

UNCLASSIFIED

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PD-AAU-324

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROJECT PAPER
Amendment 1

SRI LANKA: Mahaweli Basin Development
Phase I (383-0056)

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
1

DOCUMENT CODE
3

COUNTRY/ENTITY: SRI LANKA

3. PROJECT NUMBER: 383-0056

4. BUREAU/OFFICE: ASIA/NEAREAST 04

5. PROJECT TITLE (maximum 40 characters): Mahaweli Basin Development Phase I

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 09 30 88

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
 A. Initial FY 81 0 B. Quarter 2 C. Final FY 81 0

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>80</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1250		1250	9300	700	10000
(Grant)	()	()	()	()	()	()
(Loan)	(1250)	()	(1250)	(9300)	(700)	(10000)
Other U.S.						
1.						
2.						
Host Country	1600	190	1790	1600	4155	5755
Other Donor(s)						
TOTALS	3850	190	3040	10900	4855	15755

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	B-140		064		10000				10000
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

010 020 030 040 110

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code: RR BL BS ENV EOTY

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The purpose of the MBD I project is a) to put in place an appropriately designed and well constructed irrigation network serving 37,400 hectares of irrigated farmland in Mahaweli System B and b) to mitigate negative environmental effects of the Accelerated Mahaweli Program.

14. SCHEDULED EVALUATIONS

Interim MM YY 06 83 Final MM YY 08 88

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify) 935 per waivers

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

A supplemental objective to support the initial start-up of the Mahaweli Authority of Sri Lanka's new Employment, Investment and Enterprise Development (EIED) program is added using \$1.8 million of funds already obligated for the project but not needed accomplish the original objectives. No additional funds are to be obligated for the project.

17. APPROVED BY

Signature: Robert C. Phares

Title: _____ Date Signed MM DD YY _____

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY _____

PROJECT AUTHORIZATION AMENDMENT

SRI LANKA

Mahaweli Basin Development Phase I
AID Project No. 383-0056
AID Loan No. 383-T-024

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, the Mahaweli Basin Development Phase I Project for Sri Lanka was authorized on April 4, 1980.

That Project authorization is hereby amended as follows:

- (a) The description of the Project is amended to include support for investment and enterprise development activities in the Mahaweli areas through assistance to the Mahaweli Authority of Sri Lanka's new Office of Employment, Investment and Enterprise Development.
2. The authorization cited above remains in force except as hereby amended.

Robert C. Chase
Robert C. Chase
Director
USAID/Sri Lanka

10/8/86
Date

Clearances:

aws
DZvinakis:PDSP
RMcLaughlin:PRM
JPinney:MWRD
RAlbores:CONT
GNelson:DD

Date

10/2/86
10/2/86
10/2/86
10/2/86

Initials

AW
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AID:RLA:LChiles:rr:09/16/86

MAHAWELI BASIN DEVELOPMENT PHASE I - AMENDMENT

Project Number (383-0056)

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2-

LIST OF ACRONYMS

ADB	Asian Development Bank
ADL	Arthur D. Little (U.S. consulting firm)
AGPLAN	Agricultural Planning & Analysis Project
AID	Agency for International Development
AIM	Asian Institute of Management
AMP	Accelerated Mahaweli Project
A-V	Audio Visual
BERGER/IECO	Consortium of Louis Berger & International, Engineering Co.
CDSS	Country Development Strategy Statement
CP	Conditions Precedent (to loan disbursement)
DARP	Diversified Agriculture Research Project
EDB	Export Development Board
EIED	Employment, Investment & Enterprise Developm
FIAC	Foreign Investment Advisory Committee
GCEC	Greater Colombo Economic Commission
GSL	Government of Sri Lanka
IDB	Industrial Development Board
IESC	International Executive Service Corps
IPZ	Investment Promotion Zones
IQC	Indefinite Quantity Contract
ISM	Irrigation Systems Management
MASL	Mahaweli Authority of Sri Lanka
MBD I	Mahaweli Basin Development (Phase I)
MEA	Mahaweli Economic Agency
MFP	Ministry of Finance & Planning
NLT	not later than
PACD	Project Activity Completion Date
PCV	Peace Corp Volunteer
PDS	Project Development & Support (AID funding category)
PDSP	Office of Project Development & Special Programs (USAID)
P/M	Person/Month
PMU	Project Monitoring Unite
PSC	Personal Services Contract
PVO	Private Voluntary Organization
REDS	Rural Enterprise Development Sector
RS	Sri Lankan Rupees
SLBDC	Sri Lanka Business Development Centre
TA	Technical Assistance
USAID	U.S. Aid Mission (to Sri Lanka)
USDA	U.S. Department of Agriculture

1.0 SUMMARY AND RECOMMENDATIONS

The Mahaweli Basin Development Phase I Project (MBD I), as amended herein, remains financially, economically, technically, administratively, socially and environmentally feasible. The objectives of the original project are expanded to include for supplemental the initial development of the new Employment, Investment and Enterprise Development program, EIED, under the Mahaweli Authority of Sri Lanka) is to be added using funds already obligated for the project but not needed to accomplish the original objectives.

The proposed activity will necessitate a 21-month Project Assistance Completion Date (PACD) extension of the project beyond the current PACD of December 31, 1986. The PACD extension is solely for EIED activity and will not cover the original activities under the Mahaweli Basin Development Phase I project.

It is recommended that:

- a) \$1.8 million of the existing \$10 million loan be reallocated to the activities described herein; and
- b) the PACD be extended until September 30, 1988.

2.0 PROJECT RATIONALE AND DESCRIPTION:

2.1 Background: The Accelerated Mahaweli Program

The MASL is charged by the GSL with the design and implementation of the massive Accelerated Mahaweli Program (AMP). The AMP was begun in 1978 and will soon complete its eighth year. Total investment in headworks and downstream work under the AMP is thus far estimated at about \$2 billion. Major donor support for headworks construction (dams and installation of hydro electric power generation units) has been provided by Sweden (Kotmale), the United Kingdom (Victoria), West Germany (Randenigala and Rantembe), and Canada (Maduru Oya). USAID has provided \$175 million for downstream development through four projects: (1) \$10 million for the Mahaweli Basin Development Phase I Project; (2) \$110 million for the Mahaweli Basin Development Phase II Project (383-0073); (3) \$50 million for the Mahaweli Sector Support Project (383-0078); and (4) \$5 million for the Mahaweli Environment Project (383-0075). The first two projects are focused mainly on the Left Bank of System B of the AMP under the Maduru Oya dam, while the Sector Support Project was used for downstream infrastructure in AMP Systems B, C, G and H. The Environment Project provides assistance in the creation and upgrading of four national parks and the conservation of upland watershed areas.

Already three of the five major headworks (Kotmale, Victoria, and Maduru Oya) have been completed. Randenigala is scheduled for completion in 1986. Downstream development activity, which is USAID's principal concern, has been divided by MASL into three major phases. The first phase is the task of physical development including irrigation facilities, (main, branch, and distributary canals, field channels and drainage systems), land clearing, and the provision of related infrastructure to support agricultural production and settlements (access roads, schools, etc.). This work has been closely integrated with the second phase, namely the task of social development, defined as the settlement of families in the hamlets and townships built

in the newly opened areas. Work in the first two phases has been concentrated on Mahaweli Systems B (Left Bank), C, G and H, where there is a total land area of approximately 180,000 hectares and a projected population of approximately 91,000 farm and non-farm settler families. The total land area is given below in Table 1. The projected farm and non-farm population in the systems are given in Table 2.

Thus far there has been no physical development and no settlement activity in the new lands coming under Mahaweli Systems A, D, B (Right Bank), and Zone 4B of the Left Bank in System B. These additional lands include approximately 138,700 hectares (63,000 above command and 75,500 below) covering the full remainder of potential lands within the AMP to be served by irrigation water from the Mahaweli and Madura Oua rivers.

Additionally, MASL has authority over the Uda Walawe irrigation system in the far south of Sri Lanka which covers approximately 45,000 hectares with a projected population of 27,000 families. The Uda Walawe system's physical infrastructure was developed with support from the Asian Development Bank and colonized with settlers in 1963. Because the Uda Walawe system is included in the MASL/EIED Action Program, hectareage and population figures for Uda Walawe have been added to Tables 1 and 2. Figures in Table 1 for System B Left Bank do not include Left Bank Zone 4B. Population figures in Table 2 assume five persons per family.

