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Report No. P-2492-CE

REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
TO THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
FOR A
KURUNEGALA RURAL DEVELOPMENT PROJECT

March 19, 1979

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CURRENCY EQUIVALENTS

US\$1	=	Rs 15.5
Rs 1	=	US\$0.065
Rs 1 million	=	US\$64,516

WEIGHTS AND MEASURES

1 bushel (bu) of paddy	=	45 lb
1 acre (ac)	=	0.405 hectare (ha)
1 mile (mi)	=	1.609 kilometers (km)
1 square mile (sq. mi)	=	640 ac (259 ha)

PRINCIPAL ABBREVIATIONS AND ACRONYMS USED

ARTI	-	Agrarian Research and Training Institute
ICB	-	International Competitive Bidding
M	-	Million
O&M	-	Operation and Maintenance
T&V	-	Training and Visit system of agriculture extension

GLOSSARY

chena	-	slash and burn or "shifting" agriculture
district	-	the principal administrative unit in the country. There are 24 districts in Sri Lanka.
ganga	-	major river
maha	-	northeast monsoon season (October to January)
paddy	-	unhusked rice
tank	-	reservoir for local rainwater storage
yala	-	southwest monsoon season (March to June)

FISCAL YEAR

January 1 - December 31

SRI LANKA

KURUNEGALA RURAL DEVELOPMENT PROJECT

Credit and Project Summary

Borrower: The Democratic Socialist Republic of Sri Lanka.

Amount: US\$20.0 million equivalent

Terms: Standard

Project Description: The project aims to assist in developing the District of Kurunegala in an integrated manner for purposes of raising productivity, employment, incomes and living standards and to develop a replicable model for rural development for other districts in Sri Lanka. The project would provide for rehabilitation of existing irrigation schemes accompanied by improved water management practices to fully exploit the irrigation potential, and for programs for replanting/underplanting, intercropping and fertilizing of smallholder coconut plantations. The project would also strengthen agricultural extension services, improve the supply of input services such as fertilizer distribution and seeds supplies, and lay the foundation for a viable agriculture credit system. These directly productive investments would be complemented by investments in transportation, health, education, water supply and rural electrification. The project would benefit about 100,000 farm families directly and about 50,000 indirectly, two-thirds of these families being in the poverty target group.

Estimated Cost: 1/

<u>Component</u>	<u>US\$ Million Equivalent</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
<u>A. Directly Productive Components</u>			
Irrigation and Water Management	6.03	2.00	8.03
Coconut Development	3.93	1.35	5.28
Agricultural Extension	0.78	0.51	1.29
Agricultural Inputs	0.68	0.67	1.35
Agricultural Credit	2.19	5.42	7.61
Livestock	0.06	0.14	0.20
Groundwater Exploration	0.17	0.45	0.62
Subtotal	13.84	10.54	24.38
<u>B. Social Infrastructure</u>			
Rural Roads	0.72	0.38	1.10
Rural Water Supply	0.65	0.21	0.86
Rural Electrification	0.74	0.27	1.01
Health	0.15	0.26	0.41
Education	0.49	0.45	0.94
Subtotal	2.75	1.57	4.32
<u>C. Project Coordination and Investigations</u>			
	0.66	0.64	1.30
<u>Total Cost 2/</u>	<u>17.25</u>	<u>12.75</u>	<u>30.00</u>

Financing Plan:

	<u>US\$ Million Equivalent</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IDA	7.25	12.75	20.00
Government	5.19	-	5.19
People's Bank and Bank of Ceylon	0.81	-	0.81
Beneficiaries	4.00	-	4.00
Total	<u>17.25</u>	<u>12.75</u>	<u>30.00</u>

1/ Includes taxes and import duties (US\$0.8 million equivalent).

2/ Includes contingencies (US\$6.66 million equivalent).

Estimated
Disbursement:

	<u>IDA FY</u>	<u>1980</u>	<u>US\$ Million Equivalent</u>			
			<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Annual		3.0	5.0	4.0	4.0	4.0
Cumulative		3.0	8.0	12.0	16.0	20.0

Rate of Return:

32%

Staff Appraisal
Report:

No. 2292-CE, dated March 6, 1979

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED CREDIT
TO THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
FOR A KURUNEGALA RURAL DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Democratic Socialist Republic of Sri Lanka for the equivalent of US\$20.0 million on standard IDA terms to help finance a Kurunegala Rural Development Project.

PART I - THE ECONOMY

2. The latest economic report, "Development in Sri Lanka: Issues and Prospects" (Report No. 1937-CE, March 22, 1978) was distributed to the Executive Directors on March 23, 1978. Country Data are provided in Annex I.

3. Sri Lanka has achieved social progress far beyond that of other countries with comparably low per capita incomes. Literacy, health, and life expectancy are high; nutrition is adequate, and mortality and population growth rates have been declining. These impressive gains have been achieved despite generally low output and employment growth. Per capita GDP growth was only 0.9% per annum in the 1948-60 period; it accelerated to 2.1% in the 1960s and then declined to 1.3% per annum in the 1970s. Throughout the 1960s and through much of the 1970s, these modest output gains were eroded by adverse terms of trade trends. This disappointing performance has been accompanied by a disturbing increase in the level of open unemployment. In the 1970s, while the labor force has been growing at about 125,000 per year, employment has been rising by about 85,000, much of it in the form of unproductive jobs. The number of unemployed has, therefore, been rising, and open unemployment is estimated at over one million or 20% of the labor force.

4. The gains in the social field were made possible by favorable initial conditions. Compulsory primary education had been introduced as early as 1901. The food ration was introduced in 1942. Thus, at the time of Independence in 1948, Sri Lanka already enjoyed high levels of adult literacy and life expectancy. These initial gains were consolidated and expanded in the post-Independence period through large expenditures on social services and the food subsidy, which have accounted for two-fifths to one-half of government revenues in the 1960s and 1970s. These expenditures have been financed by harnessing the surpluses of Sri Lanka's three major tree crops, tea, rubber, and coconut, which provided the Government with both an easy revenue source and the foreign exchange earnings needed to pay for food imports required to meet consumption requirements.

5. There were both measurable and non-measurable socio-economic benefits flowing from these improvements in health, nutrition, and education, such as the decline in fertility and the relatively low rate of urbanization. At the

same time, there were significant costs arising from the firm commitment of successive governments to maintaining these social gains. The fiscal burden of these expenditures imposed a high degree of inflexibility on Sri Lanka's policymakers in their attempts to accelerate long-term growth. That inflexibility increased over time as growth slowed down and in particular, the ability of the tree crop subsector to provide the resources for the social programs weakened as commodity prices kept falling and productivity suffered due to inadequate incentives. Moreover, the gains in education had a negative impact in the form of large numbers of educated unemployed who have posed a challenge to the established political order. With political parties competing with each other to offer inducements to the electorate, governments have failed to focus social expenditure programs more narrowly on specific groups living in poverty, making these unnecessarily costly.

6. In the 1960-77 period, gross domestic product at constant prices rose by 3.8% per annum, slightly above the 3.5% per annum recorded in the first 12 years after Independence. This impressive performance masks a marked deceleration in the growth of the productive sectors of the economy between the 1960s and the 1970s. GDP growth slowed down from 4.4% per annum in the 1960s to 3.0% in the 1970-77 period. Growth fell from 3.4% to 1.9% in agriculture; from 6.2% to 2.3% in manufacturing.

7. The key to the slowdown in GDP growth lies largely in the slow growth of agriculture, which accounts for over one-third of GDP and four-fifths of export earnings. Tea and coconut output has been declining steadily from the mid 1960s; rubber, after showing a rapid increase in the 1960s, stagnated in the 1970s. Poor weather, declining commodity prices, a rising effective tax burden, and low producer returns combined with the uncertainties caused by a long, drawn-out land reform (1972-75) depressed producer incentives and, hence investment and production, to new lows. These problems were aggravated by a dual exchange rate, introduced in 1968, which discriminated against traditional exports and in favor of food imports.

8. Paddy production, which grew at 7.4% per annum in the 1964-70 period, slowed down to 0.7% per annum in the 1970-77 period. The decline in yields and cropping intensities that this reflected is attributable to a series of droughts and a sharp deterioration in the institutional support for production programs. The only bright spot on the agricultural scene has been the rapid increase in output of subsidiary food crops in the 1970s. This represents gains in acreage rather than yields and is in response to the improved incentives arising from a ban on imports of this foodstuff, introduced in 1970.

9. Manufacturing output in the 1970s also decelerated due to the cumulative impact of declining investment levels, severe foreign exchange shortages that necessitated import rationing (with serious consequences for a sector in which imported raw materials account for 70% of the value of raw materials used), the exhaustion of import substitution possibilities, and inefficiencies in management of the public sector, which now accounts for 66% of the gross value of production in organized industry.

10. In general, economic growth was constrained by a persistent foreign exchange shortage throughout the 1960s and 1970s, inadequate levels of saving and investment, and the low efficiency of resource use. Sri Lanka's terms of trade have deteriorated steadily since the early 1960s and worsened sharply in the mid 1970s following increases in the price of imported food, fertilizer, and petroleum. The share of these three items in Sri Lanka's total imports jumped from about 50% in 1972 to 70% in 1975. This sharp increase has, to some extent, offset the improvement in export prices (particularly of tea) since 1973. Trade policies that discriminated against exports and encouraged import substitution caused a slow growth in exports of 2.5% per annum between 1960 and 1976, which acted as a significant constraint on growth for an economy in which exports accounted for 30% of GDP in 1960, and, at 24%, are still substantial today.

11. The share of consumption in GDP has remained relatively stable and high (at 86%) over the last decade and a half. Domestic savings, when adjusted for the dual exchange rate, fell from 11.5% of GDP in 1966-70 to 9% in 1971-76. This deterioration in savings performance is largely explained by a decline in public savings. Public savings averaged a mere 1% of GDP in the 1960s, shrinking rapidly in the 1970s, and eventually becoming negative. This poor performance is attributable to the large and growing burden of subsidies and transfers, which worsened in the 1970s because of the increasing disparity between import costs and officially determined prices. Private savings were adversely affected in the 1970s by political uncertainties, a confiscatory tax burden, and falling real interest rates.

12. Gross investment has averaged 16% of GDP at current market prices in the 1960-1976 period. In real terms, investment has been declining, and there has been persistent failure throughout this period to raise the level of public investment (around 6-7% of GDP) while private investment in productive activities was, on the whole, not being given much encouragement. The efficiency of investment has also been rather low due to both a misdirection of investment and a failure to exploit the full potential of past investments. Thus, much of the investment in agriculture has been directed to paddy, to the neglect of replanting in the tree crop sub-sector, resulting in an erosion of the latter's production base. Even within paddy, the strategy pursued emphasized costlier, more visible extensive development of the Dry Zone to the neglect of cheaper, but less intensive, development. In the manufacturing sector, capital-intensive import substitution was pursued to the neglect of labor-intensive export-oriented production. Utilization of the potential already established has been uniformly low. This has been reflected in low cropping intensities and yields in the agricultural sector, and low-capacity utilization in manufacturing.

13. In the elections of July 1977, the eighth since Independence, the United National Party won a large majority. In the relatively short period that it has been in office, it has embarked on a major reform of political institutions and economic policies. A new constitution has been enacted introducing a presidential form of government. Proportional representation

has replaced the first-past-the-post voting system. A new District Ministerial system has been established and District Ministers have been appointed to each of the 24 districts in Sri Lanka to help increase local level participation in district planning and administration, and improve implementation of development programs. District Ministers are appointed by the President from the Government parliamentary group and function as ex officio Deputy Ministers to all development-oriented ministries for development programs in their respective districts. The District Minister presides over a Development Council comprising Members of Parliament from the electorates in the district and others nominated to the Council. The Secretary to the District Minister is also the Government Agent for the District. The development councils are entrusted with the tasks of planning, coordination, implementation and evaluation of district programs and allocation of the district's share of funds from the decentralized budget.

14. The policy changes introduced by the new government are designed to address the economic problems described in paras 3-12 above. The Government has identified five major objectives: (i) the revival and resuscitation of the economy; (ii) increased capacity utilization in the productive sectors; (iii) increased employment opportunities; (iv) stimulation of savings and investment; and (v) improvement in the balance of payments over the medium term. A program of policy reforms has been developed in close consultation with the IMF. Its principal aim is to dismantle controls over resource allocations and initiate price adjustments with a view to establishing more realistic relative prices. These reforms were supported initially by an IMF standby arrangement covering 1978 for SDR 93 million. On January 26, 1979, the Fund's Executive Board approved an SDR 260 million Extended Arrangement covering the 1979-81 period.

15. The policy reforms introduced so far include:

Exchange Rate Reform: The exchange rate was unified on November 16, 1977, and allowed to float at a depreciated rate of Rs 16 = US\$1.00. This implied a depreciation of 46% against the official rate prevailing prior to unification, 11.2% with respect to the Foreign Exchange Entitlement Certificate rate, and 29.5% with respect to a transactions-weighted average rate of the two markets. 1/

Import Liberalization: The trade and payments regime has been liberalized. With the exception of foodgrains and petroleum products, public sector import monopolies have been terminated. Prior licensing of imports has been abolished for all but a handful of commodities. The tariff structure has been revised and simplified.

Interest Rate Reform: To encourage financial savings and discourage speculative imports, interest rates have been raised sharply.

1/ Prior to unification, all exports other than tea, rubber and coconut products and all imports other than food, fertilizers and drugs were channelled through the certificate market. Since November 1972, the FEEC rate was maintained at a 65% premium over the official rate.

Price Controls. These have ended for most commodities.

