 witnessed a sharp rise of 15 percent over 1991. increasing interest payments' share in current expenditure from 26 percent in 1991 to 28 percent in 1992. A similar pattern can be detected in previous years. Interest payments accounted for 5.9 percent in 1991 and 6 percent of GDP in 1992 and is now one of the largest components of current expenditure, suggesting the need for continued progress in narrowing the budget deficit.

By facilitating public sector rationalization,[11] the Title III program has further contributed to increased fiscal discipline. Even though transfers to public enterprises remain a significant burden on the government's budget, transfers to public enterprises have declined steadily in recent years due to increased thrust of government policy on rationalization of such entities (Table 3.2).

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[9] Contribution of Title III to financing of the government net cash deficit is as follows:

Year	Deficit (Rs.M.)	Grants			
		Title III			All Sources
		Rs.Million	% of Deficit	% of Total Grants	Rs. Million
1991	43,348	1,334	3.1	15.4	8,660
1992	31,510	1,380	4.4	17.1	8,063
Data Sources: Table 3.1 and Ministry of Finance 1991 & 1992					

[10] The inflation rate in Sri Lanka as measured by the consumer price index in Colombo was 21.5 percent in 1990, 12.2 percent in 1991 and 11.4 in 1992.

[11] Among the policy measures supported by the Title III program are: issuance of a cabinet paper and an official announcement of a plan for restructuring the Ceylon Fisheries Harbours Corporation (CFHC); retrenchment of redundant CFHC employees; divestiture to the private sector and cooperatives of at least 50 percent of the net asset value of CFHC's commercial facilities; and preparation of a plan for divestiture of remaining CFHC facilities.

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Table 3.2. Transfers to Public Enterprises, 1989-92

Year	Rs. Million	% of GDP	% of Total Government Expenditure
1989	2,283	0.9	2.8
1990	2,639	0.8	2.6
1991	1,759	0.5	1.5
1992	1,722	0.4	1.5
Data Sources: Central Bank of Sri Lanka, 1993a			

Current transfers to state-owned enterprises fell by more than 30 percent between 1990 and 1992 and declined from 0.8 percent of GDP in 1990 to 0.4 percent in 1992. Their share in total government expenditure, now only 1 percent, also fell by more than 40 percent during the same years. The higher performance of government fiscal operations due to lower transfers to public enterprises was further improved by privatization proceeds in the last two years. Privatization of public enterprises generated Rs. million 841 in 1991 and Rs. 3,115 million in 1992, the equivalent of 0.2 percent and 0.7 percent of GDP, respectively (Central Bank of Sri Lanka 1993a, Table 69).

3.1.2.2. Contribution of Title III to Improving Composition of Government Revenue and Management of the Revenue and Expenditure Mix

One of the policy objectives supported by the Title III program in Sri Lanka is to phase out export taxes on tea, rubber and coconut. It can be argued that reduction or elimination of trade taxes would result in lower government revenue, with adverse effects on the government budget. Such an outcome would offset the positive role played by the Title III program in enhancing fiscal discipline through expenditure restraint. However, such an argument may be questionable on several grounds.

First, as detailed in Section 3.1.4, the export taxes on tea and rubber have been a significant factor in the decline of the tea and rubber industry in Sri Lanka.

Second, due to the reduction in export taxes over time that helped cushion the fall in world prices, government revenue from this source in 1992 was less than 20 percent of what it was in the early 1980's.[12] It is also interesting to note in this context that even though export duties decreased by more than 90 percent in January-May 1993 following elimination of the export taxes on tea and rubber, total government revenue increased by about 10 percent during the same period (Central Bank of Sri Lanka 1993b, Table V).

Third, the revenue and expenditure mix in the government budget should be such that the overall efficiency of the economy is enhanced. In Sri Lanka, such a principle implies that further progress in reducing the fiscal deficit may have to originate mainly from expenditure restraint. That the fiscal deficit

[12] Government revenue from export taxes fell from Rs. 3,685 million in 1981 to Rs. 594 million in 1992, a decrease of more than 80 percent (see Section 3.1.4 below).

should not be narrowed primarily through further gains on the revenue side is supported by the fact that tax revenues in Sri Lanka (more than 17 percent of GDP in 1981-88 and more than 18 percent of GDP in the past 5 years) compare favorably with other countries at a similar stage of development.[13]

Fourth, elimination of the export taxes on tea and rubber in December 1992 was a major step towards improving tax revenue patterns. The share of the trade tax in tax revenue in Sri Lanka (about one-third in the past five years) was well above that prevailing in other developing countries.[14] Not only that such a structure had detrimental effects on agricultural export growth, but it also made the country's fiscal position overly sensitive to international price fluctuations, as a significant proportion of tax revenues was dependent on only a few internationally-traded commodities (particularly tea and rubber).

Fifth, elimination of the export taxes on tea and rubber reflected GSL's recognition that achieving macroeconomic balance through administratively convenient measures, such as taxes on international trade, was not a sustainable solution to the revenue problem. It also reflected its conviction that the basic structure of the tax system needed to be adjusted if the revenue yield was to be increased on a sustainable basis to keep pace with expenditure requirements. Thus, reduction in export duties should be viewed as one element of a fiscal reform agenda that Title III has helped expedite. Other elements have included reduction of other inefficiencies in the tax structure through application of a wider direct and indirect tax base, reduced marginal rates for income taxes, and improved tax administration.

3.1.3. The Role of Title III in Accelerating Public Sector Rationalization for Private Sector Development: Rationalization of Ceylon Fisheries Harbours Corporation

There is consensus that with a good natural resource base and strong human resources resulting from decades of dedicated efforts to improve education and health, Sri Lanka has a distinct long-term economic development potential. A major constraint to realizing this potential has been a large and inefficient public sector and the failure to tap the full capacity of a vigorous and dynamic private sector. Recognizing the potential role of the private sector in enlarging the country's economic base, Sri Lanka has recently embarked on a program to increase the efficiency of the public sector and redirect its role toward economic activities that contribute to the effectiveness of the private sector.

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[13] The tax revenue structure in Sri Lanka, Asia and Latin America is as follows:

	Sri Lanka(a)	Asia(b)	Latin America(b)
Tax Revenue (% of GDP)	18.1	15	18
International Trade (% of tax revenue)	31.8	23	16
Notes: (a) average 1988-92; (b) 1985			
Data Sources: Central Bank of Sri Lanka 1993a, Table 68; World Bank 1991, Table 1			

[14] See table in previous footnote.

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A step in this direction has been the restructuring and privatization of the Ceylon Fisheries Harbours Corporation (CFHC), a parastatal organization of the Ministry of Fisheries and Aquatic Resources. Restructuring of CFHC was based on a plan formulated in the Title III Agreement that included retrenchment of redundant CFHC employees, divestiture to the private sector and cooperatives of at least 50 percent of the net asset value of CFHC commercial facilities, and preparation of a plan for divestiture of remaining CFHC facilities.

CFHC was established in 1972 by an Act of Incorporation published in the Gazette under Section 2 of the State Industrial Corporations Act No. 49 of 1957.[15] CFHC took on the assets and liabilities of the Ceylon Fisheries Corporation (CFC) in relation to the construction, operation, and management of fisheries harbors and anchorages and the provision of related services, while CFC which had been in operation since 1964 concentrated on the production and marketing of fish. In practice, however, there was considerable overlapping of functions between the two corporations.

In the first 10 years of its operation, CFHC functioned as a service agency funded by the State. However, by the early 1980s, the funds channeled by the State proved to be inadequate to support CFHC activities. To overcome this financial constraint, the corporation began to operate as a profit-making organization and expanded into commercial areas, such as civil construction work for other ministries and other such activities that bore little or no relevance to the fisheries sector. Several other important inefficiencies in CFHC operations should also be mentioned: the additional personnel employed to support the new activities led to severe redundancies of personnel since all employees remained in the corporation even when certain unproductive activities were discontinued; CFHC assets were grossly misused and/or under-utilized; and many failed financial ventures resulted in losses that CFHC experienced during the 1980s.

Such dismal financial performance is illustrated by the fact that CFHC has recorded significant losses each year. There was a reduction in losses in 1989-90 and in 1991-92 as a result of CFHC restructuring. The increase in losses in 1990-91 was due to the considerable labor compensation costs incurred during that period.

In June 1990, a USAID-funded study was submitted to the Inter-Ministerial Committee on the Rationalization of the Fisheries Corporation. The study made the following recommendations:

- The activities of CFHC should be limited to technical and regulatory functions, such as carrying out investigations and studies in regard to the construction of new harbors, development of anchorages, maintenance of basin areas (including dredging) and marine structures such as break-waters, quays and jetties.

- Activities such as operating ice plants, cold rooms, fish on ice stores, workshops and slipways should be handed over to the private sector or to fisheries cooperatives by auction or by any other suitable form of public bidding.

- The private sector or the fisheries cooperatives should function as the owners of the assets and not as lessees.

[15] A more detailed description of the restructuring of CFHC is provided as Annex E.

- The assets should be sold on the basis of competitive bidding, except in the case of assets whose sub-components had to be disposed of as scrap, in which case such assets should be sold in their entirety to metal dealers at a price that matched the scrap value at a minimum.

- The near-monopolistic use of harbors by CFHC should be replaced by an open-gate system, and the levying of fees to enter harbor premises should be discontinued.

- An estimated 220 employees out of 347 should be laid off and a compensation package estimated at between Rs. 11 million to Rs. 13.5 million should be paid.

Based on these recommendations an implementation plan to structure and privatize CFHC was negotiated as part of the PL-480 Title III Agreement. Specific outputs achieved over the last two years are as follows:

- An amendment was introduced to the State Industrial Corporations Act of 1957 on March 4, 1991. This amendment replaced Section 1 of the act and stated that the CFHC would be responsible for: (a) planning and designing of fisheries harbors and anchorages; (b) technical supervision of the execution of harbor construction, including the maintenance of marine structures; and (c) the dredging of harbors, including maintenance of dredging.

- A cabinet paper was issued and an official announcement of a plan to restructure CFHC was made in June, 1991.

- A major portion of the retrenchment of redundant employees was completed in December, 1991.

- The divestiture to the private sector and cooperatives of 50 percent of the net asset value of the CFHC's commercial facilities, including ice plants, cold storage facilities and workshops was completed in six harbor sites in March, 1992.

- The plan for final divestitures was completed in December, 1992.

Divestiture of CFHC has resulted in significant reduction in expenditure used to finance CFHC non-economic activities and substantial revenue from the lease of land and buildings and the sale of machinery. While the role played by Title III in bringing about such a positive outcome is in itself important, a more significant function accomplished by the Title III program may be illustrated by the fact that rationalization of CFHC was implemented at a time when public sector restructuring and privatization had just emerged as an important component of Sri Lanka's economic adjustment efforts. By facilitating rationalization of CFHC, the program has in fact capitalized on an opportunity to build a constituency for privatization, to make the concepts and mechanics of public sector rationalization more widely accepted, and to build the momentum for later, more complex restructuring and divestiture programs in trade, food marketing, and tree-crop plantations.

3.1.4. Contribution of Title III to the Development of a More Rational Tree Crops Subsector Strategy: Removing Export Taxes on Tea and Rubber[16]

The tree crops subsector in Sri Lanka has performed poorly for over 20 years. In the early 1980s, tea, rubber and coconut produced nearly one-quarter of national revenue and over one-half of total export earnings. Ten years later, their contribution to total revenue declined to one-twentieth and their contribution to revenue from exports to one-quarter. Export market share generally declined. Tea declined from 22 percent in 1981 to 18 percent in 1989, competing with newcomers such as Kenya and China. In rubber, the share also dropped whereas Thailand's share rose sharply. Sri Lanka is not a major supplier of coconut products to the international market because of its large domestic demand. The country's international market share is less than 3 percent.

Sri Lanka's tea crop industry is the country's major agricultural subsector. Tea occupies about one-quarter of the agricultural land and employs nearly one-half of the agricultural labor force. The tree sector contributes approximately 90 percent of total agricultural exports.

Losses in the two state corporations that have managed two-thirds of production have been significant, whereas the private sector (37 percent of tea growing land and 68 percent of rubber) has had positive profits. In the two state corporations, the cumulative loss by 1990 was over Rs.3 billion and the cumulative debt was Rs.5 billion. In 1992, the two state corporations were financially bankrupt and needed infusion of funds from the Treasury. For instance, in 1983-90 one of the two corporation's revenue grew at a rate of 14 percent per annum while its debt increased by 50 percent annually.

In the tree crop subsector, both state and private producers have been heavily taxed to support other sectors. The tree crop subsector has been taxed directly through a mixture of ad valorem taxes, export duties and cess. The largest tax is the export duty. Although the export duties varied from year to year, they generally declined. For tea, the export tax was 29 percent of export value in 1981 but was reduced to only 1.5 percent in 1990. For rubber, the duty was 55 percent in 1981 and 24 percent in 1990.

After the restructuring of the state plantation sector in 1992, the export duty on tea and rubber and the ad valorem tax on tea were removed in December 1992. However, the tea and rubber cess remains between 2 percent to 5 percent of value.

The tree crop sector was also taxed indirectly via (1) upward movement of the equilibrium exchange rate, that has resulted in reduced competitiveness in world markets, and (2) upward movement of input prices that has resulted in higher production costs.

The total negative protection to the tree sector from direct and indirect taxes[17] has been significant. This negative protection peaked in 1980 at 55 percent and fell to 28 percent in 1987.

Tea and coconut prices peaked in 1984, while rubber prices peaked in 1979. Generally real prices did not fall during the 1980-87 period. Such an outcome was partly due to the decline in negative total

[16] Data supporting the analysis in this section can be found in Annex I.

[17] Defined as the percentage difference between real producer prices prevailing in the presence of trade taxes and overvalued exchange rates and real producer prices prevailing in the absence of such distortions.

protection. For example, total negative protection went down from a high of 76 percent in 1978 to 42 percent in 1987.

The direct tax on coconut was less than for tea or rubber. With the exception of 1985, coconut has in fact received positive protection since 1982. In 1987, direct protection was 22 percent. Since 1982, farmgate prices for coconut exceeded their border prices, except in 1985.

An international price comparison shows that export duty for tea in Indonesia and Kenya was abolished in 1988. India charges no duty on exports. Sri Lanka's taxes on rubber had been much higher than those of competitors, such as Malaysia and Thailand.

Production of all three crops has declined during the 1980s. It is worth noting that while smallholder production has increased steadily, output from Sri Lanka's state tea plantations decreased by 10-20 percent in the last decade. Similar patterns can be detected in the rubber sector. The decline in rubber production between 1980 and 1990 was the largest for the state sector. Since 1986, domestic production of coconut fell drastically (from 3,039 million nuts in 1986 to 2,184 million nuts in 1991). Exports also fell from 1,162 million nuts to 388 million nuts during the same period.

The downward trend in world commodity prices has exacerbated this poor production performance. Between 1970 and 1990, world prices for tea and rubber (measured in 1985 prices) fell by 59 percent and 46 percent, respectively. However, as noted earlier, real producer prices in Sri Lanka did not fall to that extent, partly because the reduction in export taxes over time helped cushion the fall in world export prices.

While export taxes fell, government revenue from this source also declined. Government revenue from agricultural exports were Rs. 3,685 million in 1981 but only Rs. 594 million in 1992, a drop of more than 80 percent. Had the high export taxes remained in place, domestic production of tea and rubber would have likely fallen much faster than what actually occurred.

Removing export taxes and moving to privatization of the tree crop subsector are two important steps toward a more rational tree crop subsector strategy. As the data show, production by the private sector has performed better than state production. Using funds from the Title III rupee account to aid in privatization should be given serious consideration. Other problems will also need to be addressed. For example, high wage rates have had negative production effects. Further, privatization will have to take into account reduced labor demand and whether displaced labor can be absorbed into the overall economy.