Table 1

Estimated Land Areas by System (Hectares)

	Left Bank*					
	System	System	System	System	Uda	Total
	<u>B</u>	<u>C</u>	<u>G</u>	<u>H</u>	<u>Walawe</u>	<u>-----</u>
Below Command	33,745	32,725	5,924	25,925	21,750	120,069
Above Command	35,630	20,080	2,151	20,089	23,008	100,958
Total Land Area	69,375	52,805	8,075	46,014	44,758	221,027

Source: MASL. * Excludes Zone 4B of Left Bank

Table 2

Projected Population by System (Families) when Fully Settled*

	Left Bank System <u>B</u>	System <u>C</u>	System <u>G</u>	System <u>H</u>	Uda Walawe	Total <u> </u>
Farm	22,977	27,034	2,900	23,200	22,800	98,911
Non- Farm	4,595	5,407	580	4,650	4,560	19,792
Total	27,572	32,441	3,480	27,850	27,360	118,703

Source: MASL. * MASL projects non-farm families at about 20% of farm families. However, USAID believes the non-farm figures will be closer to 50-100% based on second and third generation settlers plus new settlers from the outside, which would result in between 30,000 to 80,000 additional non-farm families.

With physical infrastructure and settlements in place in most of Systems G and H and Uda Walawe, and ongoing construction in System C and in the Left Bank of System B, the third and most critical AMP development phase is to ensure maximum economic growth in these five systems. Specifically, this phase encompasses a comprehensive program that will promote investment, production, employment, income generation and export earnings. It has always been assumed by MASL and the donors involved in financing the headworks and the first two downstream phases of the AMP that these tasks would have to be followed by: (1) increases in agricultural production (both paddy and subsidiary field crops), including livestock, tree crop, forestry and fisheries production; (2) the development of agro-processing industries for the domestic and export markets; (3) the exploitation of mineral and other natural resources in the Mahaweli areas; (4) the stimulation of private enterprise in general ranging from large agro-industry to small-scale trade and industry; (5) the establishment of commercial farms for export of subsidiary field crops; and (6) semi-mechanization of agricultural production. The ensuing economic development would generate the streams of benefits to justify the overall GSL and donor investment in the AMP. However, a comprehensive strategy for economic development has only now become a top priority for MASL.

2.2 Current Status of Mahaweli Basin Development Phase I Project

The MBD I project was initially obligated as a \$10 million loan on June 26, 1980, with a PACD of September 30, 1985. The PACD has been extended to December 31, 1986, under authority redelegated to the USAID Mission Director. The project has consisted of: (1) the design of the downstream irrigation system in System B of the GSL's Accelerated Mahaweli Program; (2) supervision of main and branch canal construction for the Left Bank of System B; (3) minor commodity procurement; and (4) technical assistance, commodities and training

to help mitigate negative environmental impacts of the AMP. The goal of the above activities was the acceleration of the development of the resources of the Mahaweli Ganga (River) Basin and the Madura Oya (River) Basin.

As of June 30, 1986, \$7.51 million of project funds had been committed, including \$7.14 million for the host country contract between MASL and Berger/IECO (the design and supervision of construction engineer) and \$0.37 million for other design/supervision and environmental activities. Accrued expenditures as of June 30, 1986 were \$5.9 million. Except for the new element proposed herein for funding under the loan, it is expected that accrued expenditures against commitments for the current elements of the project will not exceed the \$7.51 in current commitments. Of the balance of about \$2.5 million in project funds, approximately \$1.8 million is proposed for commitment to the start-up activities of the MASL/EIED program.

2.3 The Mahaweli Action Program

With USAID assistance, MASL has formulated a five-year (1986-1990) "Employment Generation and Enterprise Development Action Program". Completed in January 1986, the Action Program calls for work to begin on the program immediately on a start-up basis (Stage 1) and for full implementation of the program (Stage 2) to begin pending the results of feasibility analyses to be conducted during Stage 1 and the identification and commitment of financial resources for Stage 2 by the GSL and foreign donors. The Action Program document was the result of an intensive six-month planning effort by MASL which included seven technical reports produced for MASL by private Sri Lankan organizations and consulting firms under a PD&S-funded grant from USAID. The reports were focussed specifically on Mahaweli areas and covered the following subjects: (1) Prospects for Crops and Agro-Industries; (2) Selection of Specific Crops and Value-Added Products Based on Comparative Advantages and Market Analysis; (3) Small and Medium Scale Enterprise Development; (4) Incentives for Encouraging Private Investment; (5) the Nucleus Farm Approach to Agro-Industry Investments; (6) Information System for the Strategy; and (7) Promotional Strategy. A detailed review by MASL of the seven reports resulted in the weaving together of numerous recommendations into a unified Action Program document.

The Action Program calls for a broad range of policy formulation, investment promotion and enterprise development activities to be implemented over a five-year period beginning in 1986. The total program as currently presented has six major components and an estimated cost of approximately \$100 million including inflation and contingencies. From the perspective of the approximately \$ 2 billion planned investment in the AMP headworks and downstream development, this represents an additional 5%. MASL believes that additional expenditure in this range, to be examined and defined in greater detail during the investigations supported by the MBD I amendment, will be essential in establishing the ultimate economic viability of the effort.

With the exceptions of Stage 1 work on policy changes, initial institutional support for the EIED, and initial feasibility investigations in the six components, most expenditures on implementation of the Action Program components would not occur until Stage 2. Stage 1 (start-up) began on January

1, 1986. Stage 2 could begin by late 1987 or in 1988, but will actually begin only after the feasibility of activities in each of the proposed six components has been established and funding sources identified and secured. USAID/Sri Lanka will consider support of some activities in Stage 2 under the proposed Rural Enterprise Development Sector (REDS) project (383-0090). However, regardless of the availability of USAID resources for Stage 2, USAID support for selective elements of Stage 1 is seen as valid and essential to move the Action Program forward.

The Action Program components currently proposed by MASL are briefly described below. As explained above, the Action Program is the result of analyses carried out by several local private firms under contract to MASL, and it must be stressed that the Action Program is itself in the process of design and change. Six components have been tentatively identified by MASL, but their feasibility has not been assessed. Some of these components may be significantly recast or dropped entirely, while others may be added. A primary USAID/Sri Lanka objective in supporting Stage 1 is to be involved from the outset in shaping MASL/EIED's employment and enterprise development strategy. The objective is to help shape policies, programs and activities during Stage 1 which can lay the foundation for successful private-sector efforts in Stage 2.

The six components as currently identified are:

1. Nucleus Enterprise Service Centers: In partnership with committed private sector agribusiness investors, this would involve centralized infrastructure facilities and support services at three (3) sites in System B, System C, and Uda Walawe, each catering to a minimum of four private sector agro-industrial enterprises. It is envisaged that most, if not all, of these enterprises would operate as nucleus farms/factories in association with outgrowers, local businesses and settlers who would provide the raw material, supplies and labor required by the enterprises. Facilities and services would include access and internal roads, electricity, water and sewerage, telecommunications, housing, etc. Feasibility issues to be investigated include: (a) potential demand for such services (ability of MASL to attract medium/large scale agro-businesses to locate in the Mahaweli area); and (b) share of the capital and/or recurrent costs of the centralized services between MASL and private users.

2. Serviced Land for Development: Again in partnership with identified private sector investors, this would involve the establishment of five (5) industrial estates in townships in the Mahaweli areas, catering to private sector small to medium scale agricultural processing companies as well as non-agricultural industries. MASL would provide water, sewerage, telecommunications, internal access roads and other infrastructure to support private sector investments. Feasibility issues to be investigated include demand for such serviced land and cost-sharing of capital and/or recurrent costs of the contemplated industrial estates.

3. Household Enterprise Service Centers: Construction and operation of eight (8) facilities (and renovation of one) in Mahaweli area township locations to cater to small and cottage-scale enterprise (including small-scale trading and manufacturing). The centers would provide services

in product development, marketing, training in business development skills, enterprise promotion, assistance in access to credit, and advice, demonstration and/or facilities for packaging, preserving, storage of raw materials, etc.

4. Electrification at Madura Oya Dam: Facilities are available that permit installation of 7.2 megawatts of secondary electrical power at the Madura Oya dam. MASL also plans to install two turbine generators to provide limited power to certain portions of Systems B and C, particularly the proposed nucleus enterprise service centers.

5. Incentives: Three MASL incentives programs are proposed with the aim of attracting investors to the Mahaweli: (A) financial inducements including credit and insurance risk coverage; (B) investment action grants for partial reimbursement by MASL to investors in approved high-priority projects which install infrastructure or incur other investment expenditures (e.g., new product and/or market development); and (C) a MASL equity investment fund to purchase equity shares in agro-industrial investments.

6. Institutional and Other Program Support for MASL/EIED: This component would consist of: (A) MASL/EIED administration and operational costs; (B) technical assistance for policy studies, investment promotion and institutional strengthening; (C) MASL/EIED staff training; (D) skill development training for farmers and small-scale entrepreneurs; and (E) support programs for adaptive research, technology introduction, product development and test marketing, etc. aimed at commercialization of new crops and products grown and processed in the Mahaweli areas.