Budgetary Policies: The unification and depreciation of the exchange rate caused tree crops export tax revenues and the cost of food, fertilizer and petroleum subsidies to rise sharply. Export tax rates on tree crops were raised further to mop up windfall profits while attempting to leave adequate producer margins. Business Turnover Tax rates have been substantially lowered and rationalized to be consistent with the new import tariff and exchange rate. To limit the growth in food subsidies, the rice and sugar rations were confined to the poorer half of the population and the subsidy on imported wheat flour was reduced through adjustments in the domestic price. To offset the adverse impact of these changes, public sector wages have been adjusted upwards on two occasions, and an income supplement has been introduced at Rs 50 per month to benefit the poorest households in which one or more persons has no gainful employment. Public corporations have been asked to pass on cost increases, except in the case of fertilizer, petroleum, milk and public transport, where price increases were initially deferred to cushion the impact on consumers. The Government has subsequently made some adjustments in bus fares, petroleum and fertilizer prices. These changes, taken together, have enabled an increase in public savings and contributed, together with higher aid receipts, to a sizable step up in capital expenditures.

Tax Reform: The tax structure has been rationalized and simplified with a view to increasing the elasticity of revenues. The burden of personal and company taxation has been lowered.

Agricultural Pricing Policies: The domestic procurement price for rice has been increased by 21%. With the related increase in flour prices, incentives for paddy and other flour substitutes have been improved. Fresh coconut prices have recently been increased by 30% and the export duty on coconut products has been appropriately adjusted. The unification of the exchange rate also ends discrimination against tree crops; however, the increase in export taxes takes away a substantial part of these gains. These reforms constitute only a beginning, and the Government anticipates the need for further price adjustments designed to reduce the continuing large burden of subsidies and current transfers (currently at over one-third of government revenues).

16. The economy's response to the policy reforms has been encouraging. Real gross national product in 1978 is estimated to have increased by 5.7%. The improved availabilities of inputs following import liberalization, an increased role for the private sector in distribution and good weather helped attain a record paddy harvest. Industries, other than tree crop processing, benefited from the removal of price controls and increased access to imported raw materials and spare parts. Output of manufacturing industries is estimated to have risen by 9%, and electricity consumption by 13%, in 1978. After an initial slow start, private investment has also responded well to the reforms. This is partly reflected in the near threefold increase in capital goods imports from US\$81 million in 1977 to an estimated US\$225 million in 1978. Transport operators, in particular, have rushed to modernize their antiquated fleets, resulting in sizable imports of transport equipment. Others have taken advantage of accelerated depreciation provisions to replace worn out

machinery and equipment. Applications for new investments have been encouraging. Public investment has also shown a major increase in 1978.

17. Despite the ending of price controls, policy induced price increases, and related wage increases, inflation in 1978 is estimated at 15%. Money supply growth has slackened, and the budget has had a contractionary effect due to under-expenditure on capital account. Interest rate reform has ensured positive real interest rates, contributing to a shift in asset preferences and easing the task of managing the balance of payments.

18. With import liberalization, imports of goods and non-factor services in 1978 rose by 39% to US\$1,039 million. Exports rose by 12% to US\$926 million. Thus the current account deficit swung from a surplus of US\$77 million in 1977 to a deficit of US\$105 million in 1978. However, since aid disbursements also rose sharply, net foreign exchange reserves rose by US\$98 million in 1978 to US\$214 million. Gross foreign exchange reserves rose to US\$397 million, or 4.5 months of imports. Thus, despite import liberalization, Sri Lanka's balance of payments remained well in control. The exchange rate averaged Rs 15.60 = US\$1.00 during 1978, appreciating modestly against the dollar and depreciating against the SDR.

19. While the overall performance of the economy has been good, there remained several underlying weaknesses, particularly the inadequacy of incentives and the poor quality of management of the tea estates, severe managerial problems in the State industrial corporations, shortages of skilled manpower and inadequate construction capability. The Government is aware of these weaknesses, and technical and financial assistance programs are in the process of being developed to address some of these problems.

20. The economic reforms have been accompanied by a major effort at stepping up public investment. In this context, the Government attaches the highest priority to three major new programs: (i) Accelerated implementation of the Mahaweli Ganga Development Program involving telescoping construction of key remaining works of the 30-year Master Plan for Sri Lanka's largest river into a 7-10 year period. (Five major reservoir projects are to be launched with international assistance in 1979 and 1980 at a cost of over US\$1,000 million, to be spread over eight to ten years. When completed, these projects will irrigate 340,000 acres in the dry zone and generate 390 MW of power.); (ii) A 200 square-mile free trade zone north of Colombo, under a newly constituted Greater Colombo Economic Commission. (The first Investment Promotion Zone near Colombo's international airport, Katunayake, is off to a good start, and some 50 proposals have been approved.); (iii) A housing and urban renewal program with its main focus on the Colombo metropolitan region.

21. Recognizing the enormous financial and manpower burden of these schemes, the Government has, in consultation with the Bank, begun preparation of a medium-term public investment program which will attempt to ensure consistency between the multiple objectives of Government policy and the financial, administrative and manpower resources available for attaining those objectives. An initial outline of the program, incorporating the

capital budget for 1979, is to be presented to the May/June 1979 Aid Group meeting. The program itself is to be completed in late 1979. It is seen as a rolling program, emphasizing the annual capital budget, and making such adjustments in objectives and content as are deemed necessary by short-term developments and opportunities that present themselves.

22. The Government has identified three major policy objectives in the medium term: (i) the creation of over one million new jobs between 1979 and 1983 to absorb the 630,000 expected additions to the labor force and make a significant dent in the backlog of the unemployed; (ii) acceleration of economic growth to 5.5% per annum; (iii) structural improvement in the balance of payments through reduced dependence on tree crop exports and import substitution in food. The program envisages a total public investment of Rs 46 billion over the 1979-83 period (\$2,900 million), some 60% of total (gross) investment. Investment is expected to average 24.5% of GNP in the 1979-83 period, as against 16% in the 1971-76 period. To enable this increase to materialize, domestic savings are expected to average about 14% of GNP, a substantial improvement over the 9% recorded in the 1971-76 period. The program, however, relies heavily on a substantial increase in net external inflows, which are estimated to average 10.6% of GNP throughout the period, as against an average of 2.3% in the 1970-76 period. These external flows will finance over two-thirds of the public investment program.

23. The underlying public investment strategy is to balance the large investment requirements of the Government's high priority program against the urgent rehabilitation and fresh investment needs in other sectors. The main thrust of the public sector program is to lay the foundation for longer term development, both by improving the efficiency of use of existing infrastructure investments and by expanding the longer term growth capacity of the economy. The strategy thus implicitly relies on the private sector to respond to the economic reforms and the stimulus of the public sector investment program, and provide much of the short-term growth.

24. The success the Government enjoys in attaining its medium term development objectives is dependent on the further reforms needed to improve price and export incentives, and management in the public sector. It is also dependent on additional efforts to mobilize domestic resources and address absorptive capacity constraints such as manpower shortages and planning and implementation capability. However, success is ultimately contingent on a well designed program of external financial and technical assistance. This is particularly because the proposed increase in investment, together with the new import liberalization policy will cause imports to grow much more rapidly than in the past. Moreover, Sri Lanka's terms of trade are expected to worsen over the medium term, due in the main to an expected decline in real tea unit values, and an increase in foodgrain import costs. Thus larger aid flows are needed to ensure that an ambitious development program, with a strong rehabilitation component, can be implemented within the framework of a liberalized import regime. Such assistance will also help finance about two-thirds of the public investment program. In this context, local cost financing will be needed to support this effort, particularly in the early years, as domestic resource mobilization efforts begin to gather momentum.

25. Aid donors have responded enthusiastically to the new policy environment in Sri Lanka. Aid commitments in 1978 from members of the Sri Lanka Aid Group totalled \$380 million, an increase of 56% over 1977. At the 14th Meeting, donors also expressed strong support for the accelerated Mahaweli Program. The grant element of aid commitments is currently around 65% and is expected to improve further. The debt service ratio in 1978 stood at 10.3%, declining from 15.0% in 1977, due to improved export earnings and the decline in outstanding short and medium term borrowings. The ratio is expected to drop further to 9.4% in 1979.

PART II - BANK GROUP OPERATIONS IN SRI LANKA

26. Since the beginning of its operations in Sri Lanka in 1954, the Bank Group has made eight loans totalling US\$73.4 million (net of cancellations) and fifteen credits totalling US\$147.2 million (net of cancellations and exchange adjustments) in support of 21 projects. About 54% of Bank Group assistance has been for agriculture (irrigation and agricultural and dairy development), 27% for power, and the remainder for Development Finance Company operations, highways, a program credit (mainly involving the import of raw materials for industry), and water supply. Three early power loans, the credit for the Mahaweli Ganga Development Project I, and the program credit, together with the recently completed Lift Irrigation and Drainage and Reclamation Credits, have been satisfactorily completed and fully disbursed. Of the two loans made to the Development Finance Corporation of Ceylon (DFCC), US\$6.8 million of the US\$12.0 million available was cancelled by DFCC due to a sudden deterioration in the private investment climate resulting from a change of government in 1970. Under an ongoing IDA credit of US\$4.5 million made to the DFCC in 1975, sub-projects for the total credit amount have been approved. A second IDA credit of US\$8.0 million to DFCC was approved in FY78. At the request of the Borrower, a loan/credit for highways was cancelled in 1970, after disbursement of US\$0.8 million of the credit, following the Government's decision to make major changes in the scope of the project. IDA credits for a Tree Crop Rehabilitation (Tea) Project of US\$21.0 million and a Tree Crop Diversification (Tea) Project of US\$4.5 million have been approved in FY79. Annex II contains a summary statement of Bank Group operations as of January 31, 1979, together with notes on the execution of ongoing projects.

27. An IFC equity investment of about US\$199,000 equivalent in DFCC and an IFC non-revolving line of credit of US\$2.0 million to the government-owned Bank of Ceylon for on-lending to private small- and medium-scale industrial enterprises were also approved in FY78. An investment of US\$3.25 million to the Pearl Textile Mills, Ltd. (Ceylon) was approved by IFC's Board of Directors in 1970, but cancelled the same year because Government approval for the project was withdrawn. IFC has also recently proposed an investment of US\$3.32 million in a synthetic textile mill, which will produce for the domestic market.

28. The Bank Group's current strategy is focused on the agricultural sector to support Government efforts to increase food production and reduce

its dependence on food imports, and to raise productivity, employment, incomes and living standards of the rural population in Sri Lanka. Projects to support industry and basic infrastructure are also included. The Bank Group has agreed to assist the Government of Sri Lanka to accelerate the development of the Mahaweli Ganga development area by helping to develop an implementation strategy and to coordinate external assistance for project preparation and implementation. It is expected that significant investment opportunities for IDA and other sources of external aid will be associated with this effort. In addition, appraisal has been largely completed for a road maintenance project and a national agricultural extension and research project. Projects in other fields, including water supply and sewerage, tree crop rehabilitation (rubber), rainfed farming (sugar production), road transport and small scale industries, are also being prepared for possible IDA financing.

29. The Bank Group presently accounts for 10.3% (IBRD 3.3%; IDA, 7%) of Sri Lanka's total debt outstanding and disbursed, and 6.5% (almost totally Bank) of debt service. It is projected that the Bank Group's share in total external debt will increase to 17% by 1985 (with the Bank's share declining to about 1%). The Bank and IDA shares in the debt service will decline to about 5% by 1985.

PART III - THE RURAL SECTOR

30. Approximately four-fifths of Sri Lanka's population lives in rural areas; the proportion varies from roughly 50% in the Western Province in which Colombo District is located to about 93% rural in the North Western Province in which Kurunegala District is located. The proportion of Sri Lanka's population living in rural areas has declined only modestly, around 7 percentage points between 1946 and 1971. This is attributable to low and narrowing rural-urban income differentials, an island-wide food-subsidy program, and the spread of education and health services throughout the economy. Income distribution data, which need to be interpreted with considerable caution, show a significant reduction in inequality within the rural sector. The share of total income of the top 20% of households in rural areas fell between 1960 and 1973 from 52% to 43%, while that of the lowest 20% rose from 4.5% to 7.3%. Income differentials between the non-estate rural areas and the urban areas also narrowed over the same period, the ratio of mean incomes between urban and rural areas declining from 2:1 in 1963 to 1.4:1 in 1973. This reflects a shift in the terms of trade in favor of agriculture, higher agricultural output and declining real incomes in the urban and estate sectors. Although there is considerable rural poverty in Sri Lanka, it does not take the extreme form that is witnessed in neighboring South Asian countries.

31. The rural sector is dominated by agriculture, with 95% of the rural population involved directly or indirectly in that activity. About one-third of the gross domestic product, one-half of total employment and 80% of export earnings and a large share of government revenues are on account of agriculture. Much of the activity in manufacturing, transport and the services sector also relates to either supply of inputs to agriculture or processing

of agricultural produce. Traditional and modern economic activity exists side by side in the rural sector. Tea, rubber and coconut production for export, dominated by plantations, have in the past constituted the modern sector in agriculture. With land reform, the bulk of the area under rubber and coconut and a third of the area under tea are now cultivated by small-holders. Paddy is primarily in the traditional sector, though a number of cultivators have adopted modern practices. Although cash crops are beginning to be included in slash and burn type chena cultivation, this remains a subsistence-type activity with farmers using traditional cultivation practices. Rural industries diminished in importance as a result of competition from the import of industrial goods in the 1950s and the late 1960s. Major rural industries today include rice mills (which have replaced more traditional forms of processing), power looms (which supplement handlooms) and traditional handicrafts.