3.2. IMPROVING ACCESS TO FOOD AMONG THE DISADVANTAGED: THE POOR RELIEF FOOD STAMP PROGRAM

A striking feature of Sri Lanka's structural adjustment program launched in the late 1970s is its emphasis on minimizing the negative impact of economic reform on the poor. Sri Lanka has already had a history of providing comprehensive social welfare programs that required relatively large public expenditures. One such program was the provision of universal food ration subsidies, especially rice. Market liberalization, together with the need to increase domestic savings for use in the productive sectors, necessitated a transfer program that would least interfere with the objectives of structural adjustment while providing a public safety net to protect the more vulnerable groups. A food stamp scheme was seen as the most appropriate response to these questions.

3.2.1. Program Operation

Sri Lanka introduced the food stamp program in September 1979 to replace a three-decade old universal food ration subsidy scheme. At its inception, the new program provided benefits to 1.55 million households (or 55 percent of all households). During the first year, the number of beneficiaries steadily increased and a freeze on new entrants was put in effect from March 1980. The number of beneficiaries subsequently tended to decrease, so that there were 1.48 million beneficiary households at the start of 1986. By that time, several major problems had become apparent. While there were sizeable "leakages" of program benefits to the non-poor, the opportunities for the newly-poor to enter the program became more limited. In addition, inflation had reduced the real value of food stamps by more than half. To remove these and other constraints, the government launched a restructuring program in 1986 with the aim of reducing the number of beneficiaries by almost one-third, incorporating the newly-poor households, and increasing the value of the benefits from the savings.

The new approach had several important features. First, the program was moved to the Department of Social Services and renamed the Poor Relief Food Stamp Program (PRFSP). By housing the program in this department and by explicitly so naming it, the government hoped that a certain amount of self-screening would take place. Second, the PRFSP implemented a new strategy for screening that allowed the community to participate in the selection process. Committees of government officials and village residents reviewed applications and posted lists of selected households throughout each village. The public was then asked to assist in identifying any households that were erroneously included or excluded from program rolls.

The retargeting effort was nearing completion when political intervention led to its virtual abandonment and the adoption of less stringent procedures. A large number of households were added to program rolls, but few were removed. As a result, participation rose to 1.84 million households.

A second targeting effort was undertaken in 1991. The 1991 re-screening was essentially based on the procedures adopted for selection of beneficiaries under the newly-formed poverty alleviation project called the *Janasaviya* Program (JSP).[18] One important element of the JSP approach is that it focuses on non-income criteria, such as productive assets owned, sources of income, and durable goods consumed. In addition, the JSP approach relies on community-based screening even more heavily than the 1986 PRFSP. The 1991 survey identified 901,877 families in the poorest category, of which 132,373 were not receiving food stamps. A total of 634,258 households (or 45 percent of total recipients prior to screening) were found ineligible. The survey did not include the North and the East. If a similar pattern were to exist in the two regions, an island-wide survey might have reduced the number of eligible households to about 1.13 million. However, as a result of political pressure and the drought that occurred during that period, the newly eligible households were added to the PRFSP, but the ineligible households were not removed.

Eligibility for PRFSP is based on household income, assets, and consumption, and therefore is not adjusted for family size or composition. However, there is a partial adjustment insofar as the number of household members eligible to receive food stamps varies according to household income level. In

[18] The *Janasaviya* (people's strength) program provides households with relatively large monthly payments to free households from the urgency of obtaining daily sustenance, thereby enabling them to engage in training, private investment projects, and community infrastructure development. It is implemented in several rounds and has absorbed most of the food stamps recipient households in regions where it is being implemented.

addition, the value of food stamps is adjusted by age in order to target benefits more effectively at households with young children. Following the doubling of benefits in 1988, the monthly stamp values are currently: Rs. 50 for children below 8 years; Rs. 40 for children between 8 and 12 years; and Rs. 30 for individuals above 12 years. Each beneficiary household also receives a monthly kerosene stamp valued at Rs. 44.

3.2.2. PRFSP's Budgetary Implications

Outlays on the PRSFP scheme represented 3.8 percent of total government expenditure in 1988. Since then, in the absence of indexing this share has declined substantially, probably reaching about 2 percent in 1993. The total budget allocation for PRFSP in 1993 is approximately Rs. 2.7 billion, accounting for about 14 percent of all transfers to households.

Of total counterpart funds generated by Title III wheat sales, 43 percent in 1991 and 30 percent in 1992 were used to support the PRFSP. These contributions represented approximately 5 percent of the PRFSP budget during those two years.

Future PRFSP budgetary requirements will depend on four major factors: adjustments in the value of food stamps to mitigate the cost of living increases; transfer of households from PRFSP to JSP; effectiveness of the JSP screening process in removing ineligible households; and entry of households in the North and the East to JSP.

3.2.3. Program Effectiveness

Contribution to Incomes. In 1990-91, income from food stamps contributed about 10 percent of the disposable income (total expenditure) of the poorest quintile and about 6 percent of total expenditure in the next higher quintile. In 1981-82, the contributions of food stamps to the expenditure of the poorest 20 percent and the next higher 20 percent of households were 14 percent and 9 percent, respectively.

Contribution to Nutrition. The contribution of food stamp incomes to calorie consumption of the poorest households has likely declined by about 30 percent relative to the contribution in 1981-82. While the nominal value of food stamps per capita doubled between 1981-82 and 1990-91, the increase was not sufficient to compensate for inflation. Assuming somewhat lower rates of inflation in the rural sector, where the bulk of the poor reside, and some degree of commodity substitution, the nominal value of food stamps should have increased by at least 300 percent to compensate for inflation.

3.2.4. Conclusions

The support given by the Sri Lanka Title III program to the food stamps scheme is well placed and is in direct compatibility with the food security mandate of the Title III legislation. In addition, there is justification for strengthening this public safety net. After many years of economic reforms leading to relatively high rates of economic growth, about 20 to 25 percent of the households have not been able to fully participate in the new income-enhancement opportunities. Earlier data from a survey conducted in 1981-82 indicated that the poorest 20 percent of the households had experienced a substantial deterioration in nutritional status due to reduced real income. Recent data seem to indicate that the nutritional status of the bottom 20 percent has begun to recover, but that consumption in this group still represents less than 80 percent of recommended adequacy. Due to its importance in assisting the poor during the present transitory period of economic adjustment, the PRFSP may deserve a higher focus than at present.

There is scope for improving the efficiency of PRFSP. Future support from the Title III program may in fact be used to promote such an objective. From the point of view of minimizing the error of not including deserving households, the present PRFSP could be regarded as a successful endeavor. It appears that the 1991 screening effort has ensured the inclusion of virtually all those who deserved PRFSP assistance. The program, however, has been less successful in minimizing the number of households who do not deserve to be included. If leakages were eliminated and the savings transferred to deserving households, it would be possible to increase the average transfer to such households. Ideally, food stamp incomes should ensure at least 80 percent of the recommended levels of energy intake. Budgetary constraints as well as concerns over "poverty traps" that may arise out of relatively large income transfers may not permit increased budgetary allocations to PRFSP. Hence, improving efficiency of the existing program appears to be a logical first step toward provision of more effective assistance to the poor. Elimination of ineligible households (for which the administrative mechanisms are already in place) is the most appropriate initial measure to be undertaken. The Sri Lanka Title III program can provide useful assistance in this regard. For example, administrative measures required to remove ineligible households could be brought in as benchmarks to be achieved prior to release of funds from the Title III program.

CHAPTER 4
ENHANCING FOOD SECURITY THROUGH IMPROVED FOOD UTILIZATION

Just as increased availability of food will not necessarily be accompanied by improved access among the poorest segments of the population, the capacity to grow or purchase sufficient food does not ensure adequate individual consumption/utilization. Adequate utilization implies adequate intake of calories, but also adequate intake of vitamins, protein, minerals, and fiber. Due to illness, personal tastes, poor eating habits, cultural practices that limit consumption of a nutritionally adequate diet, lack of knowledge, or simply inadequate household processing and storage, improved access to food will not necessarily lead to adequate nutrition.

A review of Sri Lanka's Title III-supported development activities (see Annex G), including those supported by the PVO program[19] reveals that this third component of food security has not been sufficiently emphasized.

Recognizing the need for better coordination of Title III-supported activities with existing health and education efforts, a nutritional and health surveillance feasibility study was recently carried out by GSL with USAID assistance. The study recommended a national survey system to monitor nutrition and health in Sri Lanka. The survey was initiated in the current fiscal year as a first step in the implementation of a surveillance program to alleviate food insecurity induced by inadequate food utilization/consumption.

Sri Lanka conducts a nutritional survey every five to six years, but no mechanism is in place for collecting data in the intervening years. There are no other donors engaged in this activity, except UNICEF which has designed a plan to assist the Nutrition and Janasaviya Division of the Ministry of Policy Planning and Implementation (N&JD/MPPI) in micro-level monitoring of the poverty alleviation program in two selected districts.

To fill this gap, USAID has developed a simple sampling design and methodology that will enable N&JD/MPPI to conduct smaller, but nationally representative surveys during the intervals separating the larger benchmark surveys. Due to the distinct bimodal pattern of crop production in Sri Lanka, the

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[19] Title III-funded PVO activities in Sri Lanka are:

- *Jinaratana Adhyapana Ayathanaya*. The program supports vocational training and income generation activities in selected locations.
- *Samata Sarana*. Supports various programs directed at the slum dwellers in the northern part of Colombo City, including a feeding program and an employment program for women.
- A CARE International seed production project covering six districts of Sri Lanka.
- An Agromart Outreach Foundation program focusing on training in diversified farming and microenterprises.
- An AAFLI project supporting a revolving loan fund to promote income generation activities for 100 estate workers.

As apparent from this brief description, the Title III-supported program has concentrated on improving access to food by the disadvantaged.

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surveys will be conducted semi-annually to capture seasonal variations in nutritional status. The surveys are expected to serve as a cost-effective mechanism to monitor some aspects of food security in Sri Lanka through proxy indicators, such as the prevalence of wasting and stunting among pre-school children, which can be estimated through simple anthropometric measurements.

A survey report will be completed by the end of 1993. On the basis of survey findings, a separate report will be prepared that will identify problem areas where further analysis will be needed. Of particular interest to USAID are cost-effective mechanisms for assessing and monitoring the prevalence of nutritional factors affecting child and maternal survival rates, such as micronutrient deficiencies. Emphasis will also be placed on practical methods for controlling such deficiencies that are consistent with USAID's strategic framework and its PL-480 goals and objectives.

Thus, the semi-annual nutrition surveillance survey will not only allow policy makers to track changes in a number of food security indicators, but it will also review the current situation and identify new or modified efforts that will increase food security through proper utilization.

While some of these potential interventions may require large-scale regional or national efforts, other remedial measures may be integrated into the PVO program. As Title III-funded PVO activities have thus far concentrated on interventions aimed at improving access to food by the disadvantaged, USAID/Sri Lanka may wish to encourage PVOs to place more emphasis on enhancing food security through improved food utilization. This objective may be accomplished, for instance, through projects teaching urban households how to raise a home garden, can food, or obtain sanitary water. Targeting women might be particularly cost-effective. As women are often responsible for meal preparation and nutrition education, targeting women can do much to improve food security through better food consumption and utilization.

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ANNEX A
SUGGESTED FOOD SECURITY INDICATORS

The multiple dimensions of food security outlined in this report suggest that there can be no single indicator for measuring it. A number of indicators at the national, household and individual levels are suggested below. Data availability in Sri Lanka was a major consideration in selecting these indicators.

A.1. Per Capita Change in Gross National Product

Growth in Gross National Product (GNP) should increase the capacity to increase food consumption. A decline in GNP growth suggests a fall in purchasing power and hence reduced food demand.

A.2. Gross Foreign Exchange Earnings Per Capita

Reflects a country's capacity to import food to supplement domestic production. This indicator is based on the premise that food security (as distinct from self-sufficiency) is enhanced when the potential efficiency gains from trade are fully realized. Gross foreign exchange earnings per capita (merchandise exports, non-factor service exports, factor service receipts and private transfers) are a better indicator than merchandise exports, particularly in Sri Lanka where a major proportion of foreign exchange earnings are obtained from other sources, such as workers' remittances.

An alternate indicator is per capita import capacity, defined as per capita foreign exchange earnings net of debt-service obligations and other necessary foreign exchange expenditures.

A.3. Income Inequality Index

Overall growth does not ensure that incomes have grown uniformly across the population. Incomes can grow in favor of the rich at the expense of the poor. An inequality index will capture this trend. If income disparities grow through time, per capita food consumption by the poor can decline even though overall food consumption increases.

A.4. Daily Per Capita Calorie Supply for all Income Groups

Although several other determinants such as protein, vitamins and fiber are important, per capita calorie consumption is generally recognized as a major determinant of nutrition.

A.5. Daily Per Capita Calorie Supply for the Bottom 20 Percent the Population, Determined by Income Levels

Estimate (A.4) above, but only for the lower income group.

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A.6. Per Capita Food Availability from Major Food Items for all Income Groups

Construct an aggregate food per capita index which includes the major food items in Sri Lanka: rice, wheat and coconut. If this index shows a per capita decline, measures are needed to promote domestic production and imports.

A.7. Per Capita Food Availability for the Bottom 20 Percent of the Population, Determined by Income Levels

Estimate (A.6) above, but only for the lower income group.

A.8. Child Mortality Rate

Although both infant (under one year of age) and child (under five years of age) mortality rates are sensitive indicators of health and sanitation conditions, child mortality is a better indicator of food security than infant mortality because the 1-4 age group is more sensitive to nutritional deficiencies.

A.9. Wasting

Low weight-for-height — an indicator of acute undernutrition.

A.10. Stunting

An indicator of chronic malnutrition.

A.11. Low Weight-for-Age

A composite measure that captures both acute and chronic undernutrition.

Note: (A.9) through (A.11) can be obtained from the USAID/Sri Lanka-financed nutritional surveillance survey.

A.12. Effective Food Targeting Indicator

Share of the total outlay on income transfers to the poor received by the bottom 20 percent of the households.

A.13. Food Sector Production Incentive Index

Construct and monitor the effective rate of protection for the major food crops such as rice and coconuts. A positive effective rate of protection index indicates that resources are mis-allocated in favor of domestic production at the expense of imports. A negative index indicates that producers face disincentives.

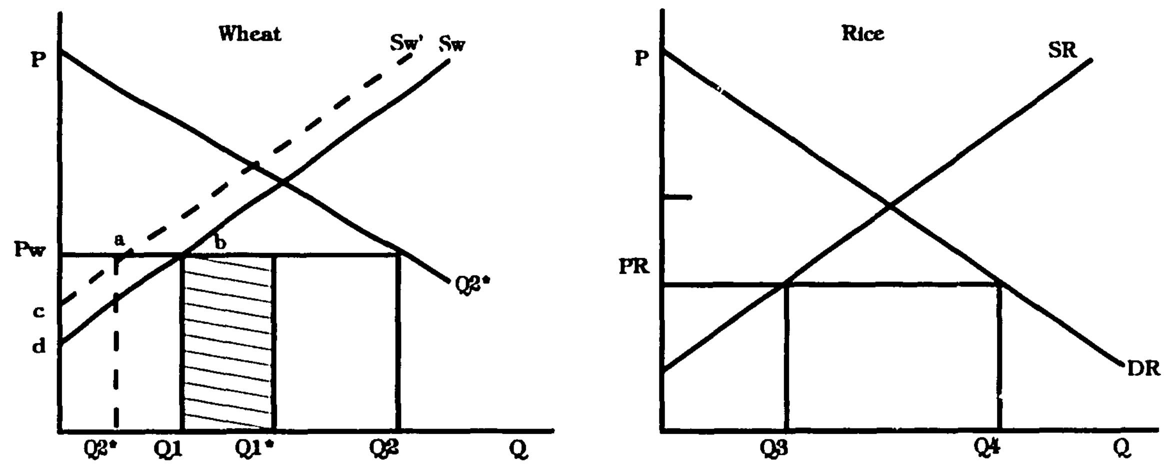
ANNEX B
PRODUCTION INCENTIVES AND FOOD AVAILABILITY:
A TECHNICAL APPROACH

In this annex we model the effect of PL-480 imports on production incentives and food availability as discussed in Chapter 2.