2.4 Justification For Support At This Time

The alternative to supporting the MASL/EIED start-up during Stage 1 would be to postpone support until the REDS project is designed and obligated. This option is rejected for the following reasons:

(1) Loss of time, momentum, and USAID influence. The funds in the proposed MBD I project amendment will not only support EIED start-up work, but also will assure very direct USAID involvement in this critical early phase. A major USAID objective for this stage is to encourage and guide MASL toward an appropriate private sector approach. MASL is committed and enthusiastic about its private sector thrust, and this positive attitude needs to be encouraged. USAID-funded long-term technical assistance, as well as the proposed short-term TA, training and other support provided under the amendment, are viewed as essential to the process of shaping and refining EIED strategies and programs as they evolve. As policies and programs are developed during the next 12-18 months, USAID's involvement and in particular the presence of a long-term, private sector oriented technical assistance consultant will play a formative role.

(2) Relevance to planned future USAID assistance to MASL in rural private sector development: A second compelling reason for immediate USAID involvement in Stage 1 is that many of the activities recommended for USAID support under the MBD I amendment may be directly relevant to the design of follow on Assistance. The studies, surveys and special projects funded under MBD I amendment will complement specific design work. By initiating institutional support activities now, USAID will help ensure that the EIED is prepared to manage the any subsequent project effectively if and when the TAC

2.5 Project Purpose, Outputs and Inputs

The institution which will be charged with spearheading the economic development phase of the Accelerated Mahaweli Program is MASL's Office of Employment, Investment and Enterprise Development (EIED). This office was formally established by MASL in January, 1986, and as of the writing of this amendment (August, 1986) is partly staffed and semi-operational. See Section 6.4, Administrative Analysis, for a description of the EIED as it is currently organized and how it will operate within the overall MASL organization.

The purpose of the project amendment is to establish the institutional capacity of the EIED to assist and promote rural private enterprise development in the Mahaweli areas in a systematic way. This will be accomplished by making available the resources to form the necessary institutional basis for action.

The End-of-Project Status, by which the achievements of the two-year project amendment could be measured, will include:

(1) the EIED functioning effectively as a government entity, but with a practical, private-sector orientation and with the demonstrated technical, analytical and managerial capability to undertake a wide variety of activities leading to the identification, appraisal and promotion of investment opportunities in the Mahaweli areas;

(2) most, if not all, of the EIED professional staff having received short-term training in technical and administrative subjects related to private enterprise development and/or having taken short-term study tours overseas;

(3) the development by the EIED of a wide range of entrepreneurial clients, including both small entrepreneurs and farmers in the Mahaweli areas and other domestic and foreign investors, resulting in an initial positive reputation for responsiveness and constructive assistance; and

(4) the accumulation by the EIED of a track record of completed activities, including studies, surveys and special projects, which will have helped build an institutional confidence and prepared the EIED for more complex and expanded future operations.

The outputs of the project amendment will be:

(1) An institutional strategy formulated by MASL/EIED, including a revised long-term Action Program providing for annual work plans and an operational methodology for implementation.

(2) A strong capability for policy analysis on enterprise promotion issues established in EIED, as demonstrated by completed studies on such topics as land tenure and land leasing, financial and tax incentives, investment action grants, equity finance and rural credit. Such studies and an ongoing internal capacity to undertake them should lead to future GSL policy reform in these areas.

(3) A comprehensive investment promotion program designed and in operation, aimed at both domestic and foreign investors and at small, medium and large investments, with features including public information outreach, brochures, audio-visual presentations, overseas investment promotion missions, an investment appraisal capacity and an established investment approval procedure.

(4) A small-scale enterprise development capacity established in EIED for rural entrepreneurs in Mahaweli areas, involving design and testing of training programs and delivery of preliminary extension services to both existing and potential small entrepreneurs. Enterprise extension will include identification of business opportunities, proposal appraisal, cash flow analysis, market testing, and examination of other business risks;

(5) A series of completed studies, including land capability surveys in systems B and C, crop budgets, investment opportunity profiles, baseline information on income and employment, and feasibility investigations of several of the currently proposed Stage 2 components in the MASL/EIED Action Program; and

(6) An institutional capability to undertake and/or manage special projects established in EIED involving pilot or trial activities related to the manufacturing, processing or marketing of products by small scale enterprises, cottage industries and agribusiness ventures. Examples of special projects might include: (a) the start-up of business development activities at existing Household Enterprise Development Centres; (b) specialized research involving short-term analysis of specific agronomic, processing and marketing problems faced by farmers and agribusinesses, and investigation of alternative solutions through applied field trials, testing of marketing and packaging options, etc; (c) pre-feasibility studies on specific investment ideas; and (d) investigation/experiments in grouping farmers or small businessmen into associations or companies, with the aim of establishing profitable businesses.

The inputs for the project amendment to be provided by USAID and the GSL are set forth in the budget provided in Section 3.1 . The inputs will cover EIED operating costs, equipment and vehicles, training, technical assistance and support for special projects. Following is a brief description of the application of these inputs.

(1) MASL/EIED staffing, office furnishings and recurrent costs, funded by the GSL, and procurement of equipment and vehicles, funded by AID (see budget in the next section and Annex 8.2 for listing).

(2) Training and staff development, including short-term overseas courses and study tours funded by AID and in-country training funded by the GSL. The subject matter and venue of such short courses might include investment negotiation (Georgetown University); agribusiness development (ADL Management Education Institute); project appraisal and finance (World Bank); various aspects of agriculture and management (USDA); or rural credit and small business development (AIM and ADB). Study tours covering similar subjects could be arranged in the U.S. and such countries as India, Thailand, Malaysia, Singapore, the Philippines, Korea, Taiwan, Israel, Jordan and others as appropriate.

(3) Technical assistance: one long-term expatriate advisor assigned to EIED and short-term expatriate and Sri Lankan consultants to conduct the studies, surveys and profiles associated with the project amendment outputs. Subject matter specialists would include, among others, financial analysts, venture capital experts, appropriate technology specialists, agronomists, sociologists, rural credit experts and small business management advisors. Technical assistance will also be provided as needed for in-country training courses. All TA will be funded by AID.

(4) Support for special projects, to include a mix of technical assistance, operational costs and minor construction and/or commodity procurement. This input will be fully funded by AID.

It is expected that these inputs, especially the technical assistance and the training components, will enable the EIED to gain the professional strength, experience and institutional maturity necessary to achieve the desired results of the project amendment. They are, therefore, the basic tools required to attain the outputs listed above.

2.6 Relationship to Mission Strategy

Rural enterprise development is a major feature of USAID/Sri Lanka's approved strategy which is focused on improved productivity in the agricultural sector and reduction of unemployment and under-employment. As stated in the CDSS, agricultural productivity is hampered by insufficient research, poor planning and inappropriate policies, limited management capabilities and inadequate marketing and distribution. Efforts toward improving agricultural productivity in the early years of the strategy are focused on water management, field-crop research, agricultural planning and

management improvements. Several USAID projects now underway or to be authorized this fiscal year address these constraints. They include Irrigation Systems Management (ISM) (383-0080); Diversified Agricultural Research (DARP) (383-0058); and Agricultural Planning and Analysis (383-0083). The contemplated Rural Enterprise Development Sector (REDS) project (383-0090) will focus on rural enterprise development through private sector mechanisms and will also address the goal of increasing farm incomes through greater efficiency in the agricultural production, marketing and distribution process.

The Mahaweli region, as envisioned in the strategy, will serve as a special focus of USAID's activities in increasing or expanding agricultural productivity, farm income, on and off-farm employment, and rural enterprises. The Mahaweli areas will serve as a testing ground for new activities which could be replicated in other parts of the island. The focus is on the Mahaweli because of the high priority the GSL places on developing these areas, the integrated nature of the MASL's structure, the prior investment of USAID and other donors in the AMP, and the agro-climatically representative nature of the Mahaweli areas.

This amendment should be viewed as a pilot effort to develop successful interventions for promoting rural enterprise and creating both on-farm and off-farm employment opportunities in an integrated way. The CDSS identified agricultural research, agricultural planning, management of development programs, water management, and agricultural marketing and distribution as the areas of concentration for improving agricultural productivity. Similarly, in the area of rural enterprise and off-farm employment, focus was placed on policy development, information dissemination and management. A basic concept behind the MBD I amendment is that, in order for rural private enterprise development to be successful in the Mahaweli areas, sufficient private purchasing power must be created through agricultural surpluses. Thus successful cash-crop agriculture is viewed as a key ingredient to rural enterprise development in the Mahaweli areas.