32. Sri Lanka's climate is suitable for year-round cultivation. The variations in precipitation, topography and soils make it possible to grow a wide range of crops including tea, rubber, coconuts, paddy, tubers and roots, coarse grains, pulses, vegetables and fruits. Agricultural development is confined largely to the wet and intermediate zones, accounting for a third of the island's surface area, and to a small part of the dry zone. The population is concentrated primarily in the wet zone; the dry zone, with the exception of Jaffna peninsula, is sparsely populated despite recent migration and colonization. Out of some 5.5 M ac under permanent cultivation, 1.6 M ac are under paddy, 1.2 M ac under coconut, 0.6 M ac under tea, 0.5 M ac under rubber, 0.1 M ac under other perennial crops and the remaining 1.5 M ac under mixed rainfed farming, mostly as small gardens around homesteads. In addition, about 2.5 M ac are under chena cultivation. Typically, only about one-fifth of the chena land is cultivated in any year. Where sufficient water is available, it is common practice to produce two or more crops a year. The cropping intensity on paddy lands ranges from about 175% in the wet zone to about 110% in the dry zone, the average for the whole country being about 130%.

Performance and Problems

33. Agricultural performance over the past two decades has been rather mixed. There have been modest increases in production and employment and some progress has been made towards food self-sufficiency. The sector has not, however, been able to provide a major stimulus to the rest of the economy or to make any significant dent in the chronic unemployment problem faced by Sri Lanka (see paras 7 and 8 above).

Objectives and Strategy for the Future

34. The present Government recognizes the pivotal role of agriculture in stimulating economic growth and rural development in Sri Lanka. It is also aware of the constraints imposed on growth by past policies and programs. The major objectives of the Government's medium-term plans and programs for agriculture are to: (i) increase agricultural employment and incomes; (ii) increase self-sufficiency in basic food items; and (iii) expand export earnings.

35. The Government's strategy for achieving these objectives emphasizes better utilization of the existing potential through institutional and policy improvements as well as rehabilitation of the production base. Among the policies and programs being given high priority are: (i) establishment of appropriate price incentives for producers; (ii) strengthening of agricultural support services such as research and extension, credit, farm power supply, and fertilizer distribution; (iii) improved irrigation water management; (iv) improved management of state controlled lands; (v) stepped up programs for rehabilitation of plantation crops; and (vi) improvements in living conditions of plantation labor. Through these measures, the Government hopes to step up the agricultural growth rate to 4.5% per annum over the next five years. Given adequate attention to implementation problems, the target is attainable. For the longer-term needs of the economy, the Government is emphasizing further expansion of irrigated agriculture in the dry zone through accelerated development of the Mahaweli Ganga basin and a major replanting/rehabilitation program in the tree crop sector.

Integrated District Development Programs

36. To encourage grassroot participation in development and to reduce implementation problems at the field level, the Government is encouraging decentralization of planning, monitoring and coordination responsibilities. Overall national priorities and policy guidelines will be established at the central level and technical guidance and supervision for field staff will continue to be directed from the respective headquarters. District Ministers will oversee and coordinate the planning and implementation of all developmental programs ^{1/} in their respective districts. As the District Minister arrangement has just been initiated, many of the detailed working procedures have not yet been completed. It is estimated that it will take several more months before it is fully operational (see para 13 above).

37. The decentralization program clearly holds the potential for quick resolution of implementation bottlenecks as well as for making development plans more responsive to local needs and resources. The extent to which this potential will be realized in practice depends largely upon: (i) the ability to avoid partisan political considerations in resource allocation at the local level; (ii) development of harmonious relationships between line ministries in Colombo and the District Ministers; (iii) strengthening of planning and monitoring capabilities at the district level; and (iv) preparation of sound technical criteria and policy guidelines for use in formulation of district plans.

38. The Government is proposing to undertake a number of integrated district development projects to test and develop the decentralization program. Under these district projects, districts would be surveyed and studied, and a development plan would be prepared taking into consideration the leading

^{1/} Projects and programs which are of national importance (e.g. the accelerated Mahaweli Ganga Development Program) will, however, continue to be handled at the central level.

sectors and activities that need investment support to promote balanced and accelerated growth. These district projects would emphasize low-cost, quick-yielding, labor-intensive investments aimed at better utilization of the existing potential. The main features of this approach would be: (i) coverage of a wide range of crops and infrastructure needs; (ii) promotion of balanced interregional development; and (iii) production increases in the near term.

39. The proposed project for the Kurunegala District would be the first attempt in Sri Lanka to develop an entire district in an integrated manner. It is expected that over the next decade most districts outside the Mahaweli Program would be covered by similar projects. Proposals for development of two other districts, Hambantota and Matara are under preparation with assistance from Norway and Sweden, respectively. The proposed Kurunegala project would include support for preparation of similar projects for four other districts for possible financing by external agencies. The four proposals are expected to be ready by June 1980.

Bank Group Support to Agriculture

40. During the last several years, Bank Group lending to Sri Lanka has heavily emphasized agriculture and rural development. Since 1968, a total of nine projects have been financed in this sector including: Lift Irrigation (Cr. 121-CE, US\$2.0 M); Drainage and Reclamation (Cr. 168-CE, US\$2.5 M); Mahaweli Ganga Development I (Ln. 653-CE, US\$14.5 M and Cr. 174-CE, US\$14.5 M); Dairy Development (Cr. 504-CE, US\$9.0 M); Agricultural Development Project (Cr. 595-CE, US\$25.0 M); Tank Irrigation Modernization (Cr. 666-CE, US\$5.0 M); Mahaweli Ganga Development II (Cr. 701-CE, US\$19.0 M); Tree Crop Rehabilitation (Tea) (Cr. 818-CE, US\$21.0 M) and Tree Crop Diversification (Cr. 819-CE, US\$4.5 M). The first two of these projects have been successfully completed. The others are progressing satisfactorily, although, due to large scale emigration of skilled manpower to the Middle East and Africa during the past several years, skilled manpower availability is beginning to be a constraint. No project audits by the Bank's Operations Evaluation Department have been undertaken in the sector so far.

PART IV - THE PROJECT

41. The proposed project was identified by the Government of Sri Lanka, prepared by several Government agencies and coordinated by the Ministry of Plan Implementation with assistance from the UNDP, the Canadian International Development Agency and IDA missions. The project was appraised in March/April 1978. Two issues relating to project area and organization were resolved during a follow-up appraisal mission in August 1978. Negotiations were held in Washington, D.C., in February 1979. The Borrower's delegation was led by Dr. Wickrema Weerasooria, Secretary, Ministry of Plan Implementation. A Staff Appraisal Report entitled "Sri Lanka - Kurunegala Rural Development Project" (Report No. 2292-CE, dated March 6, 1979) is being distributed separately to the Executive Directors. A timetable of key events relating to the project and special conditions of the credit are given in Annex III.

Project Objectives

42. The proposed project aims to assist in developing the District of Kurunegala in an integrated manner for purposes of raising productivity, employment, incomes and living standards and to develop a replicable model for rural development for other districts in Sri Lanka. The main assumption underlying the project approach is that the existing economic and social infrastructure in Sri Lanka is substantially underutilized and that a rapid and significant improvement in utilization is possible through strengthening of development-oriented institutional services and complementary investments in physical infrastructure.

43. The proposed project emphasizes:

- (a) directly productive investments;
- (b) local level political participation in identification of project investments;
- (c) reduction of intra-regional disparities;
- (d) financial, technical and institutional replicability; and
- (e) labor-intensive, quick-yielding rehabilitation works, rather than new construction.

44. Although the proposed project includes some 12 different components, it does not purport to tackle all aspects of regional development. Instead, the project design represents a pragmatic compromise between comprehensiveness and manageability. Even after the project, substantial scope would exist for further investments in components included under the project as well as for incorporation of new components.

45. The proposed project would cover the entire administrative district of Kurunegala. The Kurunegala district is predominantly rural and agriculture is the mainstay of its economy. It is located in the western part of the country (Map IBRD 13943R) and has a land area of about 1,850 sq mi, with an estimated population of 1.15 M. It is the third largest district in the country, accounting for about 7% of the total area and 8% of the population. The climate in the project area is tropical with low variations in temperatures and heavy variable rainfall. Out of the total land area of some 1.2 M ac, about one-half is under permanent cultivation and one-third under chena cultivation. Coconut and paddy are the two most important crops covering about 380,000 ac and 170,000 ac, respectively. For both coconut and paddy, Kurunegala has the highest acreage among all the districts in Sri Lanka, accounting for about 35% and 13% of the respective crop acreages in Sri Lanka. The average operational holding size is about 4 ac compared to about 2.5 ac in Sri Lanka as a whole. Most holdings have 3-4 parcels, often with each under a different tenurial arrangement.

46. The district is reasonably well served by a network of about 900 mi of metalled roads and about 7,000 mi of gravelled roads and dirt tracks. Educational and health care facilities in the district are roughly at par with those in other parts of Sri Lanka. However, the district lags behind the rest of the country in rural electrification and drinking water supplies. There are also substantial intra-district variations in the level of social infrastructure facilities, with the outlying remote areas having generally poor service levels (see Maps IBRD 13944, 13945, and 13946R).

Project Description

47. Because of the predominant position of coconut and paddy in the district's economy, as well as the scope for large production increases for both crops, the principal project thrust would be to rehabilitate their production base and to improve support services essential for increased production. The directly productive investments would be complemented by investments in transportation, health, education, drinking water supply and rural electrification to improve utilization and effectiveness of the existing facilities. These investments in the social infrastructure are designed to improve living standards, to reduce intra-regional disparities and to develop the social infrastructure for growth in the long-term.

48. The main components of the proposed project are:

(a) Irrigation and Water Management

(i) rehabilitation of nine major tank and about 500 village irrigation schemes; (ii) provision of 22 mobile pumping facilities for lift irrigation from perennial streams and other water bodies; and (iii) introduction of improved water management practices.

(b) Coconut Development

rehabilitation and improvement of coconut lands through stepped up programs for replanting/underplanting and intercropping.

(c) Agricultural Extension

strengthening the agricultural extension services in the district through the introduction of the Training and Visit (T&V) system.

(d) Agricultural Input Supplies

improvement of availability of agricultural supplies and services and their coordination.

(e) Agricultural Credit

supporting and strengthening existing schemes for production credit and for credit for purchase of machinery and equipment.

(f) Livestock

strengthening of animal disease control and veterinary services.

(g) Groundwater Exploration

exploration of the groundwater resources and assessment of the potential for economic exploitation of such resources.

(h) Rural Roads

construction/rehabilitation of about 130 miles of high priority rural roads.

(i) Rural Water Supply

installation of about 400 dug wells in areas with drinking water deficiency.

(j) Rural Electrification

electrification of sixteen rural areas.

(k) Health

(i) provision of staff quarters, vehicles and medical equipment; and (ii) electrification with diesel generator sets of 4 inpatient hospitals.

(l) Vocational Education

provision of workshop and science equipment and construction of buildings and teachers' quarters.

(m) Project Coordination and Investigations

(i) provision of vehicles, office equipment, additional staffing and construction of office buildings; (ii) preparation of similar rural development projects for four other districts; (iii) development of a District Statistical Handbook for Kurunegala; (iv) benchmark and follow-up surveys for evaluating the impact of the project; and (v) preparation of additional development schemes for the District of Kurunegala.

Organization and Implementation

49. Given the strong interdependence among many of the components and the large number of agencies involved in implementation, successful project implementation would depend upon the capacity for a quick resolution of policy issues as they may arise, and for close monitoring, supervision and coordination of the work programs of various agencies. Therefore, the project was designed with three levels of coordination for project implementation.

50. At the central level, a Project Steering Committee, comprising heads of the concerned agencies and departments as well as the Government Agent in Kurunegala and the Project Director, has been established (Section 3.02(a) of the Development Credit Agreement (DCA)). The Committee is chaired by the Secretary, Ministry of Plan Implementation, with the Director, Regional Development as its member-secretary. In addition to coordinating and troubleshooting at the highest level, the Committee is responsible for: (i) reviewing and approving annual work programs and budgets; (ii) reviewing quarterly progress reports; (iii) ensuring general consistency of policies and practices in various district development projects; and (iv) liaising with IDA on all project policy matters. The Committee is serviced by a small project cell in the Regional Development Division of the Ministry of Plan Implementation. The project cell would work in close cooperation with the Project Director in Kurunegala.

51. At the district level, a Project Coordination Committee, comprising district heads of the key project agencies, has been established to discuss and resolve interdepartmental coordination problems (Section 3.02(a) of the DCA). The Committee is chaired by the District Minister, with the Project Director as the member-secretary. Project-related policy issues as well as implementation bottlenecks and coordination problems which can not be resolved at the district level will be referred to the Project Steering Committee. A full time Project Director with the rank of Additional Government Agent has been appointed to the district to coordinate various project activities under the general supervision of the Government Agent and the District Minister (Section 3.02(b) of the DCA).

52. Overall project implementation would take five years. Site surveys for most buildings under the project are already underway and construction should be completed in about two years. Tender documents for construction and agricultural equipment have already been prepared and are being reviewed by IDA; they are expected to be issued by mid-March 1979 with awards by July 1979, and site deliveries in late 1979. Staff mobilization began in January 1979 and most new staff are expected to be in place by June 1979. Detailed surveys and investigations are in progress for village irrigation schemes to be rehabilitated during the first year of the project. Assurances were obtained that the selection of village irrigation schemes for rehabilitation under the proposed project would be in accordance with criteria satisfactory to the Association (Section 3.06 of the DCA). Assurances were also obtained that the organizational structure, arrangement, and work program for agricultural extension in the project area would be established and maintained under terms satisfactory to the Association (Section 3.09 of the DCA).