B.1. Production Incentives

Consider first the case when there are two sectors, wheat (W) and rice (R).[20] In the absence of government policy, both are produced domestically and part of domestic consumption is met through imports. In Figure B.1, given the border price of PW for wheat and the border price of PR for rice, imports are Q1Q2 for wheat and Q3Q4 for rice.

Figure B.1. Wheat and Rice



In what follows we introduce the "small country" assumption (i.e., introducing policies such as PL-480, price supports, and the like does not affect border import prices).

Suppose PL-480 wheat imports to Sri Lanka are introduced totalling PW(Q1Q1*) paid for by USAID in the U.S. Total commercial imports of wheat are reduced from PW(Q1Q2) to PW(Q1*Q2). Sri Lanka's U.S. savings on imports total PW(Q1Q1*). However, since consumers pay price PW for Q2 of wheat, the amount PW(Q1Q1*) represented by the hatched area in Figure B.1, can be referred to as the "rupee account" at the Central Bank of Sri Lanka. This money is used for R&D efforts, privatization incentives and other activities as stipulated in the Title III agreement.

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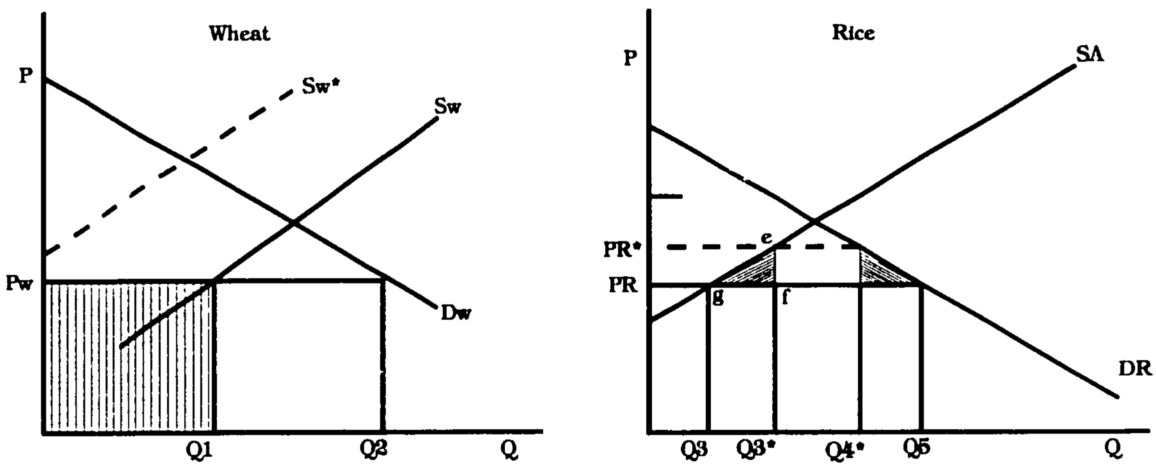
20 We assume, for convenience, that wheat is grown in Sri Lanka, even though for technical and other reasons it is not.

In this model, PL-480 shipments have no negative effects on production incentives and merely substitute for commercial imports. PL-480 shipments affect neither domestic production of wheat (Q1) nor domestic production of rice (Q3). However, conceptually PL 480 shipments could have a disincentive effect. To show such an effect, suppose PL-480 shipments exceeded Q1Q2, thus eliminating commercial imports. If, for example, PL-480 imports are Q1Q2*, then the domestic wheat supply curve shifts to SW' (domestic producers lose area abcd). However, there is no effect on domestic rice production.

For many years domestic rice production in Sri Lanka was protected (i.e., the effective rate of protection was positive). Consider Figure B.2, where producers receive rice prices above PR.

Figure B.2. Price Supports and Quotas for Rice



Consider first an import quota on rice of Q3*Q4*. In response, producers expand production from Q3 to Q3*. Consumers pay higher prices for rice. There is a net cost of the import quota of the two hatched triangles.

The rice import quota also affects the wheat sector. The wheat supply curve shifts to SW*. Now at price PW, all domestic consumption is met through imports. PL-480 shipments, which total PWQ1, are additional in that they are added to commercial imports Q1Q2, which existed prior to introduction of the rice import quota (the hatched area PWQ1 represents the "rupee account"). Note that rice import quotas caused rice production to increase and wheat production to decline. However, it was the quota which caused wheat production to decline — not PL-480 shipments.

It is more efficient to support the rice sector through deficiency payments. At a price support of PR*, rice imports are Q3*Q5. Deficiency payments total PR*efPR. The net social cost is reduced to efg.

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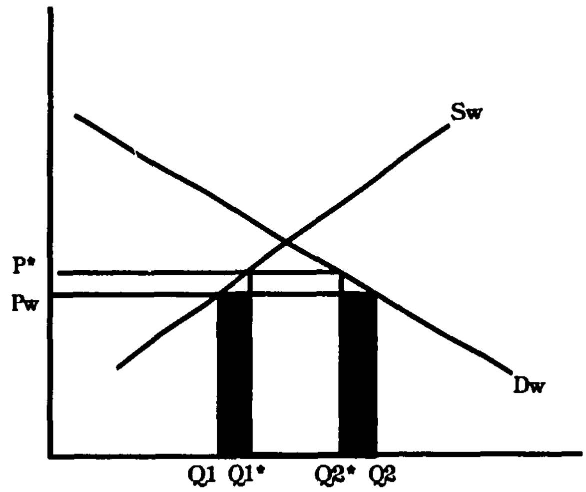
B.2. Food Availability

In the above discussion no consideration was given to balance-of-payments constraints in the importation of wheat. As shown, when PL-480 shipments add to or substitute for commercial imports, food availability in Sri Lanka is not increased. We now turn to balance-of-payments considerations.

Given the border price of PW in Figure B.3, imports are Q1Q2 in the absence of a producer price support. The amount of $U.S. spent on imports total PW(Q1Q2). However, if imports are restricted to Q1*Q2* by means of an import quota the outlay on imports is reduced to PW(Q1*Q2*). The net savings total the shaded areas PW(Q1Q1*+Q2Q2*).

Figure B.3. Wheat Imports and Balance of Payments



Now consider the balance-of-payments effect on total food imports (Figure B.4). The import demand expressed in rupees is DR while the import demand in $U.S. is Dus. At a weighted border price of PB the food shortfall due to a foreign exchange constraint is QB*QB. Also note that without PL-480 imports the internal price (in rupees) is PB*.

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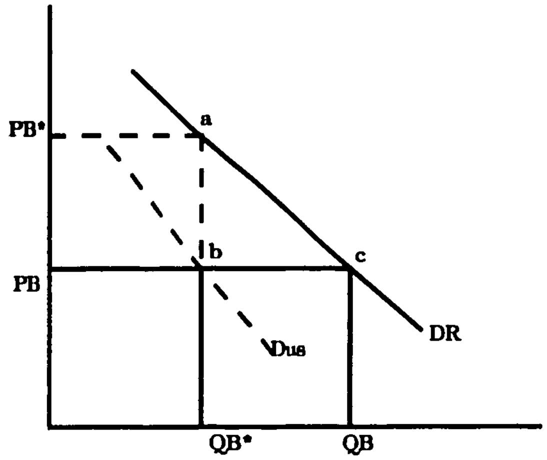
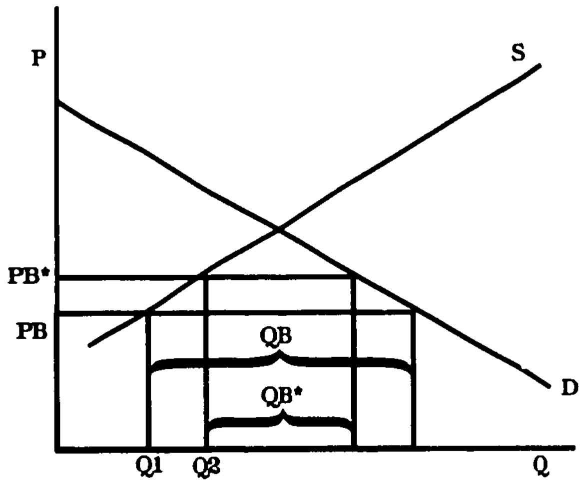
Figure B.4. Food Imports and Foreign Exchange Constraints

When PL-480 shipments of QB*QB are introduced, the internal price falls to the border price of PB. Consumption increases to QB. Food availability increases by the amount of the PL-480 shipments.



In the above case, PL-480 has a negative effect on domestic food production unless price supports are introduced. In Figure B.5, a drop in price from PB* to PB due to PL-480 shipments causes domestic production to decline from Q2 to Q1 as imports expand. However, a price support of PB* clearly offsets the disincentive effect from PL-480 shipments.

Figure B.5. The Presence of Price Supports



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ANNEX C
THE EXPORT TAX

Consider Figure C.1 below. Suppose Sri Lanka's domestic supply schedule for rubber is S_R while domestic demand is D_R. The excess supply curve is ES_R and the excess demand schedule (import demand) is ED_R. The free trade price is P_f and exports total Q*.

The "optimal" export tax is P_0P^*/unit of exports. This tax generates a revenue of P^*abP_0. However, domestic production falls as does price. Output falls from Q to Q_1 while price drops to P_0.

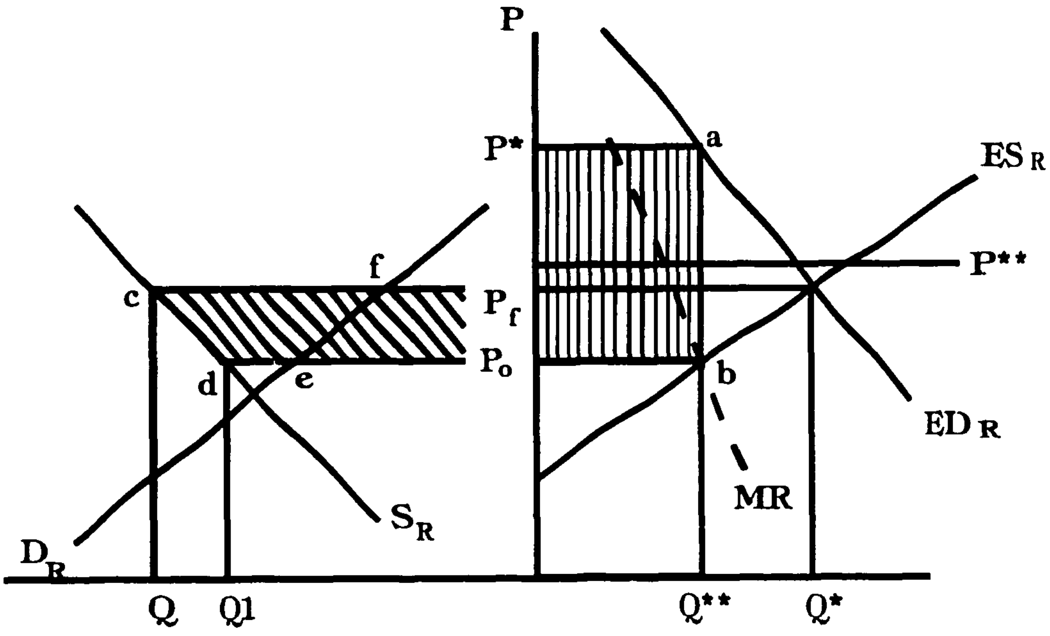
There is a net gain from the export tax since P^*abP_0 exceeds cdef.

However, certain conditions need to hold for an export tax to lead to net economic gains. First, a country needs a large export market share with no fear of production expansion from competitors due to higher prices as a result of the tax. Second, the effects are greatest with a product that is inelastic in demand. This depends on the degree of product substitution.

For Sri Lanka, the market share for rubber, tea and coconut is small and declining. Rising prices due to the initial export taxes triggered production responses from competitors causing market shares for Sri Lanka to decline. In terms of dynamic effects, the initial cutback to Q** caused export prices to fall below the initial price P* as competitors responded to the high price P*. The result is a lower price (e.g., P**). This effect generated a tax revenue of only P_0P^{**}/unit of exports.

In this case, the export tax revenue is less than the domestic cost of the export tax. This appears to have been the case for Sri Lanka.

Figure C.1. The Export Tax



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ANNEX D
WORKING PAPER: THE POOR RELIEF FOOD STAMP PROGRAM

D.1. Introduction

A striking feature of Sri Lanka's structural adjustment program launched in the late 1970s is its emphasis on providing a safety net to minimize the negative impact of economic reforms on real incomes of the poor. The economic reforms entailed the removal of subsidies from food prices during a period when food prices were bound to increase due to exchange rate reforms. Sri Lanka has already had a history of providing quite comprehensive social welfare programs that required relatively large public expenditures. One such program was the provision of subsidized food rations, especially rice, to virtually everyone. The need to eliminate interference in commodity pricing in the context of market liberalization and the need to increase domestic savings for use in productive sectors necessitated a transfer program that would least interfere with the objectives of structural adjustments but provide a reasonable safety net to protect the poor. A food stamp scheme was seen as the appropriate solution to these questions.

The relevance of this safety net provision during structural adjustment also has to be viewed from the perspective of the history of the political economy of food subsidies. Notwithstanding some sharp differences in political ideologies, since the country's independence, successive national governments continued food subsidies to attain both political stability and social equity. These subsidies continued, in part, because of a remarkably high degree of active political participation by the population. The organized sector of the labor force, in particular, exerted sufficient pressure to ensure that the population participate. Hence, there was justification to perceive the need for a effective safety net to ensure a smooth transition of a highly controlled economy to a market-friendly economy.

D.2. The Initial Food Stamp Program

The introduction of the Food Stamp Program (FSP) and the elimination of food subsidies were strategically phased to minimize the adverse effects of removing a deep-rooted subsidy program. The first step was to curtail the existing rice ration program and to target it to the needy based on a means test. Until then, all but a few income taxpayers were eligible to receive rice rations, which included a free weekly ration of one pound per person and an additional amount made available at a subsidized price. This initial targeting exercise was conducted in January 1978 by the Food Commissioner's Department (FCD). According to FCD's administrative instructions issued on the subject, the objective of the change was to assist a "new meaningful economic structure in the country which will enable speedier economic development and the elimination of unemployment" (Food Commissioner 1977).

Procedures of the means test for targeting indicated that any household was allowed to claim eligibility to receive new ration books by giving income and demographic information in a specified "declaration form." Households with an annual income of Rs. 3,600 or less were eligible to receive rice (and other foodstuffs such as sugar) rations for all household members. For households with annual incomes higher than Rs. 3,600 but less than Rs. 6,480 some members were allowed to receive ration books on a specified basis. Applicants were asked to declare not the actual income of 1977 but the estimated income for 1978 taking into consideration salaries and wage increases for public sector employees that were announced with the 1978 budget. It is unlikely that this stipulation may have had any significant impact on the numbers applying to get ration cards. The ration cards then in use were to be revalidated only in the case of those who qualified under the new income criteria. This operation for restructuring the rations scheme received legal status through regulations made by the Minister of Food and Cooperatives under section 6 of the Food Control Act. These regulations also indicated that any person responsible for deceitful declarations would be punishable.

The new curtailed ration scheme came into operation on February 1, 1978. A total of 7,716,268 or 58.7 percent of the 13,144,357 ration books then in use were revalidated (see Table 1). The percentage of revalidation ranged from 27.8 percent in the Colombo Municipality area to 81.7 percent in the Monaragala district. Thirteen out of the 24 districts had over 60 percent of the ration books revalidated. This targeting exercise was conducted as an emergency exercise and the need to verify the incomes declared by the applicants was not emphasized. Neither suitable mechanisms nor sufficient time were made available for any reasonable scrutiny of the applications. In this exercise, ensuring a reasonable reduction in the number of ration card holders by about one half rather than ensuring eligibility only to the poor households appears to have been the overriding consideration.

The introduction of the Food Stamp Scheme (FSP) in September 1979 to replace the ration scheme marked the second phase of the change. The FCD was responsible for implementing the change and operating the new scheme. As in the exercise for revalidation of rice ration books, households were expected to make declarations regarding income and household size to claim eligibility for food stamps. The entire exercise, including the distribution of food stamps to eligible households was carried out in a period of about one month. Hence, this operation was also carried out as an emergency operation, where its success was apparently judged by the "smoothness" of the change rather than by any efficiency improvement.