Finally, in proceeding with support for the MBD I amendment, the guiding principles to be observed can be summarized as follows:

(1) Learning Process- Although the immediate focus is on the Mahaweli areas and on MASL/EIED, an end result is to demonstrate viable rural enterprise development methodologies which might be extended to other areas of the country and be used by other implementing agencies;

(2) Private Sector Approach - The rural enterprise development process should have a distinct private sector orientation, with emphasis given to the promotion of private, as opposed to government, investment (e.g., equity holdings and ownership of companies controlled by the private sector);

(3) Subsidies - The use of incentives and subsidies to attract investment in the Mahaweli areas should be judiciously applied to ensure the fundamental viability of the investments that are made, in any case, the incentives should not be greater than those provided for similar investments elsewhere in the country;

(4) Size of enterprises - A range of private enterprises should be promoted, i.e., not only large or medium scale investments by companies attracted from outside the Mahaweli areas, but also broad-based small enterprises owned and operated by Mahaweli settlers; and

(5) Agro-base - A basic focus on agro-based investments should be followed, through which demand for diversified crops and other farm-generated agricultural products can be created and sustained and the incomes of farm householder can be increased.

3.0 FINANCIAL PLAN

3.1 Project Budget and Basis for Cost Estimates

The allocation of the \$1.8 million of the MBD I loan to be reprogrammed by this amendment is provided below in Table 3. Costs which will be borne by the GSL for local staff of the EIED, rent, furnishings, recurrent operating costs and local training are listed in a separate column and total \$1,000,000, or 36 percent of the overall project cost of activities under the amendment. Although GSL costs will be in rupees, they are expressed in dollar equivalent at the exchange rate of Rs. 28.0 to \$1.00. An inflation/contingency factor of approximately 25 percent has been added to the base cost estimate of the amendment's budget. A degree of budgetary flexibility will permit EIED to proceed at its own pace and perhaps under optimal conditions to undertake a greater number of surveys, studies and special projects than currently contemplated.

All GSL costs represent the most recent MASL estimates as of July 31, 1986. Dollar estimates attributed to USAID financing are based on standard AID calculations, taking into account the probable source of long and short term expatriate technical assistance. Short-term expatriate (U.S.) consultants will be supplied both through IQC arrangement which involve institutional overhead and through individual PSCs which do not include overhead. The average total cost of short-term consultants is deemed to be \$15,000 per month. In the case of longer assignments of two or three months, the monthly average will be lower because the international transportation costs are constant. Based on recent experience, Sri Lankan short-term consultants are budgeted at \$2,000 per month. Estimated requirements for the two-year life of the amendment call for 18 person/months of short-term expatriate consultants and 48 person/months of short-term Sri Lankan consultants.

Short-term training costs are based on an average of \$6,000 (\$8,000 per month for U.S. locations and \$4,000 per month for countries in the region, i.e. South and Southeast Asia). Short-term study tours will cost an average of \$3,000 per month. The budgeted amount of \$180,000 for this item would cover 20 person/months of training (\$120,000), assuming about half in the U.S. and half in third countries, and 20 person/months of study tours (\$60,000). This is deemed to be the optimal amount of short-term feasible, given the size and composition of the MASL/EIED staff.

The following budget summary covers major project headings for both the GSL and AID. For a further breakdown of the items relating to recurrent operational expenses, equipment and vehicles, see Annex 8.2, Supplementary Budget Tables.

Table 3BUDGET

<u>Item</u>	<u>GSL Cost</u>	<u>AID Cost</u>
1. EIED operations (24 months)		
a. Staffing (15 professionals; 27 administrative)	\$205,000	
b. Office rent	100,000	
c. Other recurrent operational expenditures	430,000	
d. Office furnishings	70,000	
e. Preparation of brochures, A-V presentations		50,000
f. Equipment (radio system, telex, telephone, computer system, software, copier, A-V equip, etc.)	15,000	105,000
g. Vehicles (5 cars, 7 jeeps, 1 minibus, 15 motorcycles 1 van for mobile training)	_____	<u>145,000</u>
Sub-total	\$820,000	\$300,000
2. MASL/EIED Training and Staff Development		
a. Short-term overseas courses and study tours		180,000
b. In-country training	<u>45,000</u>	_____
Sub-total	\$ 45,000	\$180,000

<u>Item</u>	<u>GSL Cost</u>	<u>AID Cost</u>
3. Technical Assistance		
a. Long-term expatriate consultant for 2 years		288,000
b. Short-term expatriate consultants (18 pm)		270,000
c. Short-term Sri Lankan consultants (48 pm)		<u>96,000</u>
Sub-total		\$654,000
4. Special Projects	_____	<u>\$300,000</u>
Sub-total		\$300,000
5. Total Base Cost	\$865,000	\$1,434,000
6. Contingencies/Inflation (25%)	\$135,000	\$366,000
6. Project Amendment Total Costs	\$1,000,000	\$1,800,000
Total GSL and USAID = <u>\$2,800,000</u> ; GSL share = 36% of total project costs.		

3.2 GSL Budget Analysis

Costs attributable to the GSL during the life of this amendment appear to present no problem or concern, since the full amount of required funding is already included in the GSL's five-year rolling Public Investment Programme. The proposed level of GSL funding is deemed appropriate to the activities planned, and the government budget has been developed and endorsed by senior MASL/EIED officials. Under a covenant to this amendment, the GSL will agree to provide funds and contributions in kind on a timely basis.

4.0 INSTITUTIONAL ARRANGEMENTS AND IMPLEMENTATION PLAN

4.1 Project Management

The program will be managed by MASL through the newly established EIED. The EIED will be staffed during Stage 1 with 10 professional staff located at offices in Colombo, five additional professional staff (all outstation) and 27 administrative support staff (22 in Colombo, 5 outstation). All senior professional staff and most of the other professional staff positions are already filled, and planning work is underway for the first year's program. Senior staff assigned to EIED have been drawn from the

private sector, MASL, and other public agencies. A covenant to the Project Loan Agreement Amendment will provide GSL assurances that appropriate qualified EIED staff will be assigned and retained.

MASL manages all aspects of the AMP and is committed to proceeding with the planned economic development program. The Minister of Mahaweli Development (under whose ministry MASL functions) has personally endorsed the proposed Action Program and given MASL full authority to proceed with implementation planning. Both the Director-General and the Secretary-General of MASL have been personally and actively involved in formulating the Action Program during the past nine months. The EIED Director will work directly under the Secretary-General of MASL. An Advisory Committee representing the private sector and principal GSL agencies engaged in investment and export promotion (GCEC, FIAC and EDB) will help guide the EIED's activities.

During implementation, EIED's relatively small staff will be assisted by other units within the MASL organization, including the Mahaweli Economic Agency for coordination and carrying out of field operations and the MASL Planning and Monitoring Unit for coordination of planning and program development with other MASL agencies and divisions.

EIED will also draw on the advice and guidance of the long-term U.S. consultant to be provided under the amended project agreement. The consultant will be assigned for two years and will assist with investment promotion, development finance, policy issues, feasibility analyses, and other aspects of strategy formulation, reshaping and implementation of the Action Program, and institution-building for the EIED.

4.2 Procurement Plans

The implementation and procurement plan for the project amendment, keyed to the budget categories, is given below.

1. EIED operations: MASL will meet all expenses from GSL funds except for office equipment, publications and vehicles. The latter items will be procured by MASL in accordance with standard AID host country procurement regulations. A list of the equipment and vehicles planned for procurement with AID funds is in Annex 8.2.

2. Training and staff development: Training needs and recommendations for the short-term overseas training and study tours will be determined by MASL with assistance from the long-term U.S. consultant. Details will be developed and set forth in an initial comprehensive training plan to be prepared by MASL/EIED no later than December 31, 1986, updated thereafter as needed, and formally revised as a final plan no later than September 30, 1987. Overseas training and study tours will be funded by USAID. For all U.S. training, MASL will prepare the necessary AID documentation and make travel arrangements. Training in the U.S. will then be administered by AID's Office of International Training (S&T/IT) in Washington. MASL will be directly responsible for all aspects of non-U.S. training, e.g., planning, obtaining admissions, preparing documentation and making travel arrangements. In-country training will be funded by MASL with the exception of expatriate resource persons for such courses who may be provided through specific AID-funded technical assistance.

3. Technical assistance: The long-term expatriate consultant will be hired under a host country personal services contract. Short-term consultants, either expatriate or local, will be acquired through host country and/or AID direct personal services contracts or under existing AID direct contracts (the latter may be IQCs or centrally-funded AID contracts that allow "buy-ins" for technical services). Such technical assistance will be used to carry out a variety of surveys/profiles/studies.

4. Special Projects: These will be discrete activities aimed at analyzing, developing and promoting rural enterprise opportunities. They will be based on written proposals and budgets submitted by MASL to USAID for approval. Individual proposals may contain funding elements covering technical assistance, training, operating costs, and minor construction or commodity procurement. In some cases, package contracts covering the entirety of a special project may be feasible. Where short-term U.S. consultants are needed, the most likely mechanisms to be used will be AID direct IQCs, PSCs and contracts with PVOs. Special consideration will be given to the use of Gray Amendment entities. There are also expected to be instances where use of U.S. Peace Corps Volunteers (PCVs) and the International Executive Service Corps (IESC) would be appropriate and desirable. Local short-term consultants will be contracted directly by MASL. Except for U.S. consultants who would be paid directly by AID, all other costs of special projects would be paid in the first instance by MASL, with subsequent reimbursement by AID in accordance with documented invoices consistent with the original approved budget.