53. The Project Director, in collaboration with the various implementing agencies, would annually prepare a detailed work program, together with associated budgetary requirements, for the following calendar year. The program would be supported by appropriate maps, charts and diagrams and include estimated manpower and material requirements. Following a review by the Project Steering Committee, the work program would be submitted to IDA for comments not later than October 31 of each year (Section 3.10(c) of the DCA).

54. The Irrigation Department would be responsible for the operations and maintenance (O&M) of the major irrigation schemes down to the distributary level. Responsibility for O&M of field channels (in major schemes) as well as the village irrigation schemes would rest with the benefitting farmers who would be supervised and advised by the Cultivation Officers of the Agrarian Service Department. Lift irrigation schemes would be operated and maintained by the Irrigation Department. The maintenance and repairs of the rehabilitated rural roads would be done by the Highways Department. Drinking water wells would be maintained by the beneficiaries, supervised by the Department of Local Government Services. The Ceylon Electricity Board would be responsible for O&M of rural electrification schemes as well as the diesel generators to be provided to the Health Department. Health buildings will be maintained by the Buildings Departments of the Ministry of Local Government. Adequate repair facilities and workshops exist in the private sector to provide maintenance services for farm equipment to be sold to farmers under the project. After project completion, incremental recurrent expenditures for agricultural extension and the coconut development program would be financed through annual budgetary appropriations to the Agriculture Department, the Coconut Cultivation Board and the Department of Minor Export Crops. Assurances were obtained that: (i) all civil works, including major irrigation works, roads and buildings constructed and/or rehabilitated under the project, would be maintained in accordance with sound engineering practices and that adequate staff and funds would be provided for this purpose (Section 3.08(b) of the DCA); (ii) institutional arrangements for O&M of village irrigation schemes and field channels in major tank schemes would be satisfactory to IDA (Section 3.08(a) of the DCA); and (iii) sufficient funds are provided to the various implementing agencies to meet all operational, maintenance, and other recurrent expenditures under the project (Section 3.08(c) of the DCA).

55. The Peoples' Bank and the Bank of Ceylon would make loans to project beneficiaries on the prevailing terms for agricultural credit in Sri Lanka, which are as follows: (i) 9% per annum for cultivation loans for paddy, coconut, and field crops; and (ii) 14% per annum for farm machinery and equipment loans, with 10 to 20% downpayment by individuals and at least 20% downpayment by private sector farm machinery pools. Maturities would be: (i) six months for cultivation loans for paddy and field crops; (ii) five years, including a two-year grace period, for cultivation loans for coconut; and (iii) five years, with semi-annual installments, for farm machinery and equipment loans. The Central Bank would provide 100% refinance for cultivation loans and 70% refinance for loans for machinery and equipment; refinancing would be on terms and conditions consistent with the ongoing countrywide programs and would provide a weighted average spread for all schemes of about 5% to the lending banks, with no guarantee against default. It would be a condition of effectiveness that the Government has entered into subsidiary

agreements, satisfactory to the Association, with the Peoples' Bank and the Bank of Ceylon (Sections 3.07 and 6.01(a) and (b) of the DCA) for the provision of agricultural credit under the proposed project. Inflation over the past four years is estimated at 12-15%. There is no evidence to indicate that the annual rate of inflation will change substantially over the next twelve to eighteen months. Thus, in the immediate short run, interest rates for agricultural lending are expected to remain negative in real terms. However, unlike the inflation prior to 1978, which was mainly caused by excessive budgetary deficits fuelling money supply expansion, the current inflation is largely a result of policy-induced price adjustments, which are designed to produce a major restructuring of relative prices in the economy (see para 15 above). These price adjustments are an integral part of a program of policy reforms introduced by the new Government in consultation with the International Monetary Fund. They are expected to be substantially completed by the end of 1980. The Sri Lanka authorities anticipate production to respond positively to these price changes, and, together with a continued tight rein over government budgetary deficits, to cause a slow down in the rate of inflation by 1981. This is a reasonable assumption, and, barring unforeseen development, positive real interest rates should prevail over the bulk of the project's disbursement period.

Technical Assistance

56. To strengthen the implementation capacity of the various project agencies, the Government would employ consultants having qualifications and experience and upon terms and conditions of employment satisfactory to the Association (Section 3.02(c) of the DCA). This technical assistance would include about two man-years each for development planning and for farm management/extension work, plus about 24 man-months of short-term specialists to advise on specific technical issues in several project components. The project would also make provision for short-term study tours by project staff.

Monitoring and Evaluation

57. Monitoring of the project's progress would be through monthly reports by the staff of the various implementing agencies. Assurances were obtained that each of the various departments and agencies responsible for carrying out the proposed project would maintain separate records adequate to reflect the operations and financial condition of the part or parts of the proposed project for which the department or agency is responsible (Section 4.01(a) of the DCA). The Project Director would compile and consolidate the individual reports for review and discussion at the monthly meeting of the Project Coordination Committee. Based on the monthly reports, the Project Director would also prepare quarterly progress reports for review by the Project Steering Committee. To avoid burdening the field staff with excessive paper work, monthly progress reports would be kept short and include only data of key importance. The quarterly reports together with other relevant project records would be used to prepare a comprehensive annual progress report. Assurances were obtained that the quarterly progress reports would be submitted to IDA within one month of the end of the quarter under review (Section 3.10(a) of the DCA) and that the annual progress report would be sent

to IDA by March 31 of the following year (Section 3.10(b) of the DCA). Assurances were also obtained that the Government would cause each of its various departments and agencies to have its accounts and financial statements audited each fiscal year (for the part or parts of the proposed project for which it is responsible), and also would cause the Project Director to consolidate these accounts and financial statements into a unified report for all of the proposed project activities and furnish it to IDA not later than six months after each such year (Section 4.01(b) of the DCA).

58. In view of the prototype nature of the project, high priority would be given to evaluation of the direct and indirect impact of the project as well as the socio-economic characteristics of the beneficiaries. Benchmark data for the evaluation would be established mostly from two on-going surveys -- the National Agrarian Survey by the Agrarian Research and Training Institute (ARTI) and the Consumer Finance Survey by the Central Bank. The two surveys are expected to be repeated periodically -- the ARTI survey every two years and the Central Bank survey every five years. In addition, small in-depth studies focussed on specific aspects of the project would be undertaken by contracting local universities and research institutions. Assurances were obtained that by December 31, 1979, IDA would receive for review and comment a detailed plan for project evaluation (Section 3.10(d) of the DCA). Assurances were also obtained that a project completion report would be prepared after the completion of the proposed project (Section 3.04(c) of the DCA).

Costs and Financing

59. The total project cost is estimated at US\$30.0 M equivalent. The foreign exchange component is estimated at US\$12.75 M or about 43% of the total project cost. Cost estimates are based on unit prices adjusted to January 1979 price levels and include about US\$0.8 M for taxes and import duties. Physical contingencies of 10-15% for civil works, 5% for field works and equipment, and 10% for incremental recurrent expenditures have been included. Price contingencies have been estimated assuming an annual inflation rate of 6% for foreign costs, and 15% for local costs in 1979, followed by 10% thereafter. The total cost of individual consultants' services is estimated at about US\$0.4 million equivalent, or about US\$6,000 per man-month, consisting on average of salary US\$3,500, allowances US\$1,200, travel US\$500, settlement US\$300, and miscellaneous US\$500. The proposed IDA credit of US\$20.0 M would finance the full foreign exchange costs and about 42% of the local costs, or about 68% of the total project cost net of taxes and duties. Benefitting farmers would provide about US\$4.0 M equivalent as contributions to field works for coconut development, cash purchases of farm equipment, and down payments and installment payments on private agriculture investments financed through institutional credit. Participating commercial banks, the Peoples' Bank and the Bank of Ceylon, would contribute about US\$0.8 M from their own resources for financing part of the agriculture credit requirements under the project. The Government would contribute the remaining US\$5.2 M.

Procurement

60. Equipment and Vehicles. Equipment, vehicles and spares with an estimated cif cost of about US\$2.5 M (net of contingencies) would be procured

after international competitive bidding (ICB) in accordance with IDA guidelines. A preference limited to 15% of the cif price of imported goods or the import duty, whichever is lower, would be extended to local manufacturers in the evaluation of bids. Because of the relatively small quantities under the project and the need for standardization, it would be impractical and costly to have separate tenders for much of the educational and medical equipment; accordingly, the project requirements for these items (cif cost US\$0.4 M, net of contingencies) would be procured together with the national requirements. Due to strong consumer preferences, ICB would also be impractical for procurement of vehicles which are to be purchased by departmental staff or for procurement of equipment to be purchased on a cash basis by farmers (cif cost US\$0.5 M, net of contingencies); these would be procured through prudent shopping, following procedures satisfactory to IDA. Small off-the-shelf items costing less than US\$10,000 each, which cannot be bulked into packages suitable for international tendering or items needed urgently for expeditious project implementation, would be procured through prudent shopping in accordance with procedures satisfactory to IDA. The total of all non-ICB equipment purchases would be limited to an aggregate of US\$1.2 M.

61. Civil Works. Because most civil works (base cost US\$6.5 M net of contingencies) would be labor-intensive, relatively small, restricted to seasonal construction, scattered over a wide area and could not be grouped into large contracts, they would be unsuitable for ICB. Also, at present the private sector in Sri Lanka has a very limited capacity for construction works and much of that capacity would be preempted by programs such as the Mahaweli Program. Many Government departments and agencies, on the other hand, have considerable experience and capacity for such works. Accordingly, the civil works under the project would mostly be done on force account or through small unit-cost contracts with local labor groups. Field development works for coconut lands (base cost US\$2.3 M) would be undertaken by beneficiaries on force account using family and/or hired labor and inputs purchased through normal commercial channels.

62. Agricultural Credit. Farm inputs, equipment and vehicles (base cost US\$6.9 M) under agricultural credit would be purchased by the sub-borrowers through normal commercial channels. A sufficient number of local dealerships and agencies are available to ensure competitive prices and wide ranging choice. This situation would, however, be monitored by the Agriculture Development Authority and reviewed by IDA supervision missions from time to time; in case there were to be inadequate competition or excessive prices in the local market, arrangements would be made for procurement through ICB with due regard to consumer preferences.

Disbursements

63. Disbursements would be made for: (i) 100% of foreign expenditure, or 100% of local expenditure ex-factory, or 80% of local expenditure for equipment, vehicles, and spares; (ii) 100% of the cost of technical assistance; (iii) 80% of the cost of civil works including construction materials; (iv) 80% of the financial assistance in excess of Sri Lanka Rs 1.0 M per calendar year by the Government for field works; (v) 40% of the disbursements in excess of Sri Lanka Rs 7.0 M per calendar year for cultivation loans by

the Peoples' Bank and Bank of Ceylon; and (vi) 80% of the amount disbursed by the Peoples' Bank and the Bank of Ceylon for loans for agricultural equipment and vehicles. Disbursement for items (iii)-(vi) would be made against statements of expenditures. Supporting documentation would not be submitted for review, but would be retained by the implementation agencies and available for inspection by IDA during the course of project supervision missions. The Government would make arrangements satisfactory to the Association for all implementing agencies claiming disbursement under statement of expenditure to maintain proper accounting records and, where necessary, to build up their institutional capacity for procurement and internal audit. The disbursement mechanism for field works and for cultivation loans is designed to provide financing for those additional activities to be undertaken above the current level of activities. The level of activities achieved in 1978 was established as the base for these calculations. All other disbursements would be made against full documentation. The Project Director would be responsible for preparing claims for disbursements from IDA. It is expected that the disbursements would be completed by June 30, 1984, about six months after the end of project implementation. Since preliminary works for establishing the project organization and for initiating project activity (e.g., construction of buildings and facilities, procurement of vehicles, establishment of nurseries, site surveys, etc.) is critical to efficient program implementation, it is proposed that expenditures after January 1, 1979 for eligible project expenditures be retroactively financed up to a total value of US\$0.5 million.

Farm Incomes and Cost Recovery

64. Analysis of the present and future farm operations for representative farms in the project area indicates that the gross values of production and the net farm incomes would increase by about 40% over the present level and 25% above the future level expected without the project. The increases are expected to be somewhat larger in the wet/semi-wet zones where present income levels are somewhat lower and the scope for rehabilitation of coconut is greater. Also, the gains in net farm incomes are expected to be somewhat lower on larger holdings, as they would require hired labor, while hired labor requirements on smaller holdings would be minimal due to underemployed family labor. The projected increases are considered adequate for active participation of the beneficiaries in project activities. Estimates of financial rates of return on some specific farm activities under the project (e.g. replanting/underplanting of coconuts, intercropping with cocoa, coffee and pepper and custom operation of farm tractors) indicate annual returns of 25-40% and hence they should all find ready acceptance by the farmers.

65. It is estimated that about 60% of the project-related increase in paddy production and 90% of the increased coconut production would be marketed. Assuming continuation of the current pricing policies, the marketed surplus would mean an annual "transfer" of about Rs 77 M (in 1978 prices) from project area farmers to the Government as well as urban consumers because of differentials in the domestic and world-market prices of paddy and coconut products. The project "recovery" would amount to about Rs 50 M per annum, net of the estimated incremental subsidy burden of Rs 23 M per annum on account of increased fertilizer use and about Rs 4 M per annum as incremental O&M expenditures. At a discount rate of 10% per annum, the present value of

the projected stream of net transfers from the project area farmers would amount to about Rs 220 M. This compares to the present value of Rs 195 M of proposed Government investments 1/ under the project. Thus, with continuation of the present development, pricing, and subsidy policies, the investment would lead to full recovery of all project costs including those for social infrastructure.