Under the FSP, households with incomes of Rs. 3,600 per year, with marginal adjustments for larger families, were issued food stamps (Table D.2). For each child under eight years old they would receive Rs. 25 per month. For each child between 8 and 12 years old, they would receive stamps worth Rs. 20 per month. The household would receive stamps worth Rs. 15 per month for each member older than 12 years. The food stamps could be used to purchase a basket of commodities composed of rice, wheat flour, bread, sugar, dried fish, milk foods, and pulses. Food stamps were renewed every three months to ensure continuous revision of those eligible. To meet rising fuel costs, kerosene stamps worth Rs. 9.50 per month were issued to all food stamp recipient households. The beneficiaries were allowed to use these to buy specified food items, but food stamps could not be used to buy kerosene. Households were attached to cooperative stores or authorized distributors to obtain their food stamp commodities. Unused food stamps could be deposited in government post office savings accounts.

Although large reductions in coverage were expected due to the transition to food stamps, the number of recipients remained virtually the same as in the curtailed ration scheme. In fact, the number of recipients increased with each issue of stamps (Table D.3). This led to a freeze on new issues in March 1980. Since then, the total number of beneficiaries declined consistently due to the elimination of some of the unintended beneficiaries and the more effective implementation of the freeze on new entrants. From a peak of 7.44 million recipients during the 5th round of issues (September 1980 to November 1980), the number declined to 6.85 million recipients during the 16th round (December 1985 to May 1986), after which the present Poor Relief Food Stamp Scheme (PRFSP) came into operation.

The most striking characteristic of the new food stamp program was the allocation of a fixed budget of approximately Rs. 1.8 billion annually. In other words, no provision was made to change the value of food stamps to adjust for cost of living changes.

The third phase in the food subsidy reforms was the elimination of subsidies on food prices. Under the rationing scheme, and during the first phase of the new scheme, price subsidies remained on rice, flour, sugar, and infant milk foods. These subsidies amounted to Rs. 2.3 billion in 1979. Prices of rice, flour and sugar were raised in 1980 to reflect costs, and the total subsidy was reduced to Rs. 305 million. By the end of 1982, most of the remaining subsidies were also removed.

The changeover from a nearly-universal food rationing scheme to a curtailed scheme as well as the changeover from the ration scheme to the food stamps scheme did not emphasize a high degree of targeting efficiency. The implied expectation was to cut the related income transfer budget by about one-half. The modified ration program had indicated that the "needy" consisted of nearly 60 percent of the population; in the FSP this proportion was reduced only minimally. The government was willing to absorb these numbers in the transfer program for several apparent reasons. One was the need to ensure a transformation of a deep-rooted social welfare program with the least amount of protest or discontent; a much more important set of structural reforms have been set in motion and its successful implementation largely depended on having stable political environment. Another reason is that the share of expenditures on the FSP in the total government expenditures was expected to decline steadily over the years because a ceiling on the nominal level of expenditures was set for the FSP. Perhaps another reason was the expectation that the new economic environment would lead to greater opportunities for employment and income generation by all segments of the society thus reducing the need for dependence on government transfers.

D.3. Poor Relief Food Stamp Program

This is the program presently in operation. By the mid-1960s, several problems with the FSP were becoming increasingly evident. These were related to the "leakages" of benefits to unintended beneficiaries, erosion of the real value of the food stamps and the absence of opportunities for entry into the program by newly eligible households. The fact that over 50 percent of the population were receiving food stamps itself was highly suggestive that a large number of relatively well-to-do households were receiving food stamps benefits. A rigorous study of the program based on data from an all-island survey showed that (a) nearly 30 percent of the poorer half of the population were not receiving food stamps, and (b) the poorest 20 percent of the population who were the intended beneficiaries according to the income criterion used for targeting food stamp recipients were receiving only 38 percent of the total food stamps budget (see Table 4).[21]

The nominal value of the food stamps set at the beginning of the program did not undergo any changes until December 1988. The erosion of the value of food stamps by the mid-1980s was clearly evident from the changes in the Colombo Consumers' Price index (CPI) which increased from a level of 252.3 (1952=100) in 1979 to 533.1 in 1984. Several studies including one by the government's Food and Nutrition Policy Planning Division highlighted the need to enhance the value of food stamps to take into account the inflationary impact on food consumption of the poor (Ministry of Plan Implementation 1982). However, the government was concerned that any increase in the nominal value of food stamps would disproportionately benefit the non-poor due to the degree of leakages in the benefits provision prevailing at the time. Hence, the government decided to launch a re-targeting exercise in 1985 with the objective of reducing the number of beneficiaries from 7.5 million to 3.5 million persons and using the savings to double the value of the food stamps.

This modification attempt was given legal status by enacting the Poor Relief Act No. 32 of 1985. The regulations under this act detailed the procedures to be followed in the issue of food stamps. The act also changed the implementing agency of the scheme from the FCD to the Social Services Department (SSD) which has traditionally been the agency in charge of providing relief assistance to the disabled, orphans and the indigent. Changing the food stamps program to a *poor relief* program and entrusting its implementation to the Social Services Department were meant to instill a perception among the public that this food-related income transfer was exclusively for the benefit of the truly poor.

Under the PRFSP, some changes in the eligibility criteria were to be effected. For households with

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[21] According to the Consumer Finance and Expenditure Survey 1978/79 conducted by the Central Bank of Sri Lanka, the average monthly income of the bottom 20 percent of households was Rs. 303 which was almost equal to the cut-off income level used in the exercise for revalidation of rice ration cards and for issue of food stamps.

incomes less than Rs. 700 per month, benefits were graded according to income slabs. For a family with a monthly income less than Rs. 200, five members could receive stamps. If a larger number in such families was receiving food stamps under the former program, they could all receive food stamps under the new scheme too. Households in the income classes of Rs. 200-399, Rs. 400-599 and Rs. 600-700 could receive food stamps for four, three and two members respectively. The value of the stamps by household members varied according to age as before, but the actual values of the stamps were to be fixed after completion of the survey to determine eligible households.

The new program expected to achieve better targeting through a series of administrative procedures which, for the first time, provided opportunity to the public to react to the choice of beneficiaries. Households had to first make a preliminary application giving basic information on household size, occupations and household income to the newly-formed Poor Relief Committee in the area. This committee consisting of four public officials and one nominated member from the community was expected to scrutinize preliminary applications to eliminate any "clearly" undeserving cases. The remaining ones were to receive a second declaration form to provide additional information. Such information was to be verified by the *Grama Sevaka Niladari*, a government official who was also a member of the area's Poor Relief Committee, by visiting each household.

The names of the heads of households finally selected by the committee were to be exhibited in prominent places. This was to facilitate public reaction to any perceived inappropriateness of the selection of beneficiaries, which they could intimate through written objections or other representation to the committee. This had to be done within two weeks of notification. The Poor Relief Act also included provisions for legal actions against those suspected of making false claims.

The Poor Relief Act created the post of Commissioner of Poor Relief with powers to issue regulations under the act. The commissioner, by his circular No. 1 of August 30, 1985, issued operational instructions to implement the new program. One instruction stipulated that the number of food stamps recipients needed to be reduced from 7.01 million to 3.05 million by ensuring strict targeting.

The PRFSP was to be implemented on December 1, 1985. In September 1985, a nationwide survey was set in motion. In its first stage, where preliminary eliminations were to take place, an administrative clarification by the commissioner led to the possibility that certain professional categories (such as masons, carpenters, motor mechanics, drivers, tractor operators) losing food stamp benefits. Political pressure forced the survey to be suspended and a parliamentary committee was appointed by the government to submit recommendations for resolution of the problem. This committee recommended continuation of the survey, with the stipulation that only the household income level and no other factors such as occupational status of the household members should guide the selection of eligible beneficiaries. The survey was resumed in March 1986. At this stage, there was a further motion that the lowest income group should be increased from Rs. 200 to Rs. 300 as was the case under the former program. This was granted. Given the strong political sensitivity to the program changes already demonstrated, no action was taken to exhibit the names of selected households and entertain public responses.

When the PRFSP was finally implemented in June 1986, the total number of persons receiving food stamps had increased from 6.8 million to 7.2 million (see Tables D.3 and D.5). There was no increase in the value of food stamps since the expected reduction in numbers, hence savings, were not realized. The increase in the number of beneficiaries in the PRFSP was mostly due to a more than four-fold increase in the category of children under eight years old, from 409,349 children in the previous program to 1,718,203 children in the PRFSP. It should be noted that children born after February 1980 had no opportunity to enroll in the food stamps program. The total number of beneficiaries under the PRFSP continued to increase until the 4th issue in 1989. In October 1989, the first phase of the *Janasaviya* Program (JSP) — a relatively large income transfer program intended to assist the poor to move out of poverty — commenced.[22] JSP is being implemented in 11 rounds composed of Assistant Government Agent (AGA) divisions selected on the basis of need (as measured by the proportion of PRFSP beneficiaries in the population within AGA divisions). Initially, all food stamp recipients in the selected areas were to receive assistance from the JSP but it soon adopted its own selection criteria. Table D.6 shows the total number of JSP beneficiaries in each round of issue along with the number of families who came from the PRFSP. By the end of the third round of the JSP, it had enrolled 369,000 families in the program. Of these, 311,536 have been recipients of food stamps. The total number of food stamps was reduced because the number of transfers to the JSP was 1,587,709.

D.3.1. PRFSP Beneficiaries

The failure of the first serious attempt to modify the food stamps program resulted in the continuation of the problem of leakages of benefits to unintended beneficiaries but a positive aspect of this attempt was the inclusion of some of the deserving who had been left out in the program. One study estimated that PRFSP coverage increased from 44 percent of the population in the first issue to 49.6 percent in the third issue (Alailima 1989). The same study analyzed data from the second issue of the stamps under PRFSP and found considerable variability in the proportion of the populations in the districts receiving food stamps as well as in the proportion of households declaring monthly incomes less than Rs. 300 per month (see Table D.7). In this issue, 45 percent of all households received food stamps and 69 percent of the recipients declared their income to be less than Rs. 300 per month. With regard to the latter characteristic, this proportion ranged between 30-60 percent; in 10 districts between 61-75 percent; in 6 districts between 76-90 percent and in one district it was over 90 percent. It is evident that the problem of under-declaration of incomes has been dealt with differently in different districts. At one end of the spectrum, Colombo, which has the largest population among the districts, authorized stamps for 18 percent of its population and only 30 percent of them were in households with incomes under Rs. 300 per month. At the other end, districts in the Northern and the Eastern provinces had very high proportions of their populations covered and a high percentage of the households declaring their monthly incomes to be less than Rs. 300.

An analysis of data from the Central Bank's Consumer Finance and Expenditure Survey (CFS 1986/87), which was conducted after the PRFSP, had also indicated that the well-intended targeting exercise undertaken in 1986 has not been successful in reducing the leakages to any substantial degree (Bandaranaike 1989). As shown Table D.8, nearly one-third of the spending units within the bottom 20 percent of the income range (Rs. 0 - 1000 range) do not receive food stamps whereas nearly 40 percent of the spending units that belong in the uppermost 40 percent in the income range (Rs. 1501 - Rs. 3000 range) do receive food stamps. It is clear that the use of declared incomes for targeting food stamps as well as the past administrative arrangements for the selection of beneficiaries have not been successful in ensuring that the benefits of this important income transfer program go to those who really need them.

D.3.2. Restructuring of PRFSP in 1991

In mid-1991, an island-wide survey was conducted for the purpose of restructuring the PRFSP. The government along with the major multilateral donor agencies was becoming increasingly concerned over apparent inefficiencies in this transfer program and the need to make it more cost-effective. At the same time, the selection procedures adopted by the JSP have indicated that more effective targeting may be

[22] The *Janasaviya* (people's strength) Program provides households with large monthly payments that are intended to free households from the urgency of obtaining daily sustenance, thereby enabling them to engage in training, private investment projects, and community infrastructure development. The program also includes savings and investment components designed to assist households in implementing these plans.

achieved with the participation of the community in the selection process. Circular instructions to conduct the survey of poor households indicated the following three objectives of the exercise:

(1) identification of four categories of the poor;
(2) ensuring fairness and transparency in such identification; and
(3) identification of avenues and measures to remove food stamps recipients from poverty.

The four categories of the poor to be identified were: (i) the extremely poor, classified as those households with less than Rs. 700 monthly income; (ii) moderately poor, classified as those households with monthly incomes between Rs. 700 and Rs. 1500; (iii) poor youth among the extremely poor and moderately poor households; and (iv) the old-aged and the indigent with no income earning potential.

Ensuring fairness and transparency in identifying potential beneficiaries of food stamps was expected to be achieved by engaging persons who are acceptable to the community in the selection process. Ten such persons were to form a team called *Sahayaka Kandayama* (SK) to assist government officials. Such teams were to work within the area (village/hamlet) they came from. Within a given village, these teams were to first select the poorest 20 families and then to select the next poorest 10 families and then identify the other poor families. The names of those selected were to be publicized to allow any objection to be raised by community members. All objections were to be investigated by the Divisional Secretary, the chief government official conducting the survey on behalf of the Poor Relief Commissioner, prior to finalizing the list of names in the four categories of the poor.

Unlike the previous targeting exercise, where heads of households had to apply for benefits by completing a given application form, in this restructuring exercise household information on potential beneficiaries was obtained by the SK teams by visiting the households. Information on a wide range of aspects was collected to establish the eligibility for benefits. These included information on household composition and other demographic factors, ownership of assets, value and description of the dwelling, monthly expenditures on food and non-food items, savings, indebtedness and ownership of movable assets. The survey did not include the North and the Eastern Provinces because of the civil disturbances there.[23]

The survey identified 901,877 families in the poorest category, of which 132,373 were not receiving food stamps. There were 343,110 households in the category of "moderately poor"; i.e., with monthly incomes between Rs. 700 and Rs. 1500. There were 1,755,000 food stamp recipient households during the year of the survey, out of which the eight districts in the North and the East, not subjected to the survey, may have had about 350,000 households in them. Since the survey found only 769,504 food stamp recipient households in the income category of less than Rs. 700, it implies that, at the time of the survey, the "leakage" relative to that income cut-off level was around 45 percent in the regions surveyed. However, as a result of political pressure and because of a serious drought during that period, the newly eligible households were added to the PRFSP, but the noneligible households were not removed.

D.4. Recent Changes

Recently, the government has made a decision to replace the current Mid-Day Meal Program (MDMP) with an additional food stamp to be given to school-age children in households presently in the rolls of the PRFSP. The MDMP was established in 1989 with the objective of improving nutrition among children and increasing the returns to education (through increased attendance and increased attention in class). It provided Rs. 3 per day for children who had brought a meal to school. According to the new decision, children in the age group between 5 and 18 years will get Rs. 50 per month as a food stamp.

[23] The PRFSP has been in operation in the North and the East notwithstanding civil strife in these regions. However, when households which were displaced due to civil strife became recipients of dry rations, they were not given food stamps.

Households presently not in the PRFSP could also apply to receive this benefit but a plan for this has not yet been devised. According to the Poor Relief Commissioner, 1.6 million children in PRFSP families are expected to receive these special food stamps. The mid-day meal payment of Rs. 3 per child for an average of 180 days benefitted approximately 4,200,000 school children.

An "infant milk food" stamp valued at Rs. 50 per month has also been issued to children under 1 year of age. This ensures that new-born children in food stamps recipient families will receive nutrition-related assistance from the time of their birth; otherwise, they would have to wait until a new series of food stamps is issued to get normal food stamps. This form of special assistance to infants occurred after the privatization of Lanka Milk Foods which had been receiving about Rs. 125 million as a subsidy to facilitate sale of infant milk foods at "reasonable" prices. Since December 1992, this subsidy has been utilized to issue infant milk food stamps.