For a summary of the method of financing of AID-funded inputs, see Table 4 in Annex 8.2.

4.3 Pre-implementation Actions:

Since the amended loan agreement is expected to be signed with the GSL very soon after the authorization of the Project Paper amendment, the pre-implementation period will be very brief. Nevertheless, since the EIED is already established and has begun its work, it will be able to proceed with certain steps toward procurement of goods and services which will be financed under the amendment. This includes advertising for the expatriate consultant which is already underway, and possible initial steps in the procurement of selected equipment or vehicles. For any procurement, MASL/EIED has been advised to seek specific guidance from USAID on exactly how it must proceed, in order for USAID to be able to consider payment for the specific goods and services on either a direct payment or direct reimbursement basis, after the amended loan agreement is signed. MASL/EIED has also been advised that, in undertaking any pre-implementation procurement steps, there is no AID commitment or guarantee to pay for any goods or services, and that vendors contacted in connection should be so informed.

4.4 Implementation Schedule

<u>Date</u>	<u>Activity</u>
9/25/86	PP Amendment authorized
10/01/86	MBD I Project Loan Agreement Amendment Signed
11/01/86	Long-term Expatriate Advisor PSC signed (host country PSC); (MASL takes necessary advertising steps during pre-implementation)
12/31/86	Preliminary long-term MASL/EIED strategy (Action Program) adopted by MASL, including an annual work plan for CY 1987.
12/31/86	Initial technical assistance and special projects plan completed. (Work and hiring of necessary technical assistance proceeds over course of project amendment period based on this plan and subsequent revisions)
12/31/86	Initial short-term overseas training, study tours and in-country training plan completed. (Training proceeds periodically over course of project amendment period based on this plan and subsequent revisions)
1/31/87	Initial equipment procurements completed (all equipment procurement completed NLT 7/31/87)
1/31/87	Initial vehicle procurement completed. If necessary, second vehicle procurement completed prior to PACD
9/30/87	Revised long-term MASL/EIED strategy (Action Program) adopted by MASL, including an annual work plan for CY 1988
9/30/87	Formal revised training plan for balance period through PACD completed
9/30/87	Formal revised TA and special projects plan for balance period through PACD completed
8/31/88	Evaluation completed
9/30/88	MASL/EIED Action Program updated as necessary and annual work plan for CY 1989 completed
9/30/88	Project Assistance Completion Date (PACD)

5.0 MONITORING AND EVALUATION PLAN

Project activities will be monitored by MASL and USAID. An initial MASL/EIED work plan concentrating on training, TA and special projects will be submitted to USAID and to the Project Monitoring Unit (PMU) of MASL no later than December 31, 1986. This plan will also include measurable outputs for all activities supported under the amendment. Performance of the EIED against this annual plan will be monitored by USAID and the PMU for management purposes. Given the early PACD of the amendment, a formal revised work plan for the balance of the period covered by the amendment will be prepared by MASL/EIED by September 30, 1987. By this date MASL/EIED will also have formalized its revised long-term strategy (Action Program) and developed a specific annual work plan for CY 1988.

Baseline surveys will be conducted by MASL in each of the systems included under the amendment. The PMU has already developed a baseline census form which will be implemented as soon as possible. Further baseline activities will be conducted under the MBD I amendment and/or in conjunction with other relevant design efforts.

A final evaluation of the activities undertaken under the amendment will be conducted jointly by USAID and MASL/EIED, drawing on independent external consultants funded under the project's budget for short-term consultants. This evaluation, which will be completed no later than 8/31/88 (one month prior to the PACD), will assess the effectiveness of the technical assistance and training provided under the project and the degree to which these inputs have been put to practical use, particularly their contribution to the achievement of project outputs. Special projects, studies and surveys will be carefully appraised, both in concept and with respect to the individual results obtained. It may be too soon to judge critically the amendment's impact on job creation, rate of new investment, income growth, etc. after only two years, but at least a preliminary trend may be perceived, sufficient to suggest course corrections in the operations of MASL/EIED.

6.0 PROJECT ANALYSES

6.1 Technical Analysis

The purpose of this project amendment is the strengthening of MASL/EIED as the institution through which the GSL can foster and assist private enterprise development in the Mahaweli areas. The EIED, a newly created body within MASL, was established in early 1986 with this prime objective in mind. The Administrative and Institutional Analysis section (6.4) offers an assessment of the EIED as it is currently constituted and the rationale for its selection as the GSL agency to implement this project. Ideally, the EIED combines the advantages of a government agency with public funding and foreign assistance, capable of influencing GSL investment policy, legislation, taxes, etc., with the advantages of a businesslike organization with a private-sector orientation and an entrepreneurial philosophy and working style.

The specific results or outputs which the project amendment hopes to achieve involve the establishment of various capabilities and skills which will enable the EIED to work successfully with entrepreneurs and business groups in identifying and promoting new enterprises. These include, among others, a basic capacity for serious analysis; the skill to carry out a variety of studies, trials and data-gathering surveys; experience in undertaking special research projects; performing foreign investment promotion; and the ability to plan and execute training and support programs for client entrepreneurs. Once the EIED demonstrates effective operation, it is expected to play the role of catalyst and energizer of private sector development in the Mahaweli areas.

The project amendment provides funds for EIED office equipment, publications, vehicles, training, technical assistance and special projects. Joint planning by USAID and MASL/EIED have led to the conclusion that this is an appropriate mix of project inputs needed to produce the desired institutional capabilities described above.

One long-term expatriate advisor will be provided to work with the EIED for the full two-year period covered by the amendment. This is considered the minimum long-term TA input necessary to provide continuity and consistency in counseling while the office is still in the initial period of growth and development.

The extensive use of short-term consultants, both expatriate and Sri Lankan, will allow the project to call on highly specialized expertise for specific, but limited, periods of time. This will be particularly important for the variety of studies and surveys foreseen and for the special projects. The training to be provided under the project will be exclusively short-term, both in-country and abroad. A recent PD&S funded study tour to Korea, Taiwan, Thailand and Malaysia for EIED officials demonstrates the utility of this kind of training. The study tour resulted in the EIED staff seeing a wide variety of new ideas for enterprise development which have worked in neighboring countries and which the EIED plans to incorporate into its strategy.

The equipment list has been the subject of considerable discussion and review between USAID and MASL/EIED. The GSL budget reflects three items totaling \$15,000 already procured by EIED. Most of the equipment is directly related to the professional output of the EIED or to the training function. With respect to vehicles, the five cars are intended for use by headquarters staff for local and field travel. The jeeps, minibus and training van will be used exclusively in field operations. The motorcycles will be used by field agents and U.S. Peace Corps Volunteers working on the project.

It is the opinion of the USAID project staff and MASL/EIED that it is technically feasible to carry out the activities planned under the project amendment and that they can reasonably be expected to result in the stated outputs. It is recognized that considerable action is contemplated over a relatively brief (two-year) period; however, the EIED has already begun operations and it is planned that the long-term expatriate advisor to be contracted as soon as possible after the project loan amendment is signed will help ensure that project activities are scheduled and inputs provided in a systematic and timely way.

6.2 Economic Analysis

The proposed activity seeks to capitalize on the investment made in the AMP. With much of the resource base largely in place - the irrigation system, the farmers, and elements of social infrastructure - this project amendment seeks to meet the challenge of accelerating private sector investment and job creation for settler households by further developing the MASL/EIED strategy for modifying necessary policies, providing comprehensive financial incentives, supporting industrial infrastructure and providing an attractive investment/institutional environment. Thus the Action Program seeks to position the elements which should make Mahaweli "work". The transformation of the area away from subsistence-level double cropping of rice through agricultural diversification and agro-industrial development activities will result in rising incomes and move many small farmers in the Mahaweli areas out of subsistence. Also, through the establishment of small-scale industries in Mahaweli areas where owners act in dual roles as suppliers and consumers, employment opportunities will be generated to make the Mahaweli areas economically viable. According to a USAID consultant's report, there is evidence from other settlement activities which show that given an increase in incomes from agricultural production, it is possible to generate one or two jobs for every settler family, with one of these jobs for non-farm employment and the other for employing permanent and seasonal agricultural laborers. Activity under this amendment will initiate this process.