66. An analysis of project rent 2/ using farm gate prices corresponding to world-market prices indicates that the prevailing pricing and subsidy policy in Sri Lanka implies rent "recovery" rates of over 50%. In view of these, no new charges have been sought under the project and the project would operate within the current framework of Government policies applicable nationally. Assurances were obtained that the Government would recover a portion of the project costs, mutually agreed with IDA, based upon the Government's distributive objectives and farmers' incentives and abilities to pay, and that the progress of the recovery would be reviewed with IDA from time to time in order to ensure that these principles are consistently achieved (Section 3.11 of the DCA).

67. In addition to an initial contribution of about Rs 62 M (net of taxes and duties) for project financing and debt service of the proposed IDA credit, the project would directly add a net surplus of about Rs 21 M per annum (constant 1979 prices) to the Government budget. The indirect impact from additional tax revenues from increased activities in secondary and tertiary sectors would also be positive, although it has not been quantified.

Benefits and Justification

68. The proposed project would assist the Government in raising incomes, employment and living standards of some 170,000 farm families in the Kurunegala District. The project would also have a beneficial effect on the Government's balance of payments as well as its budgetary position. Even more importantly, the project would help the Government in developing a low-cost, quick-yielding, labor-intensive model of regional development for replication in other areas of the country.

69. At full development in 1991, successful project implementation would lead to incremental annual production of about 2.4 M bushels of paddy (32,000 tons of rice) and about 155 M nuts of coconut, both about 25% above the levels expected without the project. At projected world market prices, the gross value of incremental paddy and coconut production would be about US\$21 M per annum. Allowing for the added imports of fertilizers, agro-chemicals, farm equipment and fuels, the project would represent a net annual foreign exchange savings of about US\$16 M.

1/ Excluding price contingencies, agricultural credit and farmers' own contribution to coconut rehabilitation works.

2/ Project rent is the incremental net value of production adjusted for uncertainty in farm incomes and including appropriate rewards for additional farm labor input and management requirements.

70. The labor-intensive works to be constructed under the project would create employment of about 4 M man-days during project implementation. Another 2.5 M man-days of employment would be created in field works for replanting/underplanting and intercropping of coconut lands. More intensive land use and improved crop husbandry practices under the project would result in additional annual farm employment of about 5 M man-days. Increased agricultural production, through backward and forward linkages, would also create substantial new employment in activities such as marketing, processing, transportation, input supplies and consumer services. All this would help to relieve the large unemployment and underemployment situation prevailing in the project area, particularly during the slack periods of the agricultural cycle.

71. Social infrastructure financed under the project would improve transport facilities for about 20,000 families currently living in inaccessible remote areas, improve drinking water supplies to some 6,000 families in water deficit areas, supply electrical service to about 1,000 rural households, provide better health care for about 20,000 families in remote areas, improve instructional facilities at about 300 schools, and strengthen vocational education facilities in the district.

72. Over two-thirds of the project beneficiaries would be small farmers with operational holdings of 3 ac or less, with present per capita income levels considerably below the national average of about US\$200. Improved land productivity and increased on-farm and off-farm employment under the project could enable about 25% of the farm families in the district to move above the poverty level of about US\$50 per capita per annum.

73. The economic rate of return is estimated to be about 32%. Sensitivity tests indicate that the project remains viable under a variety of adverse assumptions about costs, benefits and timing of realization of benefits. With a 20% increase in investment and production costs and 20% decrease in incremental paddy and coconut production, the economic rate of return is estimated to be about 19%. If full realization of project benefits is delayed by two years, the economic rate of return is estimated to be about 28%.

Project Risks

74. The proposed project is complex and faces the difficulties associated with actions in politically sensitive and institutionally demanding areas, such as irrigation water management and rural credit discipline. An inherent risk in multi-sectoral projects such as this concerns the ability to achieve necessary coordination in implementing the various interrelated components. It is hoped that the newly established District Ministerial system, as well as the detailed preparatory work undertaken to define functions and responsibilities of the various implementing agencies, would keep such problems to a minimum. As a further safeguard, the project organization has been designed with a view to providing quick feedback and with a capability for early resolution of implementation bottlenecks, at the highest levels, if necessary.

75. On the technical side, the most serious risk concerns successful adoption of intercropping practices by coconut smallholders. The availability of field-tested technical packages for extension work is also limited at this stage. The project has been designed with these constraints in mind and the intercropping program has been kept very modest. It is hoped that this limited approach would demonstrate the prospects of successful implementation on a large scale after the project. However, even if the component were not to succeed, the project would remain viable.

76. Finally, the project faces the risk of shortage of professional and technical staff of various kinds, particularly design and construction engineers. During the past few years there has been a large scale emigration of such staff to Africa and the Middle East. The domestic requirements have, on the other hand, increased dramatically because of the Government's development and investment programs such as the accelerated Mahaweli Ganga Development Program. The Government is keenly aware of the problem and is trying to solve it through more attractive salaries and incentives as well as accelerated training programs. Because the Government has assigned high priority to the project, staff from the various implementing agencies have already been reassigned to the project area. As the project requirements for technical personnel are rather small in relation to overall domestic availability and demand, and with this interest by the Government and the other specialized technical assistance included under the project, no major problems are foreseen in meeting the project needs.

Project Replicability

77. The project would be suitable for replication in most other districts of Sri Lanka. Financially, the project represents an investment of about US\$110 per farm family spread over a five year period. Extension of the project to the estimated 2 M farm families in Sri Lanka would represent an investment of about US\$220 M (in 1979 prices) -- a substantial sum, but well within the means of Sri Lanka, particularly in view of the expressed interest of several other aid agencies to finance similar projects. Administratively, the project is designed to work through existing institutions and organizations rather than creating autonomous new boards or project authorities. Accordingly, the administrative structure could be rapidly mobilized in other districts of Sri Lanka. Finally, paddy and coconut, the focus of the proposed project, are important in practically all districts of Sri Lanka, and therefore the proposed investment package could be quickly adapted to the needs and potential of other districts. The project experience would be applicable on a countrywide basis and successful project implementation could open up the prospects of accelerated rural development on a large scale.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

78. The draft Development Credit Agreement between the Democratic Socialist Republic of Sri Lanka and the Association and the Recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement are being distributed to the Executive Directors separately.

79. Special conditions of the credit are listed in Section III of Annex III. Additional conditions of effectiveness for the IDA Credit would be the execution of satisfactory subsidiary agreements between the Democratic Socialist Republic of Sri Lanka and the Peoples' Bank and the Bank of Ceylon respectively (para 55).

80. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association.

PART V - RECOMMENDATIONS

81. I recommend that the Executive Directors approve the proposed credit.

Robert S. McNamara
President

Attachments

March 19, 1979.

TABLE 3A
SRI LANKA - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	SRI LANKA			REFERENCE GROUPS (ADJUSTED AVERAGES)		
				- MOST RECENT ESTIMATE		
	TOTAL	AGRICULTURAL		SAME GEOGRAPHIC REGION	SAME INCOME GROUP	NEXT HIGHER INCOME GROUP
	/b	1970	MOST RECENT ESTIMATE	/c	/d	/e
TOTAL	65.6					
AGRICULTURAL	24.2					
GNP PER CAPITA (US\$)	70.0	120.0	200.0	167.4	182.9	432.3
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	107.0	153.0	127.0	65.7	88.9	251.7
POPULATION AND VITAL STATISTICS						
TOTAL POPULATION, MID-YEAR (MILLIONS)	9.9	12.5	14.0	.	.	.
URBAN POPULATION (PERCENT OF TOTAL)	17.9	22.0	25.2	12.8	15.0	24.2
POPULATION DENSITY PER SQ. KM.	151.0	191.0	213.0	85.2	46.8	42.7
PER SQ. KM. AGRICULTURAL LAND	507.0	518.0	579.0	322.6	254.1	95.0
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	41.5 /f	40.0	39.0	44.0	43.6	44.9
15-64 YRS.	54.3 /f	56.0	57.0	52.9	53.3	52.8
65 YRS. AND ABOVE	4.2 /f	4.0	4.1	2.9	2.9	3.0
POPULATION GROWTH RATE (PERCENT)						
TOTAL	2.6	2.4	1.7	2.2	2.4	2.7
URBAN	4.8	4.5	3.7	4.2	4.0	8.8
CRUDE BIRTH RATE (PER THOUSAND)	37.6	33.1	27.4	45.1	44.3	42.2
CRUDE DEATH RATE (PER THOUSAND)	10.7	8.0	7.9	17.3	19.7	12.4
GROSS REPRODUCTION RATE	2.5	2.3	2.0	3.2	2.9	3.2
FAMILY PLANNING ACCEPTORS, ANNUAL (THOUSANDS)	..	55.3	113.0	.	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	8.0	9.9	13.7	14.6	14.2
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1970=100)	86.6	100.0	109.1	95.6	96.4	104.3
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)	92.0	101.0	97.0	91.1	92.3	99.5
PROTEINS (GRAMS PER DAY)	45.0	50.0	48.0	49.6	50.0	56.8
OF WHICH ANIMAL AND PULSE	15.0	16.0	15.0	12.6	13.9	17.5
CHILD (AGES 1-4) MORTALITY RATE	..	..	16.8	..	..	7.5
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	60.5	65.8	67.8	43.1	45.8	53.3
INFANT MORTALITY RATE (PER THOUSAND)	52.0	50.0	51.0	99.5	102.7	82.5
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	21.0	19.0	30.0	26.4	31.1
URBAN	..	46.0	36.0	66.3	63.5	68.5
RURAL	..	14.0	13.0	17.2	14.1	18.2
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	64.0	59.0	15.7	16.1	37.5
URBAN	..	76.0	68.0	66.9	65.9	69.5
RURAL	..	61.0	55.0	2.5	3.4	25.4
POPULATION PER PHYSICIAN	4500.0	..	4010.0	8830.8	13432.7	9559.2
POPULATION PER NURSING PERSON	4170.0	2730.0	2280.0	8479.3	6983.3	2762.5
POPULATION PER HOSPITAL BED						
TOTAL	330.0	330.0	330.0	1624.5	1157.6	786.5
URBAN	..	130.0	140.0	..	183.3	278.4
RURAL	..	570.0	600.0	..	1348.8	1358.4
ADMISSIONS PER HOSPITAL BED	..	54.0	51.3	..	19.5	19.2
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.4 /f	5.8	..	..	5.2	..
URBAN	6.3 /f	6.3	..	..	4.8	..
RURAL	5.2 /f	5.5	..	..	5.3	..
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	2.0 /f	2.5	..	..	..	..
URBAN	2.1 /f	2.7	..	..	1.8	2.3
RURAL	2.0 /f	2.5	..	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	7.5 /f	9.0	..	..	25.9	28.3
URBAN	35.9 /f	34.5	..	..	..	..
RURAL	2.3 /f	2.8	..	..	8.7	10.3

TABLE 3A
SRI LANKA - SOCIAL INDICATORS DATA SHEET

	SRI LANKA		REFERENCE GROUPS (ADJUSTED AVERAGES)				
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	- MOST RECENT ESTIMATE /a			
				SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e	
EDUCATION							
ADJUSTED ENROLLMENT RATIOS							
PRIMARY: TOTAL	95.0	99.0	77.0	59.1	62.9	75.8	
FEMALE	90.0	94.0	77.0	38.4	45.9	67.9	
SECONDARY: TOTAL	27.0	51.0	54.0	19.9	14.4	17.7	
FEMALE	16.0	51.0	55.0	9.9	8.8	12.9	
VOCATIONAL (PERCENT OF SECONDARY)	..	1.0	1.0	1.5	6.6	7.4	
PUPIL-TEACHER RATIO							
PRIMARY	31.0	..	22.0	38.2	38.5	34.3	
SECONDARY	..	..	..	23.5	19.8	23.5
ADULT LITERACY RATE (PERCENT)	61.0	77.6	78.1	35.6	36.7	63.7	
CONSUMPTION							
PASSENGER CARS PER THOUSAND POPULATION	8.0	7.0	6.7	2.2	3.1	7.2	
RADIO RECEIVERS PER THOUSAND POPULATION	36.0	..	37.0	14.9	31.1	71.1	
TV RECEIVERS PER THOUSAND POPULATION	..	..	..	..	2.8	14.1
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	36.0	49.0	..	6.4	6.0	16.3	
CINEMA ANNUAL ATTENDANCE PER CAPITA	3.0	..	3.9	..	1.4	1.6	
EMPLOYMENT							
TOTAL LABOR FORCE (THOUSANDS)	3500.0 /f	4100.0	4707.0	.	.	.	
FEMALE (PERCENT)	22.6	23.7	28.5	21.3	24.2	28.0	
AGRICULTURE (PERCENT)	56.3	52.0	55.0	62.8	60.7	54.1	
INDUSTRY (PERCENT)	13.5	14.4	..	..	..	..
PARTICIPATION RATE (PERCENT)							
TOTAL	34.3	33.5	34.6	35.8	39.8	37.8	
MALE	50.8	49.2	48.2	52.4	53.3	50.3	
FEMALE	16.2	16.5	20.3	15.6	19.6	20.9	
ECONOMIC DEPENDENCY RATIO	1.5	1.4	1.2	1.3	1.3	1.3	
INCOME DISTRIBUTION							
PERCENT OF PRIVATE INCOME RECEIVED BY							
HIGHEST 5 PERCENT OF HOUSEHOLDS	26.4	18.8	18.6	18.6	20.3	19.5	
HIGHEST 20 PERCENT OF HOUSEHOLDS	52.1	45.6	42.8	42.8	45.1	48.9	
LOWEST 20 PERCENT OF HOUSEHOLDS	4.5	7.4	7.3	7.3	5.7	5.9	
LOWEST 40 PERCENT OF HOUSEHOLDS	13.7	17.9	19.3	19.3	16.8	15.7	
POVERTY TARGET GROUPS							
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)							
URBAN	..	..	68.0	80.2	88.5	155.9
RURAL	..	..	76.0	67.2	71.9	97.9
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)							
URBAN	..	..	..	..	100.8	143.7
RURAL	..	..	59.0	39.8	42.0	87.3
ESTIMATED POPULATION BELOW POVERTY INCOME LEVEL (PERCENT)							
URBAN	..	..	26.0	50.3	46.0	22.9
RURAL	..	..	22.0	44.6	48.0	36.7

.. Not available
 . Not applicable.