D.5. Budgetary Implications of PRFSP

A major objective of the economic reform program of the post-1977 period has been to increase domestic savings. The change from general food subsidies and quantity rationing to income transfers through the food stamp scheme has been successful in reducing the fiscal burden of food-related welfare policies. Broadly, the proportion allocated to food subsidies in total government expenditures was reduced by more than half after the program change (see Table D.9). Removal of general price subsidies, targeting, and the non-indexing of the value of food stamps were major reasons for this change.

Since the introduction of the FSP, budgetary outlay for this program as a proportion of the total budget declined continuously, reaching 2.3 percent in 1988. The increases in the value of stamps at the end of 1988 resulted in requiring 3.8 percent of the total budget for the program. There has been no increase in the value of stamps since then, whereas the total government budgetary expenditures have grown rapidly over the years. In the absence of indexing, the share of the food stamp budget in total government expenditures has declined substantially, probably reaching about 1.5 percent in 1993.

Future budgetary requirements for the PRFSP will depend on four major factors: (i) adjustments in the value of stamps to mitigate the cost of living increases; (ii) transfer of households from the PRFSP to JSP; (iii) effectiveness of the JSP screening process in removing ineligible households; and (iv) entry of households in the North and the East to JSP.

Table D.10 presents recent spending on PRFSP, along with numbers of participating households and projections for spending and participation. The average monthly benefit per household between 1989 and 1992 is approximately Rs. 167. Total administrative costs of the program including printing, distribution, salaries and overhead have been less than 1 percent of the total value of benefits. In these projections, it is assumed that JSP rounds will take place as scheduled and that the efficiency of its screening operations will be maintained, while the size of the subsequent rounds declines moderately. It is also assumed that beneficiaries in the North and the East are transferred from PRFSP to JSP at a rapid pace. Finally, the projections are computed both with and without a cost of living adjustment (at 16 percent per year based on recent trends in inflation). As shown in Table D.10, the PRFSP budget would decline from about Rs. 2.7 billion in 1993 to about Rs. 1.8 billion in 1996. If indexed, the budgetary requirements may remain around Rs. 2.7 billion (because of the lower numbers of recipients in the coming years).

D.6. Program Effectiveness

PRFSP is intended to increase nutritional welfare of poor households by increasing disposable incomes of these households. The effectiveness of this objective could be measured in terms of the impact these transfers have on energy intake levels of recipient households. Ideally, such an analysis requires data on the incidence of food stamps and quantities of food consumed by expenditure or income groups. Presently, such data are not available; however, a preliminary report on the Household Income and Expenditure Survey 1990/91 (HIES 90/91) conducted by the Department of Census and Statistics can be used to elucidate the impact of the PRFSP on poor households (Department of Census and Statistics 1993).

D.6.1. Share of Food Stamps in Household Income and Expenditures

A clear understanding of the share of food stamps income in household total income is not possible because of the well known problems of enumerating household incomes. Various reasons, including the possibility of not getting food stamps if actual incomes are reported in a government-sponsored survey, cause under-reporting of incomes. However, the HIES 90/91 attempted to collect income data in a comprehensive survey format. Table D.11 shows average household incomes by household income quintiles. The share of food stamps (including the value of kerosene stamps) is estimated on the basis of average food stamp value of Rs. 167 per month. This average value was adjusted according to the findings of an earlier study that show households in the lowest (poorest) income quintile receiving about 20 percent more in food stamps value compared with the average of all households (Edirisinghe 1987). In the next higher income quintile, average receipt was about 3 percent higher. Accordingly, food stamps constitute about 25 percent of total income of the households in the lowest quintile (as reported in HIES 1990/91) and 11 percent in the next higher quintile. Since incomes are likely to be under-reported, it is pertinent to examine the contribution of food stamps to disposable incomes which can be approximated by total monthly household expenditures. The total expenditures of households given in the HIES 1990/91 are substantially higher than the levels of income reported (Table D.12). During 1990/91, food stamp income contributed about 10 percent of the total expenditures of the poorest quintile and about 6 percent of the total expenditures in the next higher quintile. In 1981/82, the contributions by food stamps to expenditures of the poorest 20 percent and the next higher 20 percent of households were 14 percent and 9 percent, respectively.

D.6.2. Impact of Food Stamps on Nutrition

There is evidence from a household survey conducted in the Kandy district that food stamps are used to purchase both food and non-food items, but that about 90 percent of the food stamps income is generally used to purchase food. Food stamps have been used mostly to purchase rice. The same survey shows that about 75 percent of the food stamp income is used to purchase rice. The amount spent on wheat flour and bread is about 7 percent of this income. It is likely that in the urban areas where consumption of wheat products is relatively large, a higher share of the food stamps income is used to purchase wheat-based products.

Typically, even a very poor household receiving an additional amount of income will not increase nutrient (say, calorie) consumption to an extent that exhausts the additional income. This is because part of the marginal addition to income will be spent on non-food consumption. Hence, to assess the impact of food stamps-related transfers on calorie consumption (or any other nutrient consumption) an estimate of the marginal propensity to consume out of incremental incomes is required. Conceptually, if the value of the transfer received is less than what the recipient spends on food, the proportion of an additional rupee spent on food — the marginal propensity to consume (MPC) — should be the same whether the additional rupee is received from a subsidy transfer or from cash earnings. Here, the subsidy transfer is infra-marginal and does not restrict the food expenditures. In a study that used Sri Lanka data, no

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difference was found between the MPC out of transfer incomes and direct cash incomes (Edirisinghe 1987).

It has been estimated that the marginal propensity to consume calories out of incremental income in 1981-82 was 0.63 (or 63 cents out of every 1 rupee of additional income). Accordingly, the average per capita income received through food stamps may have increased consumption of calories at least by 160 units in the poorest income quintile in 1981-82 (Edirisinghe 1987). This represents about 12 percent of the total calorie consumption in this income class. In the same year, households in the second lowest income quintile had about 6 percent of calorie consumption accounted for by food stamps benefits. As expenditures rise, calorie consumption tends to increase, total calories bought with food stamps decline, and so does the share of calories from food stamps.

The impact of the PRFSP on current consumption cannot be properly estimated because of the non-availability of data on quantities of food consumed by income class. However, based on information given in the preliminary report on HIES 1990-91 and evidence from previous studies, a rough approximation of the calorie consumption levels by income class and the contributions from food stamp incomes indicates that the food stamp income received by the lowest income class may have contributed about 7 percent of the total calorie consumption of households in that group (or 115 calories of an estimated per capita consumption of about 1,530 calories per day). Accordingly, the contribution of food stamp incomes to calorie consumption of the poorest households has declined by about 30 percent relative to the contribution in 1981-82. While the nominal value of food stamps per capita doubled between 1981-82 and 1990-91, this was not sufficient to compensate for inflation. The Colombo Consumers Food Price Index increased by a factor of 3.25 during that period. Assuming somewhat lower rates of inflation in the rural sector where the bulk of the poor reside, and the possibility of some degree of substitutions of food taking place when food prices increase, the nominal value of food stamps should have increased by at least 300 percent to compensate for inflation.

D.7. Conclusions

The support given by Sri Lanka's Title III program for the food stamps program is well placed and is in direct compatibility with the legislated mandate of the Title III program for promoting food security. There is justification for strengthening this safety net program. After about 15 years of economic reforms leading to relatively high rates of economic growth, about 20 to 25 percent of the households have not been able to fully participate in new opportunities for income enhancement. Earlier data from a survey conducted in 1981-82 (after about 4 years of economic reform) indicated that the poorest 20 percent of the households had experienced a substantial deterioration in their nutritional welfare due to reduced real income. Recent data seem to indicate that nutritional status of the bottom 20 percent has begun to recover but their consumption levels still represents less than 80 percent of recommended adequacy. It would not be judicious to allow a weakening of the safety net program at this stage. The PRFSP, given its highly important role in assisting the poor in the present transitory period of economic growth, may deserve a much higher focus. There is scope for improving the efficiency and effectiveness of the PRFSP. Future support from the Title III program may in fact be used to promote this objective.

As far as minimizing the error of not including deserving households in the program, the present PRFSP could be viewed as a successful program. It appears that the 1991 screening exercise has ensured the inclusion of virtually all who deserve PRFSP assistance. The program, however, has not been successful in screening out households who do not deserve to be included. In 1991, about 46 percent of recipients were apparently "non-eligible." Due to the reductions of PRFSP rolls in the North and the East and transfer of food stamp recipients to the JSP, a precise estimate of the "leakage" is not possible at present. Based on discussions with officials, it can be estimated that at least 30 percent of those who are currently enrolled may not be eligible. Considering that the average food stamps payment is about Rs. 170 per households per month, the leakage may amount to about Rs. 970 million. If this leakage were eliminated

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and the savings transferred to deserving households, it would be possible to increase the average transfer to about Rs. 240 per household per month. This would allow a per capita daily calorie contribution of about 160 calories (or about 10 percent of the new calorie consumption level) relative to about 115 calories which may be the contribution from existing food stamps income.

Ideally, food stamp incomes should be able to ensure at least 80 percent of the recommended levels of energy intake. Budgetary constraints as well as concerns over "poverty traps" that may arise out of relatively large income transfers may not permit increased allocations to PRFSP. Hence, improving efficiency of the existing program appears to be a logical first step toward provision of more effective assistance to the poor. Elimination of ineligible households (for which the administrative mechanisms are already in place) is the most appropriate initial measure to be taken. Sri Lanka's Title III program can provide useful assistance in this regard. For example, administrative measures required to remove ineligible households could be brought in as benchmarks to be achieved prior to release of funds from the Title III program.

Table D.1. Ration Cards Issued in February 1978 and Food Stamps Issued in September 1979 after Conducting Means Tests, by Administrative District.

	District	Ration Cards Before Targeting (1)	Ration Cards After Targeting (2)	(2) As a % of (1) (3)	Food Stamps 1st Issue: Sept 1979 (4)	(4) As a % of (1) (5)	Kerosene Stamps (6)
1	Colombo (Kach)	527,131	324,458	61.6	481,628	91	66,437
	Colombo M.C. area	782,657	217,650	27.8	*	*	38,217
2	Gampaha	1,209,138	675,644	55.9	641,915	53	150,401
3	Kalutara	792,890	478,308	60.3	440,157	56	100,205
4	Kandy	1,228,383	603,124	49.1	563,689	46	113,511
5	Matale	329,265	217,529	66.1	159,936	49	42,162
6	Nuwara Eliya	347,220	140,176	40.4	116,387	34	28,398
7	Galle	779,463	502,867	64.5	488,881	63	101,271
8	Matara	621,275	437,571	70.4	410,706	66	78,030
9	Hambantota	369,879	272,695	73.7	261,858	71	48,823
10	Jaffna	754,909	497,460	65.9	479,000	63	107,573
11	Mannar	81,876	47,915	58.5	46,549	57	10,939
12	Vavuniya	107,603	36,443	33.9	34,431	32	8,205
13	Mullaitivi	---	23,070	---	22,051	---	5,557
14	Batticaloa	288,468	209,682	72.7	198,289	69	42,873
15	Ampariai	325,911	189,797	58.2	193,707	59	37,653
16	Trincomalee	202,217	103,718	51.3	99,750	49	21,608
17	Kurunegala	1,097,859	827,986	75.4	763,330	70	166,159
18	Puttalam	428,914	291,993	68.1	294,357	69	66,091
19	Anuradhapura	454,682	200,724	44.1	201,190	44	45,578
20	Polnnaruwa	194,784	99,877	51.3	96,046	49	22,798
21	Badulla	604,715	245,198	40.5	211,071	35	45,888
22	Moneragala	203,813	166,573	81.7	157,297	77	30,624
23	Ratnapura	693,988	470,171	87.7	458,669	66	97,510
24	Kegalle	717,317	435,639	60.7	400,536	56	81,612
Total for the Island		13,144,357	7,716,268	5.7	7,221,430	55	1,558,088

* Included in Colombo District

Note: The numbers given in Column 6 could be treated as the total number of households receiving food stamps.

Source: Food Commissioner

Table D.2. Eligibility to Receive Food Stamps by Income Level and Household Size

Annual Household Income per Year	Number of Members in the Household								
	5	6	7	8	9	10	11	12	13
Rs.	(number eligible for food stamps)								
3,600 or Less	Up to 5	6	7	8	9	10	11	12	13
3,601 - 4,320	None	1	2	3	4	5	6	7	8
4,321 - 5,040	None	None	1	2	3	4	5	6	7
5,041 - 5,760	None	None	None	1	2	3	4	5	6
5,761 - 6,480	None	None	None	None	1	2	3	4	5
6,481 - 7,200	None	None	None	None	None	1	2	3	4
7,201 - 7,920	None	None	None	None	None	None	1	2	3
7,921 - 8,640	None	None	None	None	None	None	None	1	2
8,641 - 9,000	None	None	None	None	None	None	None	None	1

Source: Food Commissioner's Circular No. 2270 of August 6, 1979

(Note: The same schedule was used when targeting rice ration cards in February 1978)

Table D.3. Issue of Food Stamps by Age Category and by Issue Round: September 1979 to May 1986

Issue Period	Under 8 Yrs	Between 8-12 Yrs	Over 12 Yrs	Total	Kerosene Stamps
Round 1	1,345,945	831,466	5,080,018	7,257,429	1,558,088
Round 2	1,516,598	812,710	4,948,688	7,277,996	1,566,962
Round 3	1,538,635	788,020	5,053,538	7,380,193	1,595,784
Round 4	1,504,265	781,553	5,114,729	7,400,547	1,591,787
Round 5	1,493,206	780,810	5,166,925	7,440,941	1,596,782
Round 6	1,457,325	778,059	5,184,899	7,420,283	1,592,132
Round 7	1,360,950	769,108	5,226,665	7,356,723	1,639,504
Round 8	1,251,556	762,589	5,313,822	7,327,967	1,566,801
Round 9	1,107,172	754,099	5,351,639	7,212,960	1,550,073
Round 10	1,007,752	755,798	5,404,709	7,168,259	1,536,134
Round 11	883,706	755,329	5,479,035	7,118,060	1,526,122
Round 12	784,668	747,925	5,525,857	7,059,450	1,519,882
Round 13	679,573	729,712	5,591,730	7,001,035	1,506,963
Round 14	589,882	731,180	5,631,900	6,952,962	1,499,003
Round 15	492,240	720,855	5,090,727	6,903,822	1,487,179
Round 16	409,349	726,846	5,721,080	6,857,275	1,481,626

Source: Food Commissioner and Social Services Department.

(Note: From Round 1 through Round 5, food stamps were issued every 3 months beginning on September 1, 1979. From Round 6 through Round 16, food stamps were issued every 6 months beginning December 1, 1980)

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Table D.4. Percent Receiving Food Stamps and the Share of Total Food Stamps Outlay by Expenditure Quintile, 1981-82

Per Capita Expenditure Quintile	Percent of Households Receiving Food Stamps	Share Received from the Total Outlay
1	79.6	38.4
2	65.8	28.4
3	50.7	17.8
4	36.7	11.1
5	15.0	4.1

Source: Edirisinghe, 1987.

Table D.5. Poor Relief Food Stamps Issues by Age Category — from June 1986 to March 1990

Issues	Period	Under 8 Yrs	8-12 Yrs	Over 12 Yrs	Total	Kerosene Stamps
1st Round	6.1.86 - 5.31.87	1,718,203	741,194	4,814,718	7,263,113	1,837,760
2nd Round	6.1.87 - 5.31.88	1,660,526	770,610	5,006,463	7,437,599	1,862,225
3rd Round	6.1.88 - 3.31.89	1,649,361	832,501	5,437,458	7,919,313	1,929,966
4th Round	4.1.89 - 3.31.90	1,443,959	852,988	5,456,849	7,743,796	1,886,491
5th Round	4.1.90 - 3.31.91	1,172,755	832,285	5,296,209	7,239,249	1,755,509
6th Round	4.1.91 - 3.31.92	869,303	741,887	4,772,804	6,384,024	1,587,054
7th Round	4.1.92 - 3.31.93	929,866	712,630	4,549,652	6,192,148	1,505,532

Note: (i) Values of food stamps were doubled in December 1988 and recipients were asked to use stamps from the succeeding months to cover the new value; hence, the 4th round begins in April 1989.