Investment climate in Sri Lanka: It is evident that the international investment climate for investment in Sri Lanka has worsened considerably in the past three years due to the deteriorating ethnic situation. This situation has now gone beyond the northern and eastern regions and is a general constraint which has affected the country as a whole. Many foreign investors, in particular, have assessed political risks in Sri Lanka compared to other locations and chosen not to proceed with investments in this country. Domestic companies have also tended to go slower with expansions and

new investments. Notwithstanding these negative developments, the economy as a whole has grown during the 1983-85 period by an average of 5 percent per year, while private sector manufacturing has grown by more than 20 percent per year during the same period. This growth indicates that despite the ethnic problems there has been continued investment activity in the country. Specifically with regard to foreign investments, there were 38 new investments approved and 28 new companies started operations in the GCEC'S Investment Promotion Zones during 1983-1985; similarly, the FIAC approved 196 foreign investments during the same period. While the ethnic situation will continue to be a handicap, it is not an insurmountable barrier to new investment. Local investors in particular are still investing in the country, and much of the initial new investment will continue to be indigenous rather than foreign. It is likely that foreign investment could again accelerate if the prospects for a long-term resolution of the ethnic problems improve.

The Mahaweli areas are, in general, newly opened land where special efforts will be needed to promote investment and enterprise development. Some of the Mahaweli areas are closer than others to the areas affected by ethnic disturbances; Systems H and B are closer than Systems G and C, while Uda Walawe is far to the south and unaffected. However, USAID expects to work with MASL and the private sector in all Mahaweli areas. Most of the activity anticipated in this enterprise development process will come from people already living in the Mahaweli areas, both on and off-farm. The security situation will clearly have an impact on how extensively activities are able to be carried out in each system.

The issue of special incentives (e.g. tax holidays, credit) which may be necessary to attract outside investors to Mahaweli areas will be addressed under the MBD I amendment. USAID's position on credit is that investments in the Mahaweli areas should receive no special treatment or subsidized terms; investors should take advantage of existing credit programs (several of which involve below market rate of interest to the borrower and are currently financed under World Bank and Asian Development Bank projects and/or the GSL Central Bank refinance program). In addition to credit, other incentives designed to encourage investors to locate in Mahaweli areas will be investigated. They will include support for product and market development, infrastructure support requirements, insurance, etc. The basic principle that USAID will follow in any of these latter forms of support will be the incorporation of cost-sharing with private investors. Extraordinary incentives will not be needed to promote investments in Mahaweli areas; the key factor will be an effective promotion program.

A formal cost-benefit analysis is not feasible for this amendment because of the institution-building nature of the activity. However, the design of the activity will allow for it to be conducted in the most cost-effective way. First, capital and recurrent costs are modest; the MASL is setting up a small office in Colombo which will work with existing MASL divisions to implement the programs. Second, most of the staff for the EIED office is drawn from the private sector and are expected to bring with them a profit-oriented, cost-conscious approach which should allow EIED to be run more efficiently than the typical government institution. Third, the studies to be completed under the amendment will make maximum use of local consultants, again reducing costs and working time.

6.3 Social Analysis

The primary beneficiaries of the activities funded by this amendment will be the settler families of the Mahaweli areas. The key objective of the overall Mahaweli project has been the settlement of thousands of households through one of the most ambitious programs of land reform yet implemented within the tropics. While the task of settling the farmers has been partially accomplished, the task of moving the resettled farmers past the stage of self-sufficiency remains. Research has shown that development in rural areas is fueled through the increased purchasing power of thousands of small-scale farming households. Activities funded under this amendment will increase the chances that farmers will move past the self-sufficiency stage.

The need to generate new jobs is urgent. As originally conceived, Mahaweli settlers with several small children were to receive priority as selectees. Implementation of such a policy would have allowed at least a decade for increased production and education to provide job opportunities for the children of settlers. However, the settlers already face the second generation problem. The numbers of settlers who are not selectees, but rather purana villagers or other resettlers and reservoir evacuees with families have proved far larger than previously expected. In System H Blocks 1, 2, 7 and 9, for example, such families may well exceed 80 percent of all settler households, while in all of System H they appear to exceed 60 percent. Many of these families have older children, and some settlers have already begun to sub-divide their holdings. Given the small size of the Mahaweli holding, unless a systematic effort is made to plan for and implement employment opportunities for these children, there is a very real danger that a majority of settler households will never realize the net income levels that are essential to create the demand for goods and services that will provide the needed employment opportunities and the necessary development of enterprises. This amendment will assist in providing the jobs needed to absorb not just the second generation of settler children, but also provide additional employment for non-settler households.

Regarding participation of beneficiaries during the amendment activities, the baseline surveys and other field-based feasibility investigations (assessment of need for credit, enterprise extension services, etc.) will directly involve settler households through interviews and feedback on proposed activities. Various associations among farmers, e.g., water user associations, or the formation of private partnerships or companies for operation of business enterprises, will be promoted and relied upon for communication with beneficiaries and to gain their participation.

6.4 Institutional and Administrative Analysis

(1) Rationale for selection of MASL

In implementing an expanded USAID/Sri Lanka enterprise development strategy, USAID has chosen to work with MASL as a regionally oriented ministry, rather than other line ministries. The MASL is a multifaceted and integrated institution which provides the best opportunity for successfully addressing a full range of issues which affect rural enterprise development in Sri Lanka. One major reason for this is that rural enterprise development does not fall under the purview of any one ministry. For example, field crops, tree crops, livestock and fisheries all come under separate ministries. Credit can come from a variety of banks and agencies. Since the scope of MASL cuts across all of these areas, working primarily with MASL as the central authority in the project greatly simplifies the problems involved in developing and operating a rural enterprise program.

MASL does not stand alone or operate in a vacuum. A significant portion of its staff is seconded from the line ministries to work on the various components of the AMP, particularly from the Ministry of Agricultural Development and Research. In addition, some responsibilities within the Mahaweli are assigned directly to line agencies. In accordance with the approved CDSS, it will be USAID's intention to develop through MASL the best methods of encouraging rural enterprise growth and to replicate them.

In reaching the decision to work with MASL, USAID explored alternatives and reviewed the other GSL ministries involved in rural enterprise development. The only GSL national-level agency attempting to provide industrial development services at the rural (district) level is the Industrial Development Board (IDB), which was under the Ministry of Industries and Scientific Affairs, until being shifted early in 1986 to the Ministry of Rural Industrial Development. The IDB has had a mixed track record and is judged at this point to be generally ineffective in extending services to rural enterprises. As a government agency it has become highly bureaucratic, and it is doubtful that the IDB will be able to deal effectively with the promotion of private enterprises in the foreseeable future. USAID is not providing assistance to the IDB, except through encouragement of the USAID-supported Sri Lanka Business Development Centre (SLBDC) under the Private Enterprise Promotion Project (383-0082) to coordinate where feasible with the IDB in its (the SLBDC's) district-level entrepreneur development program.

The SLBDC is a private, non-profit company with a private sector orientation and, although active only since mid-1984, has in USAID's assessment a far better potential than the IDB to succeed in stimulating and assisting rural enterprises. The SLBDC has gained valuable experience in conducting rural entrepreneurial training courses in management and investment promotion and is soon expected to be able to extend its activity to the Mahaweli areas. However, the SLBDC is not yet a mature enough organization to carry out on its own a major enterprise development effort such as the one being proposed by MASL/EIED..

With regard to national-level planning and policy formulation directed at industrial and enterprise development, several GSL ministries and agencies are involved. Principally, these are the Ministry of Finance & Planning (MF&P), the Ministry of Industries and Scientific Affairs, and the Ministry of

Trade and Shipping, although numerous other ministries add pressure for specific policies directly affecting industries under their purview (e.g., plantation crops, livestock, fisheries, minor export crops). In addition, three government-run entities have predominant roles in investment and export promotion programs. They are: (1) the Greater Colombo Economic Commission (GCEC), an independent authority controlling foreign investment promotion and support for investors in two investment promotion zones (IPZs) near Colombo; (2) the Foreign Investment Advisory Committee (FIAC), located within and chaired by the Ministry of Finance and Planning with responsibility for approvals of all foreign investment outside the IPZs; and (3) the Export Development Board (EDB) under the Ministry of Trade and Shipping which has a broad range of programs aimed at promoting exports. With the exception of the EDB's Export Production Villages program, none of these efforts has placed special emphasis on the rural areas.

Given the diffuse nature of the above interventions, the Mission has decided that it would be appropriate to carry out its program of rural enterprise development in conjunction with the Mahaweli Authority. The AMP has a high GSL priority, and MASL possesses a better motivated human resource pool than most government agencies, with an ability to influence GSL policy changes, to coordinate among the various government ministries and to cope with the inter-agency rivalries which inevitably arise. MASL has demonstrated strong central management, led by a minister who has indicated that he is committed to seeing the AMP realize its full economic potential. Most important, MASL is an entirely rural-based activity, and consequently the appropriate place to focus policy change and resources allocation for nationwide rural enterprise development. MASL is deemed capable of executing such a program and is willing to utilize private sector mechanisms (including contracting with private firms) wherever appropriate.