NOTES

/a The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1973 and 1977.

/c South Asia; /d Low Income (\$280 or less per capita 1976); /e Lower Middle Income (\$281-550 per capita, 1976); /f 1963.

DEFINITIONS OF SOCIAL INDICATORS

NOTE: The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform. Due to lack of data, group averages for Capital Surplus Oil Exporters and indicators of access to water and excreta disposal, housing, income distribution and poverty are simple population-weighted geometric means without the exclusion of extreme values.

LAND AREA (thousand sq. km)

Total - Total surface area comprising land area and inland waters.
Agricultural - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960, 1970, and 1977 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita.

POPULATION AND VITAL STATISTICS

Total population, mid-year (millions) - As of July 1; if not available, average of two end-year estimates; 1960, 1970, and 1977 data.

Urban population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Population density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agriculture land - Computed as above for agricultural land only.

Population age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Population growth rate (percent) - total, and urban - Compound annual growth rates of total and urban mid-year populations for 1950-60, 1960-70, and 1970-75.

Crude birth rate (per thousand) - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Crude death rate (per thousand) - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Gross reproduction rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1975.

Family planning - acceptors, annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family planning - users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of food production per capita (1970=100) - Index number of per capita annual production of all food commodities.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10 percent for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for a minimum allowance of 50 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Child (ages 1-4) mortality rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group.

HEALTH

Life expectancy at birth (years) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970, and 1975.

Infant mortality rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to safe water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to excreta disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

Population per hospital bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per hospital bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes. Statistical definitions of household vary.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all, urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION**Adjusted enrollment ratios**

Primary school - total, and female - Total and female enrollment of all ages at the primary level as percentages of respectively primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema annual attendance per capita per year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

EMPLOYMENT

Total labor force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force.

Participation rate (percent) - total, male, and female - Total, male, and female labor force as percentages of their respective populations. These are ILO's adjusted participation rates reflecting sex-sex structure of the population, and long time trend.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

INCOME DISTRIBUTION

Percentage of private income (both in cash and kind) received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated absolute poverty income level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated relative poverty income level (US\$ per capita) - urban and rural - Relative poverty income level is that income level less than one-third per capita personal income of the country.

Estimated population below poverty income level (percent) - urban and rural - Percent of population (urban and rural) who are either "absolute poor" or "relative poor" whichever is greater.

SRI LANKA

ECONOMIC DEVELOPMENT DATA SHEETS

	ACTUAL				EST.	PROJECTED			
	1965	1970	1976	1977	1978	1979	1980	1985	1990
<u>NATIONAL ACCOUNTS (1)</u> (MILLIONS OF US\$ AT 1975 PRICES)									
GROSS DOMESTIC PRODUCT	1783.0	2354.0	2747.3	2811.4	2983.8	3153.6	3333.5	4407.2	
GAINS FROM TERMS OF TRADE	539.7	242.2	185.1	495.1	424.8	341.2	286.6	191.9	
GROSS DOMESTIC INCOME	2322.7	2596.2	2932.4	3306.5	3408.6	3494.8	3620.0	4599.0	
IMPORTS	1189.8	1017.3	913.5	1098.6	1363.7	1398.0	1451.6	1738.8	
EXPORTS - VOLUME	-670.2	-662.9	-660.5	-722.9	-790.1	-817.8	-858.9	-1092.2	
EXPORTS - TT. ADJUSTED	-1209.9	-905.1	-845.6	-1218.0	-1214.9	-1159.0	-1145.5	-1284.1	
RESOURCE GAP - TT. ADJUSTED	-20.1	112.1	67.9	-119.4	148.9	239.0	306.2	454.8	
TOTAL CONSUMPTION	2055.9	2239.0	2563.6	2719.1	2900.9	3011.0	3147.8	4048.0	
INVESTMENT	246.8	469.4	436.8	468.0	656.5	722.9	778.4	1005.8	
NATIONAL SAVINGS	244.3	297.9	350.7	580.8	519.7	503.5	498.7	582.3	
DOMESTIC SAVINGS	266.9	357.3	368.9	587.4	507.6	483.8	472.2	551.0	
GDP AT CURRENT US\$	1686.6	1870.6	2424.2	2821.3	2515.2	3057.1	3559.3	6284.6	
<u>SECTOR OUTPUT</u> (SHARE OF GDP AT 1975 PRICES)									
AGRICULTURE	0.444	0.422	0.376	0.387	0.387	0.382	0.377	0.354	
INDUSTRY	0.171	0.211	0.217	0.201	0.201	0.205	0.209	0.230	
SERVICES	0.385	0.367	0.407	0.412	0.412	0.413	0.414	0.417	
<u>PRICES (1975 = 100)</u>									
EXPORT PRICE INDEX	65.65	56.86	95.16	114.45	117.17	118.47	120.48	152.46	
IMPORT PRICE INDEX	36.37	41.64	74.33	67.92	76.20	83.59	90.34	129.68	
TERMS OF TRADE INDEX	180.52	136.55	128.02	168.49	153.77	141.73	133.36	117.57	
GDP DEFLATOR (US\$)	94.59	79.47	86.24	100.35	84.30	96.94	106.77	142.60	
ANNUAL AVERAGE EXCHANGE RATE	4.76	6.85	10.88	11.06					

GROWTH RATES

	GROWTH RATES		1976 SHARE OF GDP
	1965 1977	1977 1979	
<u>NATIONAL ACCOUNTS (1)</u> (MILLIONS OF US\$ AT 1975 PRICES)			
GROSS DOMESTIC PRODUCT	3.9	5.9	100.0
GAINS FROM TERMS OF TRADE			6.7
GROSS DOMESTIC INCOME	3.0	2.8	106.7
IMPORTS	-0.7	12.8	33.3
EXPORTS - VOLUME	0.6	6.4	24.0
EXPORTS - TT. ADJUSTED	0.1	-2.5	30.8
RESOURCE GAP - TT. ADJUSTED			2.5
TOTAL CONSUMPTION	2.4	5.2	93.3
INVESTMENT	5.5	24.3	15.9
NATIONAL SAVINGS	7.5	-6.9	12.8
DOMESTIC SAVINGS	6.8	-9.2	13.4
GDP AT CURRENT US\$	4.4	4.1	
<u>PRICES (1975 = 100)</u>			
EXPORT PRICE INDEX	4.7	1.7	
IMPORT PRICE INDEX	5.3	10.9	
TERMS OF TRADE INDEX	-0.6	-8.3	
GDP DEFLATOR (US\$)	0.5	-1.7	

SELECTED INDICATORS

ICOR	4.37	3.29
IMPORT ELASTICITY	-0.18	2.09
AVERAGE NATIONAL SAVINGS RATE	0.11	0.18
MARGINAL NATIONAL SAVINGS RATE	0.33	-0.21
IMPORTS/GDP	0.45	0.43
INVESTMENT/GDP	0.16	0.21
RESOURCE GAP/GDP	0.04	0.03

(1) COMPONENTS MAY NOT ADD UP BECAUSE OF ROUNDING

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

	1973	1974	1975	1976	1977	1978	1979
	ACTUAL					EST.	PROJECTED
SUMMARY OF BALANCE OF PAYMENTS							
1. EXPORTS (INCLUDING NFS)	424.3	570.4	628.2	628.5	827.3	925.7	968.8
2. IMPORTS (INCLUDING NFS)	448.3	731.7	798.8	679.0	746.2	1039.2	1168.7
3. RESOURCE BALANCE	-21.0	-161.3	-170.6	-50.5	81.1	-113.4	-199.8
4. NET FACTOR SERVICE INCOME	-17.3	-16.6	-18.4	-20.1	-15.0	-4.1	.2
.1 NET INTEREST PAYMENTS	-14.7	-14.7	-15.9	-18.6	-14.0	-3.1	1.2
OF WHICH ON PUB M< LOANS	-15.5	-16.5	-20.6	-23.1	-22.1	-22.8	-26.7
.2 DIRECT INVESTMENT INCOME	-2.7	-2.0	-2.4	-1.5	-1.1	-1.0	-1.0
.3 WORKERS REMITTANCES (NET)	.0	.0	.0	.0	.0	.0	.0
5. CURRENT TRANSFERS (NET)	.2	-.2	2.8	6.6	10.5	12.9	15.1
6. BALANCE ON CURRENT ACCOUNT	-38.1	-178.1	-186.2	-64.0	76.6	-104.6	-184.6
7. PRIVATE DIRECT INVESTMENT	.5	1.3	-.2	.0	-.3	.0	12.5
8. GRANTS & GRANT-LIKE FLOWS	13.0	42.0	77.0	58.0	60.8	53.0	80.1
PUBLIC M&LT LOANS							
9. DISBURSEMENTS	83.8	146.3	157.4	210.4	150.1	262.7	291.8
10. AMORTIZATION	-39.1	-52.4	-117.7	-103.8	-101.9	-72.1	-64.1
11. NET DISBURSEMENTS	44.7	93.8	39.7	106.7	48.2	190.6	227.8
OTHER M&LT LOANS							
12. DISBURSEMENTS	.0	.0	.0	.0	.0	.0	.0
13. AMORTIZATION	.0	.0	.0	.0	.0	.0	.0
14. NET DISBURSEMENTS	.0	.0	.0	.0	.0	.0	.0
15. USE OF IMF RESOURCES	-1.4	33.3	27.9	11.1	46.9	.0	.0
16. SHORT-TERM CAPITAL TRANSACTIONS	-9.8	13.2	-2.8	-22.6	6.5	-40.7	-4.5
17. CAPITAL TRANSACTIONS NET	28.2	62.3	-12.0	-31.8	-56.9	.0	15.0
18. CHANGE IN RESERVES (- = INCREASE)	-37.1	58.8	56.6	-57.4	-183.0	-98.2	-146.2
19. NET FOREIGN EXCHANGE (1) RESERVES (END OF PERIOD)	-11.0	-67.8	-124.4	-87.0	116.0	214.2	360.5
GRANT AND LOANS COMMITMENTS							
1. OFFICIAL GRANTS	21.1	37.0	76.0	53.1	104.3	103.9	300.0
2. TOTAL PUBLIC M< LOANS	92.1	233.1	285.8	221.8	167.6	355.5	439.0
.1 IBRD	.0	.0	.0	.0	.0	.0	.0
.2 IDA	6.0	24.0	29.5	.0	41.2	25.5	70.0
.3 OTHER MULTILATERAL	2.8	2.5	30.0	8.1	49.7	117.0	88.0
.4 GOVERNMENTS	58.4	72.9	196.6	140.9	69.7	189.6	259.1
.5 OF WHICH CENTRALLY PLANNED ECONOMIES (2)	2.6	21.4	56.1	4.2	1.7	10.0	5.0
.6 SUPPLIERS	25.0	133.6	29.7	72.7	7.0	23.4	21.9
.7 FINANCIAL INSTITUTIONS	.0	.0	.0	.0	.0	.0	.0
.8 BONDS	.0	.0	.0	.0	.0	.0	.0
.9 PUBLIC LOANS NET	.0	.0	.0	.0	.0	.0	.0
3. OTHER M< LOANS (WHERE AVAILABLE)	.0	.0	.0	.0	.0	.0	.0
MEMORANDUM ITEMS							
1. GRANT ELEMENT OF TOTAL COMMITMENTS	45.000	27.100	55.700	39.800	64.400	63.293	65.385
2. AVERAGE INTEREST RATE	.037	.051	.029	.040	.021	.023	.023
3. AVERAGE MATURITY (YEARS)	23.700	13.600	28.800	20.500	35.400	30.549	33.482

1/ NET FOREIGN ASSETS: US\$ EQUIVALENT OF LINE 31, IFS.