(ii) Food stamp receiving households who were transferred to the Janasaviya Program in October 1989 are not deducted from these figures.

Source: Poor Relief Commissioner.

Table D.6. Transfer of Poor Relief Food Stamp Recipients to the Janasaviya Program

Period		Total Recipients (households)	Number Transferred to JSP	Number of Food Stamps Reduced
Round 1	Oct. 1989	161,000	121,053	512,000
Round 2	Dec. 1990	104,000	100,447	591,201
Round 3	Feb. 1992	101,000	89,667	484,508
Round 4	March 1994	100,000	n.a	n.a

Source: Janasaviya Commissioner; Poor Relief Commissioner

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Table D.7. Share of Population Receiving Poor Relief Food Stamps and Percentage of Recipients Declaring Household Monthly Incomes less than Rs.300 by District (2nd Round)

	Percentage of Population Receiving Food Stamps	Percent of Food Stamp Holders Declaring Household Income Under Rs. 300 Per Month
Colombo	18	30
Matale	52	66
Matara	72	78
Puttalam	58	62
Ratnapura	50	65
Anuradhapura	44	83
Kegalle	43	61
Badulla	33	61
Gampaha	33	56
Moneragala	64	73
Galle	39	55
Kurunegala	54	62
Polonnaruwa	38	68
Kalutara	40	50
Kandy	38	61
Nuwara Eliya	25	71
Hambantota	68	83
Kilinochchi	67	n.a
Jaffna	n.a	n.a
Mannar	62	92
Batticaloa	69	77
Ampara	69	80
Trincomalee	49	n.a
Mullaitivu	73	n.a
Vavuniya	72	84
Totals	**45**	**69**

Source: Alailima 1989.

Table D.8. Receipt of Food Stamps and Average Monthly Food Expenditure by Income Class of Spending Units (SU) : 1986-87

Income Range Rs.	No. of S.U. as a % of the Total Sample	% Receiving Food Stamps	Average Monthly Expenditure on Food Rs.
0 - 400	1.7	56.0	471
401 - 600	6.0	63.7	579
601 - 800	6.3	72.4	715
801 - 1000	7.8	66.2	862
1001 - 1500	20.3	59.6	1042
1501 - 2000	16.8	47.3	1266
2001 - 3000	19.0	31.5	1518
3001 - 5000	14.6	12.6	1795
5001 - 10000	6.7	4.5	2108
> 10000	2.2	0	2466

Source: Anila Dias Bandaranaike, "Aspects of Food Intake and Nutritional Levels of the Poor" (mimeograph, June 1989) Table 5, based on Consumer Finance Survey 1986/87.

Table D.9. Fiscal Costs of Food-Related Transfers, 1974-92

Year	Net Food Subsidies	Food and Kerosene Stamps	Total as a Percent of Government Expenditures
1974	950.5	-	16
1975	1,230.4	-	17
1976	937.6	-	11
1977	1,424.1	-	16
1978	2,162.7	-	12
1979	2,326.0	567.3	14
1980	305.0	1,777.0	7
1981	310.0	1,485.0	7
1982	100.0	1,646.0	5
1983	-	1,714.0	3.7
1984	-	1,802.0	3.4
1985	-	1,728.0	2.7
1986	-	1,799.0	2.6
1897	-	1,900.0	2.6
1988	-	2,069.0	2.3
1989	-	3,634.0	3.8
1990	-	3,812.0	3.3
1991	-	2,999.0	2.0
1992	-	3,047.0	1.9 *
1993	-	2,721.0	1.4 *

* Using approved estimates

Source: Central Bank of Ceylon, Annual Report (Various Issues)

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Table D.10. Budgetary Projections for Poor Relief Food Stamp Program

		Year							
		1989	1990	1991	1992	1993	1994	1995	1996
A	Historical Budget (Rs. Mn)	3634	3812	2999	3047				
B	Projected Budget (Rs. Mn)					2721	2345	2052	1759
C	Projected Budget with inflation adjustment (Rs. Mn)					2721	2720	2762	2746
D	Number of Households ('000)	1899	1733	1502	1478	1358	1170	1024	878

Source: Study Team estimates

Table D.11. Average Monthly Household Income by Household Income Category, 1990-1991 : All-Island*

Household Income Quintile	Average Household Income (Rs./Month)
1	807.5
2	1,590.5
3	2,293.0
4	3,256.0
5	9,605.0

Note: Quintile 1 is poorest.

Source: Derived from data in Department of Census and Statistics, Household Income and Expenditure Survey 1990-91 - Preliminary Report.

* Excluding Northern and Eastern Provinces.

Table D.12. Average Monthly Expenditure per Household by Per Capita Expenditure Quintile 1990/1991 : All-Island

Per Capita Expenditure Quintile	Household Expenditure (Rs./Month)
1	2,110
2	2,792
3	3,509
4	4,213
5	8,666
ALL	4,266

Source: Derived from data in Department of Census and Statistics, Household Income and Expenditure Survey 1990/91 - Preliminary Report.

* Excluding Northern and Eastern Provinces.

ANNEX E
WORKING PAPER: RATIONALIZATION OF THE CEYLON FISHERIES HARBOURS CORPORATION

Historical Perspective on Symptoms of the Problem

The Ceylon Fisheries Harbours Corporation (CFHC) was established in 1972 by an Act of Incorporation published in the Gazette under Section 2 of the State Industrial Corporations Act No.49 of 1957. Prior to the setting up of this corporation, the Ceylon Fisheries Corporation (CFC) which had been established in 1964 undertook a wide range of functions relating to the production and marketing of fish, supply and distribution of inputs, and provision of infrastructure facilities and services to the fisheries sector. In 1972, the Ceylon Fishery Harbors Corporation took over the assets and liabilities of the CFC in relation to the following activities:

- The establishment, construction and maintenance of fishery harbors, anchorages and shore facilities operation;
- The operation and management of fishery harbors and anchorages for fishing operations;
- The provision of repair and maintenance facilities for fishing craft;
- The establishment, maintenance and leasing out of cold rooms, ice plants, and other refrigeration facilities; and the sale of ice;
- The carrying out of investigations and studies for the development of fishery harbors and anchorages;
- The imposition and recovery of charges and fees for the facilities and services provided in the fishery harbors and anchorages of the corporation.

On paper, there was a broad demarcation of functions and activities between the two corporations. The CFC had to concentrate mainly on the production and marketing of fish, while the CFHC had to focus on the construction, operation and management of fisheries, harbors and anchorages, and the provision of related services. However, in practice there was considerable overlapping of functions. For instance, the CFC managed the fishery harbors at Mutwal and at Valachenai and the CFHC operated and managed many ice plants and workshops that were located outside of fishery harbors.

During the first ten years of its existence, CHFC operated as a non-profit service agency funded by the government. This period also saw substantial infrastructure development, including the construction of fishery harbors at Galle, Tangalle, Cod-Bay, Beruwela and Mirissa. However, by the early 1980's the funds provided by the State proved to be inadequate to support CFHC activities. To become financially viable, the corporation diversified into commercial activities with State approval and functioned as a profit-making organization. The new activities assumed by CFHC included civil construction work such as construction of houses for fishermen as a contractor to the National Housing Development Agency, construction of fishing ponds for the Ministry of Fisheries, and construction work for State organizations such as the Ceylon Transport Board, Water Supply and Drainage Board, and the Ministry of Sports.

This diversification had a negative impact on the corporation in particular and on the fisheries industry in general. First, most of these activities bore no relevance to the interests of the fisheries industry. Consequently, the core functions of CFHC were neglected and this had an adverse impact on the fishermen. The services that CFHC provided to the fishermen did not make a significant contribution to the development of the fisheries industry. Second, CFHC recruited many additional personnel to support its new activities. These recruits continued in service even when unproductive activities were abandoned, which in turn contributed towards a severe problem of excess labor in the corporation. Third, the assets of the corporation were grossly misused and under-utilized. Poor maintenance and management of assets and other facilities were commonly seen in the Galle, Beruwela, Kirinde, Tangalle and Chilaw harbors. Fourth, the financial ventures themselves proved to be failures and contributed greatly towards the losses incurred by CFHC (See Table E.1). CFHC's income from civil construction fell from Rs. 13.8 million in 1984 to Rs. 4.0 million in 1985 and to Rs. 1.2 million in 1986 and CFHC incurred a loss of Rs. 1.1 million on a construction contract with the Sevenagala Sugar Development project in 1987. The increase in CFHC's losses in 1991 was due to the extensive labor compensation costs in the 1990-1991 period.

Table E.1
CFHC Financial Performance

Year	Losses (RS.)
1982	5,157,741
1983	7,[illegible],366
1984	6,816,027
1985	16,133,342
1986	14,018,088
1987	12,393,089
1988	17,080,858
1989	17,681,822
1990	5,750,768
1991	9,899,795
1992	6,673,372

Source: USAID 1990

The financial problems of CFHC were compounded by the weak organizational structure of the corporation. First, the Incorporation Order did not specify the composition of the Board of Directors. As such, those who were appointed had neither the capability nor the professional background to run a technical agency such as CFHC effectively. Second, the Incorporation Order was also unclear on the status of the Chairman. There were many chairmen ranging from politicians, government servants who acted as part-time chairmen in addition to their posts in public service, and full-time non-professional chairmen. The appointment of part-time chairmen was a major factor in CFHC'S increasing inefficiency since 1983, as there was very little time for supervising operations in the corporation. Third, there was a proliferation of functional units and divisions in CFHC Head Office in Colombo: there were 14 such units for only 12 fishery harbor/anchorage sites island-wide. Fourth, CFHC was organized along the lines of a commercial or trading agency, although it was essentially a technical institution. Measures were not taken to inject engineering and technical skills and expertise into the corporation.

Efforts to Deal with the Problems

In view of the constraints faced by the fisheries industry,[24] the government carried out a comprehensive fisheries sector study with the assistance of the Asian Development Bank and decided to implement a sectoral reform program based on the following policies:

- A greater role for the private sector in all commercial activities in the production, processing, and marketing of fish and fish products;

- A reformulation of the role of the public sector to purely regulatory and service-oriented activities; i.e., the provision of supporting infrastructure and services such as fishing harbors and anchorages, social services, and research and training for the benefit of the private sector;

- An enhanced participation of rural-based institutions such as NGOs and fishery cooperatives to provide services and generate social gains for fishing communities.

The government initiated the following measures to implement these sector policies during the 1990-92 period:

- Introduction of a revised Fisheries and Aquatic Resources Act to provide the legal framework for managing and regulating fisheries resources.[25]

- Restructuring of the Ministry of Fisheries and Aquatic Resources and all public sector organizations within its jurisdiction;

- Reduction of all subsidies to the sector with the aim of eventually eliminating all such transfers;

- Divestiture of all commercial assets[26] of the Ministry of Fisheries and Aquatic Resources and its parastatal organizations such as CFC, CFHC and Cey-Nor Development through sale or lease to the private sector.

In addition to these sectoral reforms the following recommendations were made to address the problems pertaining to CFHC in particular:

- The activities of CFHC should be limited to technical functions such as carrying out investigations and studies in regard to the construction of new harbors, development of anchorages, the maintenance of basin areas (which includes dredging) and marine structures such as break-waters, quays and jetties.

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[24] The problems in this sector spilled over into the overall economy in the form of a drastic decline in the per capita availability of fish, a rapid increase in domestic fish prices and a continued drain on foreign exchange because of the increased imports of fish and fish products (see ADB 1992).

[25] This act was to be approved by the Sri Lankan Parliament by June 1993.

[26] This includes assets pertaining to fish production, processing, marketing and boat building.

The rationale here is that the private sector is unlikely to participate in non-commercial activities such as dredging harbors, break-water and jetties which bring in no cash.[27] Therefore, the public sector was identified to coordinate the technical functions connected with the fisheries industry if the sector was to be developed. The importance of a coordinating agency was stressed by the fact that costly mistakes were made in the past in the selection of harbor sites, defective design of break-waters, etc. in harbors such as Kirinde, Wellamankara, Puranawella and Beruwela.

There are several agencies in Sri Lanka such as the Sri Lanka Ports Authority (SLPA), the Irrigation Department, the National Hydrographic Office of NARA, the Lanka Hydraulic Institute and the Coast Conservation Department with specialized technical expertise. It was suggested that the CFHC should play a coordinating role to pool the resources from all these agencies in order to avoid any duplication and to obtain optimum utilization of human resources and equipment.

- A corollary to the first recommendation was that activities such as operating ice plants, cold rooms, fish on ice stores, workshops and slipways should be handed over to the private sector or to fisheries cooperatives by auction or any other suitable form of public bidding.

- The private sector or fisheries cooperatives should function as the owners of the assets and not as lessees. Lease arrangements should be reserved for buildings and land allotments inside a harbor.

  This was to avoid the milking of assets and other forms of asset abuse which has allegedly occurred in several instances where CFHC facilities had been leased out. Second, the leasing modality required more legal, technical and management expertise than was available at CFHC. Practically every lease that the CFHC had with the private sector had resulted in default of rentals, total misuse of machinery and poor services to the fishermen. Third, divestiture was beneficial to all parties concerned: the private party had the advantage of upgrading and developing the facilities; the CFHC did not have the responsibility, financial or otherwise, of maintaining these facilities; and the fishermen had the advantage of being able to deal directly with one party.

- There was the possibility of a lack of demand for CFHC's assets at the book values fixed by CFHC or at the value placed on these items during the capital value restructuring process. Government valuers tend to value these assets on the basis of historical costs which do not reflect their profitability yield. However, when assets are valued for disposal their value has to be derived from realizable profit. As such, it was suggested that these assets should be sold on the basis of competitive bidding. Moreover, in cases where some components of the assets had to be disposed of as scrap, the facility had to be dismantled and sold as separate parts. Since this would be a costly exercise for the CFHC, it was suggested that such assets be sold in their entirety to metal dealers provided the price offered matched the scrap value of the asset at a minimum.

- The near-monopolistic use of the harbors by CFHC had greatly hampered the growth of the fisheries industry. As such, it was recommended that an open gate system, where all legitimate users of fisheries harbors have access to the harbors and related facilities at any reasonable time, should be put into practice.

  It was also suggested that the levying of a fee to enter harbor premises was unnecessary for two major reasons. First, in most places the cost of collecting the fee had been greater than the amount collected. In Galle for example, the total charge collected in 1988 was Rs.125,000 while

[27] In addition, dredging has to be in the hands of CFHC because the highly technical competence and capacity that this task requires is not freely available outside this institution.

the amount spent on collection was Rs. 488,000. Second, these attempts to levy fees had alienated CFHC from the fishermen, traders, etc.

- In regard to the problem of overemployment in the corporation, it was estimated that around 220 of the 347 employees would have to be laid off. Two measures were suggested in regard to the retrenched employees. First, a scheme should be drawn up with the assistance of NGOs, financial institutions and foreign donors to set up small scale economic activities to absorb the retrenched workers. Second, the government had approved an attractive compensation package for those who were identified for retrenchment. The total compensation that would be paid by the government had been estimated at Rs. 11 million to Rs. 13.5 million.

- It was vital that a sense of professionalism was infused into its functioning. More attention was required to ensure that the staff consisted of motivated and competent technical officers.

Present Situation

Based on these recommendations, the government has implemented the following measures in regard to the operations of CFHC over the last two years:

- An amendment was introduced to the State Industrial Corporations Act of 1957 on March 4, 1991. This amendment replaced Section 1 of the act and stated that CFHC would be responsible for: (a) planning and designing of fisheries harbors and anchorages, (b) technical supervision of the execution of harbor construction including the maintenance of marine structures, and (c) the dredging of harbors including maintenance of dredging.

- The government in collaboration with USAID has drawn up policy benchmarks for the divestiture of facilities of CFHC under the PL-480 Title III program. The restructuring and divestiture of CFHC is expected to reduce the role of the State in the commercial activities of the fisheries sector, to reduce the fiscal burden, and to strengthen the private sector by transferring assets which the private sector can utilize more efficiently than the public sector. The progress in regard to achieving these goals is as follows:

    - Issuance of a cabinet paper and official announcement of a plan to restructure CFHC was completed in June, 1991.