(2) MASL/EIED Institutional Capacity

The EIED was formally established as an office within MASL in January, 1986. The EIED is directly responsible to the Secretary General, MASL. As discussed further below, the principal MASL agency responsible for field-level downstream settlement and project management activities is the Mahaweli Economic Agency (MEA). Field-level implementation of EIED-generated activities will require close coordination and an integration of efforts between the MEA and EIED.

The organization chart for the EIED is shown in Figure 1. In terms of total staffing, current EIED plans call for a professional staff of 15 and an administrative support staff of 27. Ten (10) professional staff will be based at the EIED offices in Colombo; eight (8) of these positions have been filled and the remaining two are to be filled shortly. Five (5) professional staff are assigned as field-level Deputy Managers, one for each of the five target systems of the MASL/EIED Action Program, viz., systems B, C, G, H and Uda Walawe. Four (4) Deputy Managers have already been hired and assigned to the field; the fifth will be selected shortly. Of the administrative support staff, at least five will be assigned to the field with the balance in Colombo. All EIED staff are being hired on permanent appointments.

USAID's support for the MASL/EIED program is predicated on minimizing the number of new permanent government positions and maximizing the use of private sector expertise under consultant contracts, coordination with banks and financial institutions, etc. The role of EIED's professional staff will be to formulate overall strategies and to lead the MASL rural enterprise development activities. Actual implementation, under the leadership of EIED staff, will require supervision of individuals and firms under contract to EIED or, where government field-level staff is required, by staff assigned by MEA to work in coordination with EIED. For example, most of the policy studies, surveys and profiles to be carried out by EIED with funds under the MBD I amendment will be accomplished through the use of short-term consultants. The EIED will not carry out this work directly, although it will be responsible for defining terms of reference, approving proposals (e.g., special projects), monitoring the quality of work that is completed, and, more importantly, making use of the completed work. This pattern is expected to continue with additional activities that are planned for funding under the REDS project.

At the headquarters level, EIED's internal organization as depicted in Figure 1 can be expected to evolve, and perhaps change significantly, during the period covered by the MBD I amendment. The present organizational chart shows five divisions by broad areas of program responsibility. However, not yet defined are such matters as designation of specific staff responsibilities and the allocation of professional staff among the divisions. Therefore, a primary objective during the remainder of CY 1986 is the matching of program responsibilities and staff assignments with a greater degree of precision than is presently indicated, including fairly detailed job descriptions and clearly defined relationships among and within staff divisions. This refinement should be accomplished as a sub-task of the development by MASL/EIED of its preliminary long-term strategy and work plan for CY 1987, which is to be completed by December 31, 1986.

At the field level, it is envisaged that most of the MASL/EIED training and extension services aimed at promoting small scale enterprises will be provided under contract by private firms (including PVOs). Under the proposed REDS project, it is contemplated that a number of long-term contracts to such firms will be let, with at least one contractor assigned to work in each of the five target systems. Such contracts are not scheduled for funding under the MBD I amendment, although some work on a pilot basis could be accomplished as a special project.

Monitoring and supervision of EIED-generated work at the field (system) level will be the responsibility of the field-based Deputy Managers. These managers will not be directly engaged in carrying out specific programs, but will oversee the work of private firms under contract and will coordinate field-based work performed by other MASL staff. As an example of the latter, the contemplated expansion of the Household Enterprise Development Centres will most likely require some permanent government staff to manage HEDC activities, even if some of the specific HEDC activities can be contracted to private firms or consultants. The government staff required for such work will be assigned by MEA.

The MEA is MASL's principal implementation arm for carrying out AMP downstream development activities. At the field level, MEA is organized on a block and unit management system. At the apex are Resident Project Managers (RPMs) responsible for part or all of a given Mahaweli system. There are currently two RPMs for Mahaweli System H and one each for Systems G, C, B and Ude Walawe. Each RPMs supervises and coordinates a number of subject matter specialists who cover technical areas such as water management, agricultural extension, community development, land administration, marketing and financial management. Some of the subject matter specialists are seconded to MEA by another line ministry, e.g., agricultural extension officers from the Ministry of Agricultural Development and Research. Internal line responsibility within MEA flows from the RPMs to Block Managers, who are responsible for an average of 2,000-2,500 farm families each, and then to unit managers, who cover 200-250 farm families each.

The RPM system is well established in the five target systems addressed by the MBD I amendment. As specific requirements are defined, it is planned that additional MEA subject matter specialists will be assigned to handle new EIED-generated enterprise extension work, such as the HEDCs.

It may be that the direct assignment by EIED of only one professional Deputy Manager per system will prove inadequate to the total EIED task. In this case, additional EIED professional staff will need to be assigned. Precise determinations cannot be made at this time but will be the subject of intense review during the period of the MBD I amendment. In any event, the monitoring and supervision roles of the EIED Deputy Managers will be complex, involving both coordination with MEA and contracts with private firms. The headquarters-field line of authority within EIED will also need more precise definition. As noted above, these issues will be incorporated into the organizational aspects of the work plan for CY 1987.

6.5 Environmental Analysis

The amendment calls for technical assistance, training and commodities in support of the establishment of the Mahaweli Authority of Sri Lanka's new Office of Employment, Investment and Enterprise Development to promote private economic development in AMP areas. As such, no activities are planned under the project which may result in significant negative environmental consequences. Accordingly, no Agency environmental analysis is required pursuant to Section 216 (C) (2) of the Agency's revised Environmental Procedures, and a negative environmental threshold decision is recommended. This recommendation is made subject to a covenant that adequate attention be devoted to environmental considerations in the conduct of planned project land use surveys, profiles and feasibility studies for the various activities proposed under the project amendment, in accordance with AID and GSL environmental policies and procedures.

7.0 CONDITIONS AND COVENANTS

7.1 Conditions Precedent to Disbursement

Prior to the disbursement of funds for the second year of activities under this amendment, the GSL will submit in writing for USAID's approval a revised strategy (Action Program) for MASL/EIED, including an annual work plan for CY 1988.

7.2 Covenants

The GSL will covenant to undertake the following actions:

- 1) to provide timely assignment of appropriate qualified staff to EIED, including prompt replacements for vacant positions;
- 2) to provide to USAID by December 31, 1986 a written work plan covering training, technical assistance and proposed special projects for the first year's work. (The submission of similar plans for the second year's activities by September 30, 1987 is a Condition Precedent to disbursement of funds for the second year's operation);
- 3) to provide for, and fully cooperate in, an evaluation of the activities covered by this amendment, the timing of which will be mutually agreed by the GSL and USAID;
- 4) to provide on a timely basis funds and contributions-in-kind attributed to the GSL in the approved budget for this amendment;
- 5) to take account of environmental considerations in the conduct of land-use surveys, profiles, feasibility studies and special projects undertaken under this amendment; and
- 6) to provide full exemption from all GSL taxes and duties to all expatriate personnel involved in activities funded by this amendment and to all commodities and equipment purchased under this amendment.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project
From FY 80 to FY 80
Total U.S. Funding 10,000,000

Annex 8.1

Project Title & Number: Mahaweli Basin Development, Phase I (393-00) Date Prepared: 8/15/86

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To assist the BSL to generate rural employment and increased personal incomes through promoting rural private enterprise development.</p>	<p>Measures of Goal Achievement:</p> <p>Short-term: Start-up of new business, increase in application foreign investors</p> <p>Long-term: increase in rural employment in Mahaweli areas. Increase in personal incomes in effected areas and general raise in standard of living in Mahaweli areas.</p>	<p>Records of MASL/EIED and FIAC on numbers of new investments, both foreign and domestic.</p> <p>BSL national and regional statistics on employment and income.</p>	<p>Assumptions for achieving goal targets:</p> <p>BSL will continue to devote high priority to Mahaweli development</p> <p>Economic base and potential agricultural surpluses in Mahaweli areas will prove sufficient to generate profitable new rural enterprise</p>
<p>Project Objective</p> <p>To establish the institutional capacity of the MASL's Division of employment, investment and Enterprise Development (EIED) to assist and promote development in the Mahaweli areas in a systematic way.</p>	<p>Conditions that will indicate purpose has been achieved; End of project status:</p> <ol style="list-style-type: none"> 1 EIED functioning effectively as government entity with private sector orientation with demonstrated management & analytical skills 2 EIED professional staff trained in various enterprise related subjects thru short-term courses or overseas study tour 3 wide range of clientele established by EIED. Reputation for responsiveness earned 4 Record by EIED of completed studies survey special projects on which to build institutional reputation 	<p>EIED operational reports, training records and data on contact with private entrepreneurs and groups. Feedback from clients on value of EIED services. formed final project evaluation</p>	<p>Assumptions for achieving purpose:</p> <p>BSL will continue to support MASL and EIED as government institutions. EIED will be able to develop realistic credibility with rural entrepreneurs as gov't agency generally devoted to promote benefits to private sector</p>