2/ INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

DATE OF LATEST UPDATE 02/16/79

SRI LANKA

D E B T A N D C R E D I T W O R T H I N E S S						
	1973	1974	1975	1976	1977	1978
	A C T U A L					E S T.
<u>MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)</u>						
TOTAL DEBT OUTSTANDING (DOD END OF PERIOD)	484.8	587.3	598.0	702.3	787.0	976.5
INCLUDING UNDISBURSED	680.1	875.7	997.0	1103.8	1217.9	1458.7
PUBLIC DEBT SERVICE	-54.6	-68.9	-138.4	-126.8	-124.0	-94.9
INTEREST	-15.5	-16.5	-20.6	-23.1	-22.1	-22.8
OTHER M< DEBT SERVICE	.0	.0	.0	.0	.0	.0
TOTAL DEBT SERVICE	-54.6	-68.9	-138.4	-126.8	-124.0	-94.9
<u>DEBT BURDEN</u>						
DEBT SERVICE RATIO	12.9	12.1	22.0	20.2	15.0	10.3
DEBT SERVICE RATIO (1)	13.5	12.4	22.4	20.4	15.1	10.4
DEBT SERVICE/GDP	2.7	2.7	5.2	5.2	4.4	3.8
PUB. DEBT SERVICE/GOV. REVENUE	15.7	10.0	19.0	20.0	23.5	14.7
<u>TERMS</u>						
INT. ON TOTAL DOD/TOTAL DOD	3.2	2.8	3.4	3.3	2.8	2.3
TOTAL DEBT SERVICE/TOTAL DOD	11.3	11.7	23.1	18.1	15.8	9.7
<u>DEPENDENCY RATIOS FOR M&LT DEBT</u>						
GROSS DISB./IMPORTS (INCL.NFS)	18.8	20.0	19.7	31.0	20.1	25.3
NET TRANSFER/IMPORTS(INCL.NFS)	6.6	10.6	2.4	12.3	3.5	16.1
NET TRANSFER/GROSS DISB.	34.9	52.9	12.1	39.7	17.4	63.9
<u>EXPOSURE</u>						
IBRD DISB./GROSS TOTAL DISB.	6.5	3.4	3.6	1.6	1.3	.6
BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS	12.4	10.9	12.2	4.0	8.7	5.6
IBRD DOD/TOTAL DOD	6.6	5.8	6.1	5.1	4.4	3.3
BANK GROUP DOD/TOTAL DOD	9.5	10.0	12.5	11.3	11.3	10.3
IBRD DEBT SERVICE/TOTAL DEBT SERVICE	8.0	7.4	4.0	4.7	4.9	6.1
BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE	8.1	7.5	4.2	5.0	5.2	6.5

OUTSTANDING DEC. 31, 1977

<u>EXTERNAL DEBT (DISBURSED ONLY)</u>	<u>AMOUNT</u>	<u>PERCENT</u>
IBRD	34.3	4.4
BANK GROUP	89.0	11.3
OTHER MULTILATERAL	43.8	5.6
GOVERNMENTS	574.9	73.0
OF WHICH CENTRALLY PLANNED ECONOMIES (2)	52.8	6.7
SUPPLIERS	79.2	10.1
FINANCIAL INSTITUTIONS	.1	.0
BONDS	.0	.0
PUBLIC DEBT NET	.0	.0
TOTAL PUBLIC M< DEBT	787.0	100.0
OTHER PUBLIC M< DEBT	.0	.0
OTHER M< DEBT	.0	.0
TOTAL PUBLIC DEBT (INCLUDING UNDISBURSED)	1217.9	154.8
TOTAL M & LT DEBT (INCLUDING UNDISBURSED)	1217.9	154.8
<u>DEBT PROFILE</u>		
TOTAL DEBT SERVICE 1978-82/TOTAL DOD END OF 1977	63.2	

1/INCLUDING NET DIRECT INVESTMENT INCOME
2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA,
NORTH KOREA, NORTH VIETNAM.

THE STATUS OF BANK GROUP OPERATIONS IN SRI LANKAA. STATEMENT OF BANK LOANS AND IDA CREDITS (as of January 31, 1979)

Loan or Credit No.	Year	Borrower	Purpose	US\$ Million Amount (net of cancellations)		
				Bank	IDA	Undisbursed
Six loans and five credits fully disbursed				42.4	36.0	
636	1969	Ceylon Electricity Board	Power	16.5		0.3
653	1970	Sri Lanka	Mahaweli Ganga Development I	14.5		2.8
372	1973	Sri Lanka	Power Transmission		6.0	0.2
504	1974	Sri Lanka	Dairy Development		9.0	7.6
566	1975	Sri Lanka	DFC - Industrial III		4.5	0.9
595	1975	Sri Lanka	Agricultural Devel- opment		25.0	7.1
666	1976	Sri Lanka	Tank Irrigation		5.0	4.0
701	1977	Sri Lanka	Mahaweli Ganga Development II		19.0	19.0
709	1977	Sri Lanka	Water Supply		9.2	9.1
742	1977	Sri Lanka	DFC - Industrial IV		8.0	6.6
818	1978	Sri Lanka	Tree Crop Reha- bilitation (Tea)		21.0	21.0
819	1978	Sri Lanka	Tree Crop Diver- sification (Tea)		4.5	4.5
Total,				73.4	147.2	83.8
of which has been repaid				37.4	-	
Total now outstanding				36.0	147.2	
Amount sold,						3.6
of which has been repaid						3.6
Total now held by Bank and IDA /a				36.0	147.2	
Total undisbursed				3.1	80.7	83.8

/a Prior to exchange adjustments.

B. STATEMENT OF IFC INVESTMENT (as of January 31, 1979)

Year	Obligor	Type of Business	Amount of US\$ Million		
			Loan	Equity	Total
1977	The Development Finance Corporation of Ceylon	Development Banking	-	0.1	0.1
1978	Bank of Ceylon	Development Banking	2.0	-	2.0
Total Commitment now held by IFC			2.0	0.1	2.1

C. PROJECTS IN EXECUTION 1/

Ln. No. 636 - Maskeliya Oya Power Project; US\$16.5 million of July 28, 1969; Effective Date: January 19, 1970; Original Closing Date: September 30, 1973; Revised Closing Date: December 31, 1978

The New Laksapana Hydro station is complete. The first 50 MW unit was commissioned in February 1974 and the second 50 MW unit in July 1974. The erection of the Polypitiya switching station is complete. The cost savings of US\$1.7 million on the project are being used to finance an equal cost overrun on Credit 372-CE. Final disbursements are in the process of being completed.

Ln. No. 653 - Mahaweli Ganga Development (Irrigation/Power) Project; US\$14.5 million of January 30, 1970; Effective Date: April 30, 1971; Original Closing Date: June 30, 1976; Revised Closing Date: July 31, 1979

The project, now complete, is about two years behind appraisal target. Delays were due mainly to foundation problems at Polgolla power house and a slow start at Bowatenna diversion dam. After overcoming these problems, the construction progressed satisfactorily. Good progress has been recorded to date on agricultural extension and research in the project area. The Credit (174-CE) associated with this project has been fully disbursed. However, an unallocated amount of US\$2.0 million remains in the loan which the Government wants to utilize for the procurement of badly needed vehicles and equipment for the operation and maintenance of project works and for other urgent works associated with the further implementation of the Mahaweli Ganga Development Program. This procurement is underway. The closing date of the loan has accordingly been extended to July 31, 1979.

Cr. No. 372-CE - Power Transmission and Distribution Project; US\$6.0 million of April 18, 1973; Effective Date: July 5, 1973; Original Closing Date: December 31, 1976; Revised Closing Date: December 31, 1978

The major part of the physical construction is complete. Completion of the project will be during 1979 although disbursement from Credit 372-CE and the cost overrun of US\$1.7 million being financed from Loan 636-CE were substantially completed by December 31, 1978. A major tariff increase of about 100% was introduced from December 1, 1978 which will enable the CEB to meet a 9% rate of return on revalued net fixed assets in 1979 and 1980.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution and, in particular, to report any problems which are being encountered and the action being taken to remedy them. They should be read in this sense and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Cr. No. 504 - Dairy Development Project; US\$9.0 million of August 9, 1974;
Effective Date: February 10, 1975; Closing Date:
December 31, 1980

The original project, as appraised in 1973, was designed to increase milk production on about 2,400 dairy farms covering 42,000 acres in the Coconut Triangle and Mid Country of Sri Lanka by providing credit, technical assistance and a strengthened milk collection, transport and marketing system. Complementary objectives were to establish pilot units for commercial calf rearing and pasture management systems; and provide processing equipment to the National Milk Board. However, progress was severely constrained by the poor supply of cattle available for onlending to project borrowers. The poor supply of cattle was due to import problems and an over-estimation of the national herd at appraisal stemming from unreliable Government statistics. Moreover, unrestricted slaughter of cattle was stimulated by a rapid increase in concentrate feed prices which made milk production unattractive plus the relatively high consumer price of fish and poultry meat. It, therefore, became necessary to reformulate the project. The revised project, still under discussion with the Government, would focus on what was a small component of the original project--support to dairy cooperatives. Under this component, dairy farmers would be organized in a manner similar to the successful Anand pattern of Dairy Cooperatives in India. The Government has requested the National Dairy Development Board (India) to help evaluate the potential of such an approach and the Chairman of NDDB visited Sri Lanka in December 1978 to evaluate Sri Lanka's technical assistance needs for the proposed approach. Consequently, the supply of inputs and services would become key activities of the revised project, which would include provision of technical assistance and credit to farmers and support for milk collection, transport and marketing. Preliminary proposals have already been received and accepted by IDA to expand the successful ongoing calf/heifer rearing and pilot pasture programs. The number of beneficiary farm families would be substantially increased (current estimate approximately 10,000 vs. 2,400 in the original project) and the project would contribute to a considerable increase in income of existing landless and small farmer dairy producers. Government's strong commitment to the proposed revised project approach is evidenced by the recent Cabinet approval to provide adequate incentives to dairy production in Sri Lanka.

Cr. No. 566 - Third Development Finance Corporation of Ceylon Project;
US\$4.5 million of June 27, 1975; Effective Date:
August 22, 1975; Closing Date: September 30, 1979

The credit was designed to meet the estimated foreign exchange requirements of the Development Finance Corporation of Ceylon (DFCC) for lending mainly to export industries and tourism. The credit has been fully committed and is likely to be fully disbursed by the closing date.

Cr. No. 595 - Agricultural Development Project; US\$25.0 million of
December 24, 1975; Effective Date: March 1, 1976;
Original Closing Date: June 30, 1978; Revised Closing Date:
June 30, 1979

The original closing date of June 30, 1978 has been extended to June 30, 1979 to allow full utilization of credit funds. Disbursements continue to be slow and only if the Project Coordinating Committee and the participating agencies take quick actions as agreed with IDA will it be possible to commit the remaining US\$4.9 M out of a total of US\$7.1 M undisbursed before the new closing date. Funds still available are for import of spare parts for machinery rehabilitation programs of the Department of Agriculture and the Department of Machinery and Equipment, and the importation of about 300 tractors for farmers and 75 4-wheel drive vehicles for the two estate corporations' field supervisory work.

Cr. No. 666 - Tank Irrigation Modernization Project; US\$5.0 million of
January 12, 1977; Effective Date: April 12, 1977;
Closing Date: June 30, 1981

Implementation of the first two tanks is now about one year behind schedule but construction equipment has arrived and construction progress has begun to pick up significantly. Unfortunately, quality control has been neglected (either through lack of training and experience or through negligence) and some of the completed works are poorly constructed. Some of these works will have to be reconstructed or water losses and O&M costs will be unacceptably high. The Government has agreed to take action to improve quality control and closely monitor future work and will reconstruct those facilities which do not function properly after operation commences. In this regard, a quality control training program was provided by the U.S. Bureau of Reclamation in the USA for three Irrigation Department engineers during November-December 1978 and it is hoped that construction quality will improve to the levels required. A well-qualified Water Management Specialist has arrived (part-time) to set up a water management training program for Irrigation Department staff and farmers and much improvement is expected in this area. A full-time resident Project Manager has been appointed and coordination and construction progress are expected to improve. Project completion is expected to be delayed about one year.

Cr. No. 701 - Mahaweli Ganga Development II Project; US\$19.0 million of
April 21, 1977; Effective Date (planned): September 30, 1977;
Closing Date: June 30, 1983

The Government has undertaken development of the project on an accelerated basis and had planned to complete the project within one year. This proved to be an overly optimistic target and the Government now is striving to complete the project by end 1979. Unfortunately, in its haste to meet set target dates, Mahaweli Development Board (MDB) initiated work in all areas of the project on an ad hoc basis, by-passed certain work required in

preparing lands for settlement, sacrificed construction quality standards and practices requisite to works of good quality, changed portions of the main canal alignment where difficulties were encountered and embarked upon settlement actions without ensuring that necessary support programs and infrastructure development would be in place when settlement of the lands was done. The Government has agreed to take action to improve quality control and closely monitor all work in the future. In this regard, a quality control training course was provided by the US Bureau of Reclamation in the USA for four MDB engineers during November/December 1978 and it is hoped that construction quality will improve to the levels required. A Resident Project Manager has recently been appointed, filling a vacancy that has existed for more than a year, and project implementation and coordination activities are expected to improve considerably. Project completion may be advanced by about 1-1/2 years earlier than estimated at appraisal.

Cr. No. 709 - Water Supply Project; US\$9.2 million of May 10, 1977; Effective Date: February 9, 1978; Closing Date: March 31, 1982

Good progress has been made in implementing institutional changes, introducing a new bulk water tariff, establish new accounting procedures both in the National Water Supply and Drainage Board and in local authorities. Although almost all of the procurement documents have been completed, only one contract for the purchase of equipment for the project has been awarded. Several bids for civil works and equipment have been received but progress has been slow in bid analysis and contract award. Draft contracts for a tariff study in the project area and for engineering services have been finalized.

Cr. No. 742 - Fourth Development Finance Corporation of Ceylon Project; US\$8.0 million of September 30, 1977; Effective Date: December 16, 1977; Closing Date: December 31, 1981

This credit will meet a substantial portion of DFCC's estimated foreign exchange requirements over a two-year period for lending to private sector industrial projects and tourism. Subprojects for US\$4.1 million have been authorized. DFCC remains a competent institution, with a rapidly increasing level of activity, which could increase further provided that DFCC's staffing problems are overcome as well as the constraint caused by the low equity base.