    - A major portion of the retrenchment of redundant employees was completed in December, 1991.

    - Divestiture to the private sector and cooperatives of at least 50 percent of the net asset value of CFHC's commercial facilities, which include ice plants, cold storage facilities, workshops etc. was completed in March, 1992 in six harbor sites. However, in the post-March 1992 period, the net value of divested assets was less than 50 percent because of the subsequent privatization of seven other CFHC harbors.

Some of CFHC's assets in the following locations were handed over to the Fisheries Cooperative Societies on the basis of plant and machinery on lease purchase and land and buildings on lease. These cooperative societies have the option of sub-leasing all these facilities.

    - Chilaw - Ice plant was given to Thoduwawa Fisheries Cooperative Society (80 percent of the assets in this branch have been divested).

- Negombo - Workshop and slipway were given to the All Island Abudhabi Trawlers Fisheries Cooperative Society.

  Negombo - Ice plant and cold room were given to Gampaha District Fisheries Cooperative Society Union.

- Galle - Fuel tank and fuel office were given to Galle District Fisheries Cooperative Society Union (20 percent of the assets at this location have been divested).

- Mirissa - Workshop, office building, cold rooms and ice storage room were given to Mirissa South No. 2 Fisheries Cooperative Society.

- Puranawella - Ice plant was given to Devinuwara Welegoda (West) Fisheries Cooperative Society.[28]

- Tangalle - Workshop and bunkering facilities were given to Hambantota District Fisheries Cooperative Society Union.

The assets for which the Fisheries Cooperative Societies did not make offers were offered to the private sector by press advertisement and the offers closed on March 4, 1992. Offers were received for facilities at Chilaw, Beruwela, Galle, Tangalle, Kirinda, Cod-Bay and Kalmunai but not for assets at Mannar and Myliddy.[29] There was no restructuring before the sale of these assets and premises were given out on a 32-year lease.

- The plan for final divestitures was completed in December, 1992.

The primary motivations for rationalizing the operations of CFHC was to reduce the fiscal burden as well as to instigate positive supply side effects through improving and developing the fisheries industry. As such, it is worth evaluating the extent to which these aims can or have been achieved and to identify further strategies for the future.

The total annual cost to the government of the proposed rationalization of CFHC was estimated at Rs.14 million with a breakdown of Rs. 4.3 million for recurrent expenses and Rs. 9.7 million for an on-going program of maintenance, dredging and repair of shore structures such as break-water, groynes, etc. These estimated figures do not include labor compensation costs. The government is currently in the process of estimating some additional costs relating to the provision of water, toilet facilities and electricity for fishermen. The projected receipts of the corporation in 1991 was estimated at Rs. 16.8 million of which Rs. 2 million was to come from ice sales in Galle. The total lease rents which could be collected by the government was estimated at Rs. 2.5 million per annum.

As indicated in Table D.2, the total annual revenue realized from the lease of land and buildings was Rs. 2,036,420 and the estimated value of land and buildings to be leased is Rs. 2,861,508, while the total annual lease value estimated by the valuation committee was Rs. 4,260,336. The total revenue realized from the sale of machinery was Rs. 5,164,000 although the total estimated value was Rs. 6,185,500 and the estimated sale price of machinery to be sold is Rs. 3,504,020 while the value estimated by the valuation committee was Rs. 8,957,860. The lower market value of machinery was due to the fact that

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[28] The assets that were given to the Fisheries Cooperative Society in this location were subsequently taken back and transferred to a private party because the Cooperative Society defaulted on its payments.

[29] Buyers could not be found for the latter two due to the poor security situation in the North-East.

these assets were given to fisheries cooperatives at concessionary rates and that the private parties who purchased these assets through the tender process were reluctant to pay a higher price on assets that were in a run-down condition.

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TABLE E.2
Disposal of Assets of C.F.H.C.
Under the Restructuring Program
(as of September, 1993)

LOCATION	LAND & BUILDING			MACHINERY			
	Annual lease value of assets estimated by val. committee	Estimated value of assets leased	Estimated value of assets to be leased	Estimated value of machinery estimated by the committee	Sale Price	Estimated value of machinery to be sold	Sale Price
01. Beruwela Fishery Harbour Complex	495,776	209,930	285,846	-	-	2,393,000	1,005,000
02. Galle Fishery Harbour	2,294,698	632,932	1,661,776	-	-	1,281,760	1,290,500
03. Mirissa Fishery Harbour	109,140	708,431	38,296	404,000	404,000	-	-
04. Puranawella Fishery Harbour	184,038	59,562	124,475	1,172,500	1,025,000	-	-
05. Kirinda Fishery Harbour	58,644	-	58,644	-	-	-	-
06. Wellamankara Fishery Harbour	145,798	-	145,798	-	-	-	-
07. Chilaw Fishery Harbour	329,288	133,910	195,374	948,000	964,000	420,000	487,500
08. Negombo Fishery Harbour	468,452	194,852	273,600	1,771,000 -	1,771,000	-	-
09. Kalmunai Fishery Harbour	34,185	-	34,185	-	-	968,100	721,020
10. Cod-Bay Fishery Harbour	13,089	-	13,089	-	-	3,895,000	-
11. Kandakuliya Fishery Harbour	21,772	-	21,772	-	-	-	-
12. Kokilai Fishery Harbour	8,653	-	8,653	-	-	-	-
13. Tangalle Fishery Harbour	96,803	96,803	-	1,890,000	1,100,000	-	-
Total	4,260,336	2,036,420	2,861,508	6,185,500	5,164,000	8,957,860	3,504,020

Source: Ceylon Fisheries Harbors Corporation.

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ANNEX F
SRI LANKA PL-480 TITLE III PROGRAM: MANAGEMEMT PROCEDURES

Participating Ministry	Requisition	1.	Participating Ministry requests commodities under subject program
Meeting of parties concerned - ERD, NPD, CWE, Central Bank, USAID	Discuss	2.	Decisions on issues - new benchmarks, status of PL-480 monitoring unit, accounts reporting format by USAID
GSL Ministry	Sign Agreement	3.	Sigining of PL-480 Title III Agreement
USAID	Issue PIL	4.	Issues of Implementation Letter incorporating conditions & requirements to be done by GSL
Commodity Credit Corporation (U.S.)	Shipment of Commodities	5.	Shipment of commodities
CWE	Receipt of shipments of commodities by CWE	6.	Receipt of commodities by GSL. Informs USAID of shipment quantities received
CWE	Payment by CWE to separate account at Central Bank	7.	Payment by CWE
Central Bank	Accounts for receipt of cash in separate account	8.	Receipt of payments by Central Bank
Central Bank	Informs receipts of cash to ERD with copy to USAID	9.	Central Bank informs Ministry (ERD) of receipts of cash with copy to USAID

ANNEX F (Continued)

SRI LANKA PL-480 TITLE III PROGRAM: MANAGEMENT PROCEDURES

Central Bank	Transfer of 10% of funds received from CWE	10.	Transfer of funds to USDO's account at American Express Bank A/C No. 2029
USAID	Issues PIL re satisfaciton of benchmarks	11.	PIL issued after joint review by GSL & USAID, of benchmarks achieved.
Central Bank	Transfer of funds to DST's Account	12.	Central Bank, on advise of ERD, transfer funds to the DST's account to be forwarded to the identified recipient agencies
DST's Account: Ministry of Finance	Transfer of Funds to Recipient Agencies from DST's Account	13.	Transfer of funds from DST account to recipient agencies
Recipient Agencies	Letter to ERD with copy to USAID	14.	Recipient agencies acknowledge receipt of funds and confirms application of funds against approved programs
ERD	Monitoring Unit of ERD prepares quarterly report based on input from Central Bank, DST Recipeint Agencies & CWE	15.	Monitoring Unit of ERD prepares quarterly report for FY91 due end of March 92. Distributes to ERD & USAID

Source: Sri Lanka Title III Mid-Term Evaluation

ANNEX G
PL-480 TITLE III LOCAL CURRENCY ALLOCATIONS (1991-92)

Program	**Rs. Million 1991**	**Rs. Million 1992**
Ministry of Lands, Irrigation & Mahaweli Development (MLIMD)	**(0)**	**(172.7)**
		9.9
- Land Commissioner: Village Expansion		134.11+28.7
- Irrigation Rehabilitation		
Ministry of Agricultural Development & Research	**(63.6)**	**(212.91)**
- Agricultural Development	54.1	112.05+68.36
- Agricultural Planning & Analysis Project (APAP)	8.0	17.8
- Agricultural Support Services Project (ASSP)	-	1.3
- Monitoring & Evaluation Program	1.5	1.4+12.0
Department of Agriculture	**(117.4)**	**(133.10)**
- Crop Research	69.9	70+13.2+17.5
- Agricultural Extension	7.0	9.0
- Crop Equipment	5.5	7.6
- Diversified Agriculture Research Project (DARP)	13.0	6.3+6.2
- Plant Genetic Resources Centre	18.0	1.3
- Plant Quarantine	4.0	2
Department of Export Agriculture	**(15.5)**	**(24.2)**
- Extension	10.4	13.8
- Research	5.1	10.4
Ministry of Finance	**(0)**	**(.6)**
- Department of External Resources, Monitoring Unit		.3+.3
Ministry of Social Welfare	**(147)**	**(368.72)**
- Food Stamps	147.0	110+37+159.7 +34.72+27.3
Ministry of Food & Cooperatives	**(0)**	**(5.6)**
- Food Commissioner's Department	-	5.6
Source: USAID/Sri Lanka		

ANNEX H
PL-480 TITLE III POLICY REFORM MEASURES
1991-93

Performance Indicator

Policy Reform Measure A: Implement a plan to restructure and privatize the Fisheries Harbor Corporation.

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Issuance of a cabinet paper and official announcement of a plan for restructuring FHC.	Completed	4
2.	Retrenchment of redundant FHC employees.	Completed	2
3.	Divestiture to the private sector and cooperatives of at least 50 percent of the net asset value of FHC commercial facilities, including ice plants, cold storage facilities, workshops and related facilities.	Completed	3
4.	Preparation of a plan for divestiture of remaining FHC facilities.	Completed	1

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Performance Indicator

Policy Reform Measure B: Implement an intensive land survey and titling program.

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Preparation of an action plan for an intensive land survey and titling program in Polonnaruwa District.	Completed	1
2.	Begin implementation of the action plan for the survey and titling program in Polonnaruwa District.	Completed	3
3.	Issue 6,650 grants in Polonnaruwa District according to the following schedule: Number of grants issues: 1,200 1,800 1,800 1,850	 September, 1993 December, 1993 March, 1994 June, 1994	 .5 .5 .5 .5 (2)
4.	Preparation an action plan for an intensive land survey and titling program in a Wet Zone District.	Complete	1
5.	Begin implementation of the action plan for a land survey and titling program in Wet Zone District.	Complete	1
6.	Issue 6,200 grants in Galle District according to the following schedule: Number of grants issued: 1,800 2,700 2,700	 December, 1993 March, 1994 June, 1994	 .6 .7 .7 (2)

Performance Indicator

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

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Development of the terms of reference for and naming of a technical review panel review existing regulations and legislation regarding plant germplasm introductions.	Complete	1
2.	Preparation of and making available to the general public of a summary of existing regulations and procedures governing importation of planting materials.	Complete	1
3.	Completion of a review of existing policy, regulations and legislation covering plant germplasm introducing and preparation of detailed documentation for revisions, as appropriate.	Complete	1
4.	Revision of regulations and procedures governing germplasm introduction and preparation making available to the general public a summary of revised regulations, procedures and guidelines for imports.	June, 1993	2

Performance Indicator

Policy Reform Measure D: Phase out export taxes on tea, rubber and coconut.

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Lowering of the ad valorem tax to 40 percent of value over threshold prices set at not less than 20 percent above cost of production for the private sector.	Complete	9
2.	Lowering of ad valorem tax to not more than 30 percent of value than threshold prices set at not less than 20 percent above cost of production for the private sector.	Complete	18

Performance Indicator

Policy Reform Measure E: Liberalize importation and trade in food commodities.

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Study the cost/price efficiency of the wheat distribution system (with reference to CWE and Food Department) and recommend implementable procedures and methods which will result in significant increases of efficiency and competitiveness.	Complete	4
2.	Approval by the government of Sri Lanka of a time-specific action plan to increase the private trade in the wheat flour at the wholesale level.	June, 1993	3
3.	First private purchase wheat flour at Prima Mill.	September, 1993	4
4.	Study the retail and wholesale operation of the CWE and identify the unprofitable retail units for restructuring or closure and the uneconomical wholesale commodities for discontinuation.	Complete	4
5.	Approval by the GSL of a time-specific action plan for the restructuring of the unprofitable operations of the CWE.	January, 1994	4
6.	Begin restructuring of the identified unprofitable operations of the CWE in accordance with action plan.	March, 1994	4
7.	Private sector imports of onions, chilies, lentils and potatoes.	September, 1993	4
8.	Approval of cabinet paper removing current restrictions to greater private sector rice importation.	August, 1993	4.5
9.	Review and analysis of tariff structure for rice imports.	September, 1993	2
10.	Revision of imported rice tariff structure which maintains incentives for domestic rice production.	November, 1993	2.5
11.	Additional private sector firms importing rice.	January, 1994	4

Performance Indicator

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

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Preparation and government approval of an action plan for restructuring the Agricultural Insurance Board.	September, 1993	7
2.	Begin implementation of restructuring.	December, 1993	5

Performance Indicator

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

Specific Outputs

	Benchmarks	Target Completion Date	Budget ($ Million)
1.	Completion of a study on commercialization of public estates.	Complete	3
2.	Completion of a study on rationalization of government extension programs.	Complete	2
3.	Completion of a review of operations, structure, and size of the Mahaweli Authority of Sri Lanka.	Complete	4
4.	Conduct of a study of options for the Agrarian Services Centers and the role of the Agrarian Services Department, including an assessment of options for transferring ownership to private farmer groups.	March, 1994	5

ANNEX I
SUPPLEMENTARY DATA USED FOR ANALYSIS

Table I.1. Major Food Items in Sri Lanka; Trends, 1985-92

Commodity (mt)	Constant	Trend Coefficient	R^2
Rice Production	1598	-18.74 (-0.8)	0.11
Rice Imports	166	+1.15 (0.15	0.03
Total Rice	1765	-17.6 (-0.64)	0.06
Wheat Imports (Commercial)	309	+15.8 (1.48)	0.30
Wheat Imports (food aid)	312	-6.89 (-0.62)	0.06
Total Wheat Imports	622	+9.05 (1.28)	0.21
Total Rice and Wheat	2387	-8.58 (-0.26)	0.01
Total Rice and Wheat Less PL-480 Title III	2446	-42.28 (-1.42)	0.25
Coconuts (M. Nuts)	2769	-83.9 (-1.62)	0.30

Above based on following trend regression:

$Y = A + BT + E$; here: Y = Commodity
T = Trend variable
E = Error term

Note: t ratios of trend coefficients are given in parentheses

Source: Study team estimation

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Table I.2. Sri Lanka's Tree Crop Industry (1991)								
	% Share of GDP (1)	Growth Rate (%) (2)	Land Ha (000)	Area (% Ag. land)	Employment No. ('000)	Employment No. ('000)	Export Value (M. Rs.)	Export % of Total
Agriculture	19.3	1.9	1,709	100	1,876	45.5	26,536	31.4
Tree Crop	7.3	- 5.7	424	24.8	832	20.1	23,127	27.4
Tea	2.3	3.2	222	13.0	686	16.6	17,867	21.2
Rubber	0.5	- 8.8	199	11.6	n.a	n.a	2,641	3.1
Coconut	2.0	-13.3	3	0.18	135	3	2,619	3.1

Notes: (1) At constant 1982 prices; (2) Change from 1990

Source: World Bank 1993

Table I.3. Public Sector Corporations: Financial Losses (Rs. Millions)						
	1985	1986	1987	1988	1990	1991
JEDB	(235.3)	(448.6)	(337.1)	(597.3)	(255.9)	n.a
SLSPC	(91.8)	(173.9)	(54.4)	(208.1)	(313.9)	(451.9)