Cr. No. 818 - Tree Crop Rehabilitation (Tea) Project; US\$21.0 million of July 12, 1978; Effective Date: December 28, 1978; Closing Date: December 31, 1984

The implementation schedule calls for the following preparatory actions to be taken during this year:

- (a) a factory and field rationalization study followed by preparation of tender documents for factory equipment;
- (b) preparation of standard estate labor housing plans followed by tender documents for construction; and
- (c) preparation of tender documents for vehicles/tractors.

Progress has generally been satisfactory although the factory rationalization study and preparation of standard housing plans will be completed about 3 months behind schedule.

Cr. No. 819 - Tree Crop Diversification (Tea) Project; US\$4.5 million of July 12, 1978; Effective Date: December 15, 1978; Closing Date: June 30, 1983.

Project progress is encouraging and gathering momentum not least because of national political support for the project. Staff recruitment of the National Agricultural Diversification and Settlement Authority (NADSA) is nearly complete. The officers have been posted in the field and field activities such as development of nurseries for planting materials, identification of housing clusters, soil conservation works, and some planting of shade trees and pepper vines under existing shade trees have already started. Lack of soil conservation officers and delay in procurement process is affecting the pace of project implementation. Credit effectiveness date had to be extended twice since the Attorney General had not received full documentary evidence of land transfer to NADSA, but has now been declared effective (December 15, 1978).

SRI LANKA

KURUNEGALA RURAL DEVELOPMENT PROJECT

Supplementary Project Data Sheet

Section I: Timetable of Key Events

- (a) Time taken by the Country to prepare the project
15 months
- (b) The agency which has prepared the project
Different agencies of the GOSL coordinated by the Ministry of Plan Implementation with the assistance of UNDP, CIDA and IDA missions.
- (c) Date of first presentation to the Bank and date of the first mission to consider the project
October 1976 - November 1976
- (d) Date of departure of appraisal mission
March 1978
August 1978 (Follow-up appraisal mission)
- (e) Date of completion of negotiations
February 23, 1979
- (f) Planned date of effectiveness
June 29, 1979

Section II: Special IDA Implementation Actions

None

Section III: Special Conditions

During negotiations assurances were obtained that:

- (a) the Project Coordination Committee and the Project Steering Committee would be established with composition and terms of reference satisfactory to IDA (paras 50 and 51); a Project Director would be appointed with experience, qualifications and responsibilities satisfactory to IDA (para 51);
- (b) the organizational structure, arrangements, and work program for agricultural extension in the Project area would be established and maintained under terms satisfactory to the Association (para 52);
- (c) selection of village irrigation schemes for rehabilitation under the project would be in accordance with criteria agreed upon by IDA (para 52);
- (d) the detailed work program under the project for the following calendar year would be submitted to IDA, not later than October 31 of each preceding year for comments (para 53); and
- (e) the Government would enter into subsidiary agreements, satisfactory to the Association, with the Peoples' Bank and the Bank of Ceylon for the provision of agricultural credit under the proposed project (condition of effectiveness, para 55).

79°45'

SRI LANKA

80°00'

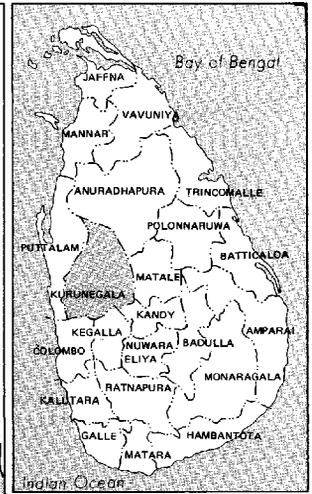
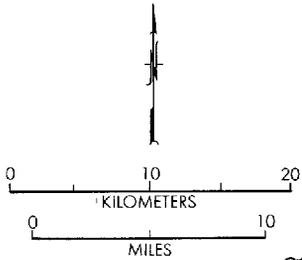
80°15'

KURUNEGALA RURAL DEVELOPMENT PROJECT

PHYSICAL FEATURES AND PRINCIPAL LAND USE

-  Rubber
-  Forest Reserves
-  Coconuts
-  Paddy Land
-  Chena and other usage
-  Agro-Climatic Regions

8°00'



ANURADHAPURA

MATALE

PUTTALAM

KANDY

COLOMBO

KEGALLA

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7°45'

7°45'

7°30'

7°30'

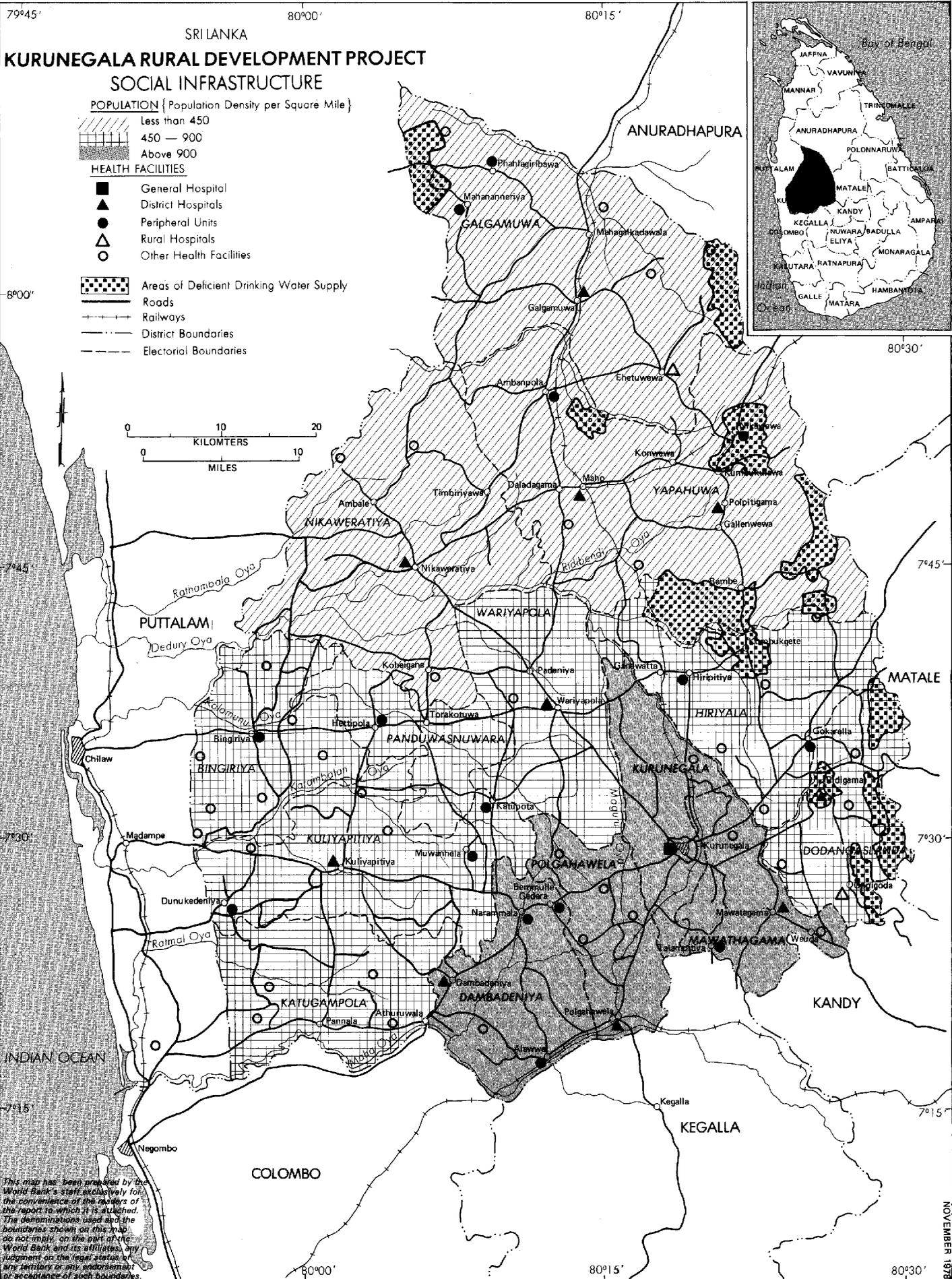
7°15'

7°15'

80°00'

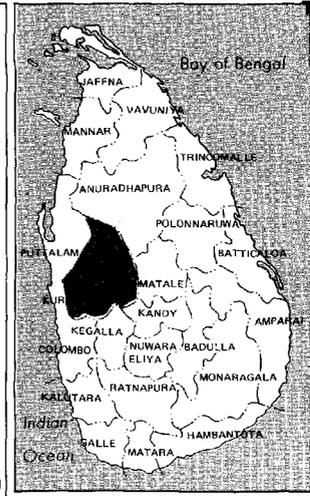
80°15'

80°30'



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KURUNEGALA RURAL DEVELOPMENT PROJECT TRANSPORT NETWORK

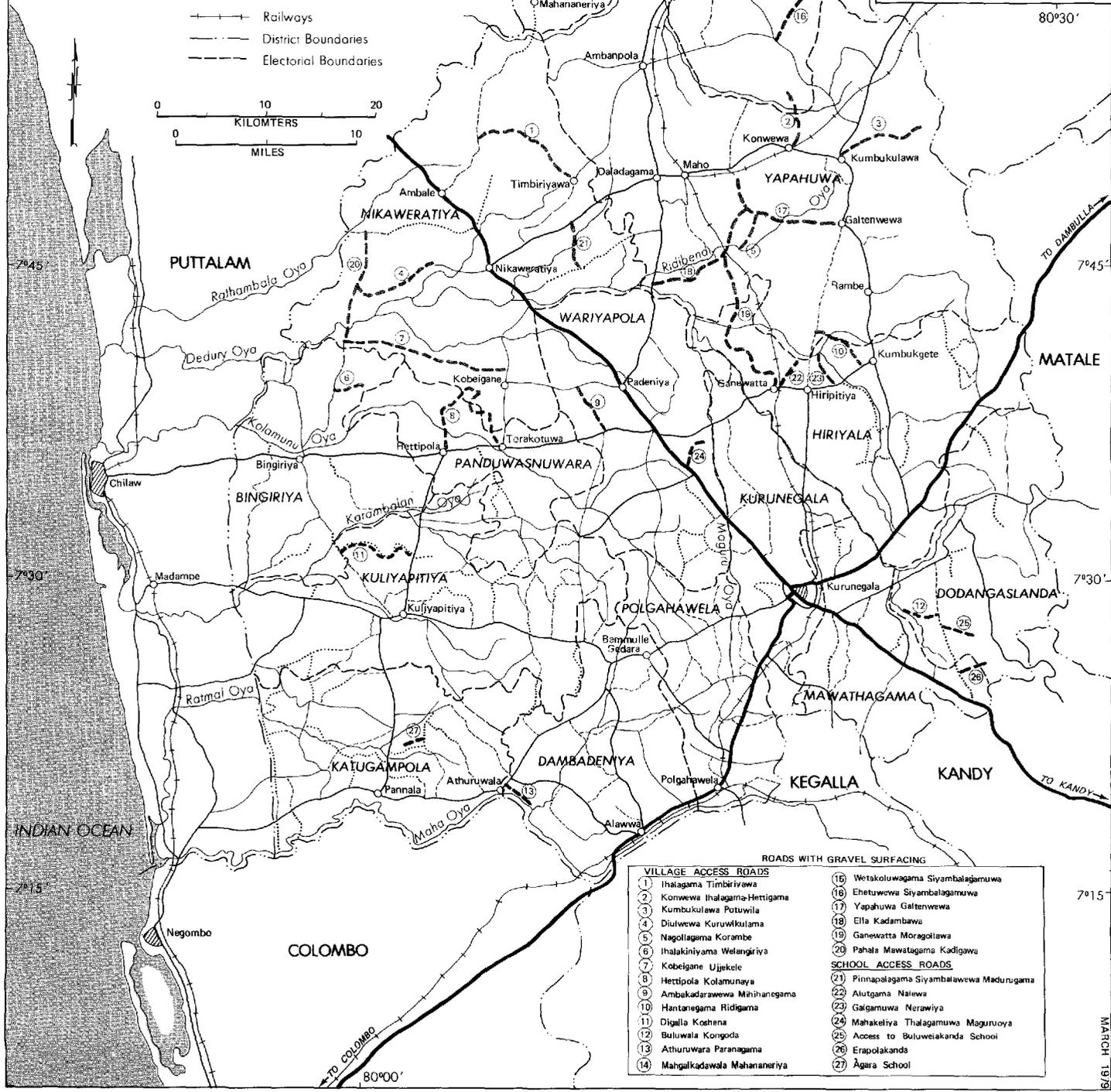
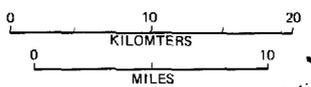


PROPOSED PROJECT ROADS

--- Gravel Surfaced Roads

EXISTING ROADS

- Class A
- Class B
- Class C Metal and Tarred
- Class C Gravel
- - - Class D Metal and Tarred
- Class D Gravel
- +—+—+ Railways
- - - District Boundaries
- - - Electoral Boundaries



ROADS WITH GRAVEL SURFACING	
1	15
2	16
3	17
4	18
5	19
6	20
7	21
8	22
9	23
10	24
11	25
12	26
13	27
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	26
	27

VILLAGE ACCESS ROADS	
1	15
2	16
3	17
4	18
5	19
6	20
7	21
8	22
9	23
10	24
11	25
12	26
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	23
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	26
	27

SCHOOL ACCESS ROADS	
21	22
23	24
25	26
27	
	21
	22
	23
	24
	25
	26
	27