Source: World Bank 1993

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Table I.4. Direct Taxes and Cesses on Tea & Rubber (percent of export value)					
	Tea			Rubber	
Year	Ad Valorem Tax (%)	Export Duty (%)	Cess (%)	Export Duty (%)	Cess (%)
1981	1.4	29/10	2.69	55.28	3.39
1982	2.4	22.9	2.65	26.11	4.00
1983	11.4	15.5	2.10	36.56	5.75
1984	20.5	11.20	1.67	35.48	5.96
1985	8.76	9.90	2.27	7.75	4.60
1986	0.66	10.06	3.43	11.94	5.83
1987	2.5	8.38	2.92	20.02	5.37
1988	2.1	4.94	2.41	28.22	4.67
1989	3.16	2.00	2.31	20.68	3.69
1990	6.3	1.46	3.31	24.00	4.75
Source: World Bank 1993					

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Table I.5. Indirect Protection of Agricultural Products in Sri Lanka			
YEAR	Due to implicit Trade Taxes	Due to Exchange Rate Overvaluation	Net Indirect Protection
1977	- 40.97	- 7.09	- 44.23
1978	- 25.11	- 13.03	- 36.91
1979	- 20.20	- 15.51	- 37.46
1980	- 30.51	- 15.44	- 55.13
1981	- 12.36	- 15.83	- 37.59
1982	- 18.43	- 17.70	- 45.35
1983	- 17.55	- 16.80	- 41.91
1984	- 8.44	- 12.33	- 27.46
1985	- 7.61	- 16.11	- 31.39
1986	- 11.82	- 19.77	- 31.59
1987	- 8.69	- 18.92	- 27.61

Note: The negative sign for protection denotes taxation (negative protection)

Source: World Bank 1993

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Table I.6. Sri Lanka: Direct and Indirect Protection Effect on Tree Crops							
All		Tea		Rubber		Coconut	
YEAR	INDIRECT	DIRECT	TOTAL	DIRECT	TOTAL	DIRECT	TOTAL
1977	- 44.23	- 12.56	- 56.80	- 14.97	- 59.20	- 00.61	- 44.85
1978	- 36.91	- 38.72	- 75.63	- 30.53	- 67.44	- 31.05	- 67.96
1979	- 37.46	- 37.22	- 74.68	- 29.83	- 67.29	- 33.59	- 71.43
1980	- 55.13	- 18.41	- 73.54	- 20.15	- 75.28	- 21.30	- 76.43
1981	- 37.59	- 27.46	- 65.05	- 30.47	- 68.07	- 11.48	- 49.06
1982	- 45.35	- 15.62	- 60.97	- 19.69	- 65.04	00.98	- 44.37
1983	- 41.91	- 12.67	- 54.58	- 18.55	- 60.46	6.45	- 35.46
1984	- 27.46	- 24.04	- 51.51	- 26.51	- 53.97	7.47	- 20.00
1985	- 31.39	- 24.10	- 55.50	- 10.82	- 42.21	- 13.94	- 45.33
1986	- 31.59	- 16.04	- 47.63	- 15.40	- 46.98	20.19	- 11.40
1987	- 27.61	- 14.60	- 42.21	- 10.97	- 38.58	22.12	- 05.49

Source: World Bank 1993

Table I.7. Farmgate Prices for Tea, Rubber and Coconut							
YEAR	CPI	Tea Nominal (Rs./kg)	Tea Real (Rs./kg)	Rubber Nominal (Rs./kg)	Rubber Real (Rs./kg)	Coconut Nominal (Rs./nut)	Coconut Real (Rs./nut)
1977	348.42	13.15	14.56	-4.51	4.99	-0.92	1.02
1978	385.73	11.55	11.55	6.92	6.[illegible]	0.85	0.85
1979	462.33	11.14	9,29	9.15	7.63	1.00	0.83
1980	603.44	17.73	11.33	10.62	6.79	1.48	0.95
1981	749.24	17.71	9.12	10.04	5.17	1.80	0.93
1982	815.62	22.52	10.65	10.18	4.81	1.64	0.78
1983	932.19	36.96	15.29	13.95	5.77	2.42	1.00
1984	1086.74	46.45	16.50	14.94	5.31	4.07	1.45
1985	1106.74	35.39	12.33	16.17	5.64	2.18	0.76
1986	1201.86	30.28	9.72	16.62	5.33	1.83	0.59
1987	1298.44	38.06	11.31	21.10	6.27	3.29	0.98
Source: World Bank 1993							

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Table I.8. Coconut, Border and Farmgate Prices		
YEAR	Border Price Rs./kg	Farm-gate Price Rs./kg
1977	0.93	0.92
1978	1.66	0.85
1979	2.16	1.00
1980	2.82	1.48
1981	2.20	1.80
1982	1.61	1.64
1983	2.18	2.42
1984	3.69	4.07
1985	2.74	2.18
1986	1.41	1.83
1987	2.52	3.29

Source: World Bank 1993

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Table I.9. Comparative Export Tax Rate on Rubber, by Country						
	Sri Lanka		Malaysia		Thailand	
Export Price fob (Rs/kg)	Tax	% of Value	Tax	% of value	Tax	% of value
25	5.0	20.0	0.0	0.0	0.0	0.0
30	7.5	25.0	0.4	1.3	1.7	5.8
35	10.0	28/6	1.25	3.6	3.1	8.8
40	12.5	31.3	2.25	5.6	4.4	11.0

Source: World Bank 1993

Table I.10. Tea Production in Sri Lanka											
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
State	173.4	152.3	140.5	159.6	159.3	153.7	147.0	153.0	138.0	147.2	148.6
SMH	36.7	35.5	38.7	48.4	54.8	57.6	66.3	73.9	68.9	85.9	92.1
Total	210.1	187.8	179.2	28.0	214.1	211.3	213.3	226.9	26.9	233.1	240.7

Source: World Bank 1993

Table I.11. Rubber Production in Private and State Sectors ('000 metric tons)			
1980	82.70	5.050	133.20
1990	81.20	41.80	123.00
Mean	86.00	42.75	128.75
Growth Rate	-0.46	-2.50	-1.14
Share	66.80	33.20	100

Source: World Bank 1991

Table I.12. Coconut: Yearly Output										
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Output Domestic	2521	2312	1942	2958	3039	2292	1939	2484	2532	2184
Consumption	1893	1740	1660	2027	1877	1731	1701	1896	2018	1796
Export	628	572	282	931	1162	561	236	588	514	388

Source: World Bank 1993

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Table I.13. Rice Availability in Sri Lanka				
Year	Milled Rice Production ('000 Mt)	Rice Imports ('000 Mt)	Total Rice Available ('000 Mt)	Per Capita Available (Kg)
	(1)	(2)	(3)	
1980	1,364	190	1,553	105
1981	1,425	157	1,582	105
1982	1,377	161	1,538	101
1983	1,587	120	1,707	111
1984	1,543	027	1,569	101
1985	1,701	182	1,883	119
1986	1,659	220	1,879	117
1987	1,360	102	1,463	089
1988	1,583	189	1,772	107
1989	1,319	131	1,450	086
1990	1,622	172	1,794	106
1991	1,527	133	1,660	096
1992	1,496	237	1,733	100

Source: Borsdorf 1993.

Table I.14. Wheat Grain, Commercial and Donor Assisted Procurement in Sri Lanka ('000 Mt).					
Year	Total Imports	Commercial Imports	Total Donor Support	Other Donor Support	PL480 Support
1980	227	063	164	010	154
1981	439	269	170	062	109
1982	495	372	123	000	123
1983	572	310	262	107	155
1984	571	220	351	185	166
1985	655	394	262	084	177
1986	681	288	393	132	261
1987	579	229	349	170	180
1988	612	338	274	000	274
1989	637	417	220	000	220
1990	639	455	183	000	183
1991	720	420	300	005	295
1992	706	382	324	035	289

Source: Borsdorf 1993.

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Table I.15. Flour Availability in Sri Lanka ('000 Mt)			
Year	Flour Produced	Flour Imports	Flour Available
1980	107	361	468
1981	380	000	380
1982	385	000	385
1983	431	022	455
1984	470	011	481
1985	507	000	507
1986	500	010	510
1987	474	010	484
1988	488	036	524
1989	540	038	578
1990	473	137	610
1991	515	000	515
1992	556	000	556

Source: Borsdorf 1993

Table I.16. Coconut Production in Sri Lanka (1983-92)	
Year	Million Nuts
1983	2,312
1984	1,942
1985	2,958
1986	3,039
1987	2,291
1988	1,936
1989	2,484
1990	2,532
1991	2,184
1992	2,380

Source: Central Bank of Sri Lanka 1993a

ANNEX J
STATEMENT OF WORK

I. Purpose of Work

The PL-480 Title III Agreement signed between USAID and the government of Sri Lanka includes provision for the periodic assessment of the impacts of specific policy reform measures on Sri Lanka's food and agriculture sector. Such assessments are to be conducted from time to time by USAID staff or its consultants in conjunction with appropriate GSL ministry planning and analysis units. The mission considers that such an assessment is timely because the original three-year Title III program is in its last year and a two-year extension is being considered. An assessment of the economic, budgetary, and food security impacts of the existing program will be valuable for the design of any extension.

II. Background

The U.S. foreign assistance program to Sri Lanka has included PL-480 Title I and II agreements since the 1950s. In 1991 under new food assistance legislation, the Title I and Title III programs were completely overhauled. Title I is now a relatively small concessional loan program administered by USDA with relatively little policy conditionality. Title III, a grant program, is now the Mission's major vehicle for policy reform. The new legislation also reflects the interest of Congress and A.I.D. with intensified monitoring of program performance and impact and accountability of funds. The USAID Title III Agreement attempts to be fully responsive to these legitimate concerns.

USAID/Sri Lanka uses food assistance, specifically its local currency generations, to support the Mission's policy dialogue, its bilateral projects, and the GSL's policy reform and adjustment program. The Title III Agreement initiated a multi-year food assistance program to focus the development impacts of the food assistance and to provide a more reliable multi-year programming of food assistance.

This Agreement pursues four major objectives:

* to contribute to overall food security for Sri Lanka, a country that will continue to depend on imports for meeting its food needs, in particular those of its poorest citizens;

* to maximize the development impact of food assistance by using it as a mechanism to promote economic and agricultural policy reform, and to support income-generating projects operated by PVOs; and

* to provide critical balance of payments support during a period likely to be characterized by major efforts towards stabilization and structural adjustments.

The specific policy reform measures incorporated in the Title III Agreement are intended to reduce the role of the state and increase the role of the private sector in food and agricultural systems, thereby contributing directly to the achievement of USAID/Sri Lanka's strategy of agriculturally-led industrialization. USAID/Sri Lanka and the GSL have maintained a productive dialogue on policy issues throughout the history of the Title I program, as reflected in the Self-Help Measures incorporated in previous Title I Agreements. In developing the policy reform measures for the Title III agreement with the GSL, USAID has relied on current project experience, on-going policy dialogue, special studies and the GSL's own studies and plans to determine those specific reform measures and implementation steps that would contribute to broad-based, sustainable growth in the agricultural sector. Local currency sales proceeds from Title III wheat are in turn used to support the

GSL's policy reform agenda as reflected in the Agreement.

A mid-term evaluation of the Title III program was done in October 1992 and focused primarily on the operation of the program and the validity of its performance-based, policy reform design. Recommendations were also made by the evaluation team concerning the process by which policy reform measures and progress benchmarks are chosen. No actual assessment of economic or fiscal impacts of the reforms was made. At the time of the mid-term evaluation many of the reforms, although generally on schedule, were not fully completed and a full assessment of their impacts were considered to be premature.

In the several months since that evaluation all reforms have still not been completed. Nevertheless, the mission believes that it is timely to analyze the effects that the reforms are having on government efficiency and budgets and to identify reliable indicators of macro and micro-level economic impacts of Title III reforms on food security.

III. Statement of Work

The fundamental issue that the PL-480 Title III multi-year program strives to address is how to take measures to address food security in the short-run while also developing an appropriate longer term strategy to alleviate the underlying problem of food poverty of the population. The program addresses this issue by:

a) increasing food (wheat) availability in time and in adequate quantity, through the importation of wheat;

b) improving access to food for a vulnerable target population through a food stamps program which is supported through the allocation of local currencies generated from the sale of Title III commodities;

c) promoting longer term food availability and access through the implementation of policy reforms which not only increase the productivity and efficiency of the agriculture sector but also contribute to continued World Bank and IMF assistance for development by restructuring the Sri Lankan economy.

The contractor will investigate as follows:

a) **Impact of Wheat Availability:**

In the event that Title III wheat commodities were not available and the government was unable to direct resources away from development to purchase more food, analyze the following:

i) The impact on food prices due to decreased availability or higher import costs of wheat;

ii) The impact of PL-480 Title III wheat donations on food production, keeping in mind and the inelasticity of the production response of rice/paddy that wheat is not being produced in the country;

iii) If wheat is treated as a wage good, the impact of PL-480 Title III wheat on wages and stability (instability caused by demand for high wages).

iv) Impact of no or less PL-480 Title III wheat on the low income groups in general and on the urban and estate poor in particular.

b) **Impact of the Food Stamp Program**

In 1979, fundamental changes occurred in Sri Lanka's food program. The long-standing food price subsidy scheme was replaced by a food stamp scheme involving a direct income transfer program aimed at a target population. This program has two objectives. First, it attempts to assist low income households to improve their nutritional intake, and second, it provides a "safety net" to minimize the short-term negative effects on employment, income and nutrition caused by the economic structural adjustment program of the government. In this respect, the consultant will:

i) Describe the food stamp scheme, its objectives and operation, including an assessment of any efforts by the GSL to improve the efficiency of the program and better target beneficiaries.

ii) Determine the contribution of local currency generated by the PL-480 Title III program to the overall food stamp budget.

iii) Determine quantitatively the responsiveness of the food stamp program to emergent needs by comparing the increase in the level of beneficiaries with the increase level of vulnerability caused by the structural adjustment program.

iv) Further assess the impact of the food stamp scheme on:

- nutritional welfare of households in the lower income deciles and the program's impact on their patterns of consumption;

- impact on income transfer and income distribution, including the effect of inflation on the real value of food stamps.

- impact of no PL-480 Title III local currency support on the food stamp program.

c) **Achievement of Policy Reforms: Fiscal Impacts**

The achievement of the institutional and policy reforms in this program is consistent with IMF recommendations for decreased governmental involvement in the economy, prudent fiscal policy through reduction of government budget deficit, leading to greater economic efficiency. Thus the contractor will investigate the impact of these reforms on the national budget with respect to:

i) Reduction of budgetary expenditure due to privatization of Ceylon Fisheries Harbor Corporation assets;

ii) Reduction of budgetary revenue due to reduction in export taxes on tea, rubber and coconut;

iii) How local currency allocations are integrated into the government budget and their overall impact on budget deficit;

iv) Effect of budgetary changes on attitudes of IMF/IBRD toward continued structural adjustment support.

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d) **Achievement of Policy Reforms: Economic Impact**

While it is still too early to be able fully to assess the macro-level economic impacts of the two policy reforms under review, it is desirable to try to establish the linkages between sectoral policy and institutional reforms and increased incomes leading to greater food security. Regarding the impacts of policy reforms, the contractor will assess the following:

a) Impact of the PL-480 Title III program on accelerating the pace of policy and institutional reforms and the changing role of the central government in the agriculture sector;

b) Effect of the elimination of export taxes on investments in the tree crop subsector, especially regarding estate and smallholder tea;

c) Macroeconomic indicators which should be tracked to establish the role of policy and institutional reforms in improving the income of the rural poor. This task is of particular importance to the Title III program because of the necessity to demonstrate convincingly that the objective of improved food security can be achieved, in part, through sectoral policy reforms;

d) Effects of local currency allocations (other than for the food stamp program) on agricultural efficiency, productivity and incomes.

ANNEX K
LIST OF PERSONS CONTACTED

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ANNEX L
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