20

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs	Magnitude of Outputs		Assumptions for achieving outputs:
1 Institutional strategy formulated by MASL/EIED	1 Long-term Action Program annual work plans, operational methodology	Review of Action Program document and annual work plans	EIED will be able to develop realistic Action Program and practical investment program suited to low-income rural areas
2 EIED capacity for policy analysis of enterprise promotion issues	2 Examples: land tenure, tax incentives equity finance, rural credit	Review of analytical studies and reports EIED training reports	Access to credit will not prove to be a serious initial constraint to start-up of new enterprises. New investments will tend to be in labor
3 Comprehensive investment program designed and in operation	3 Components include overseas investment missions, brochures, A-V presentations capacity for investment appraisal	MASL/EIED Periodic Progress Reports	
4 Small scale enterprise development capacity established in EIED	4 Training, enterprise extension, appraisals		
5 Series of completed studies by EIED	5 feasibility studies, profiles baseline data		
6 EIED capability to manage special projects	6 Pilot or trial activities in manufacturing, processing or marketing of products		

Inputs	Implementation Target (Type and Quantity)		Assumptions for providing inputs
AID inputs:	AID		
1 Office equipment, vehicles, publication costs	1 Computer system, copier, A-V equipment, printing etc. Vehicles	\$155,000 \$145,000	USAID/SL Project documents, suppliers invoices. USAID financial records. IGC & PSC contract documents MASL/EIED training record, individual reports on overseas tours
2 Training & staff development	2 Short-term training and overseas study tours	\$130,000	Suitable expatriate of Sri Lanka short-term consultants can be found to match EIED's needs.
3 One long-term advisor and short-term technical assistance	3 Long-term advisor (2 years) Short-term consultants (US&SL)	\$288,000 \$366,000	MASL/EIED proposals for special projects & completion reports by implementing contractors
4 Support for special projects	4 Special Projects	\$300,000	Special projects can be identified and carried out efficiently to expand EIED's institutional capabilities
6SL inputs	Inflation/contingency (25%)	\$366,000	6SL inputs will be made as planned
EIED operations-staffing, operational costs, in-country training	AID total	\$1,800,000	
	6SL		
	EIED staffing & operations	\$665,000	
	Inflation/contingency	\$135,000	
	6SL total	\$1,000,000	

6/

EQUIPMENT AND VEHICLES LIST

<u>Equipment</u>	<u>Units</u>	<u>Unit CIF Cost</u>	<u>GSL Cost*</u>	<u>USAID Total CIF Co.</u>
Telex Machine	1		\$ 2,930	
Fax Machine	1		2,620	
Telephone System	1		9,450	
Computer System	1			\$ 25,000
Radio Units	11	\$ 3,000		33,000
Typewriters	7	900		6,300
Photocopiers	2	2,500		5,000
16mm Movie Projectors	5	1,250		6,250
Overhead Projectors	5	250		1,250
Slide Projectors	5	500		2,500
Sound/Slide Projectors	5	1,200		6,000
Video Systems	2	5,000		10,000
Misc: A/V Equipment/Supplies				2,000
Portable Generators	5	540		2,700
Word Processors/Printers	2	2,500		5,000
			<u>\$ 15,000</u>	<u>\$ 105,000</u>

Vehicles

Sedans	5	6,400		\$ 32,000
Utility Vehicles (Jeeps)	7	10,200		71,400
Minibus	1	16,400		16,400
Audio/Visual Van	1	15,000		15,000
Motorcycles	15	680		<u>10,200</u>
				<u>\$ 145,000</u>

* 3 Items already purchased by MASL/ELED; actual cost is indicated, which includes duty.

Annex 8.2

MAHAWELI AUTHORITY OF SRI LANKA
 DIVISION OF EMPLOYMENT, INVESTMENT &
ENTERPRISES DEVELOPMENT

Breakdown of Budget for Recurrent Operating Costs
 (See Item I.C. in Budget on Page 15 of Text)
One - Year Budget (1986)

<u>Item</u>	<u>Rs.000</u>	<u>US \$ Equiv (000)</u>
Telephone	300	10.7
Telex & IDD	180	6.4
Electricity	360	12.8
Vehicle Operations/ Maintenance	3,120	111.4
Stationery	120	4.3
Postage	48	1.7
Official Entertainment	510	18.2
Travel & Subsistence	160	5.7
Office Maintenance/ Cleaning	120	4.3
Equipment Maintenance	24	.9
Water	60	2.1
Legal Fees	500	17.9
Misc Services - Consultant fees, data entry, MIS design	500	17.9
Totals	6,002	214,3
x 2 to cover 2-year life of MBF I amendment	12,004	428.6

Rounded to \$430.0

2/1

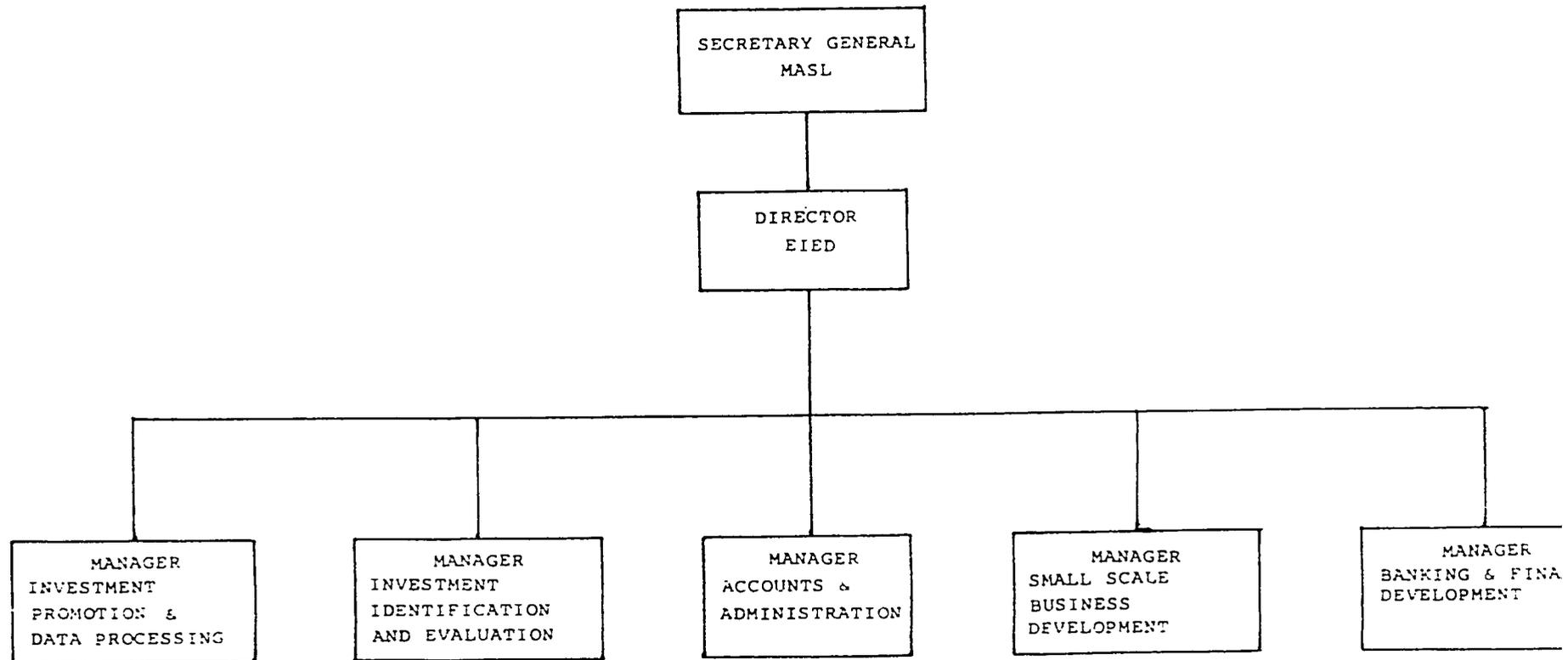
Annex 8.2

Proposed AID-Funded Payment Procedures

<u>Item</u>	<u>Method of Implementation</u>	<u>Method of Finance</u>	<u>Estimated Amount (\$000s)</u>
Long-Term Technical Assistance	Host Country Contract (PSC)	Direct Payment	\$ 288
Short-term TA (Expatriate)	Indefinite Quantity Contracts or Buy-ins to AID Direct Contracts	Direct Pay and/or	\$ 270
		Direct Letter of Commitment	
		or	
	Host Country PSCs	Direct Pay	
		or	
		AID Direct PSCs	
Short-Term TA (Sri Lankan)	Host Country PSCs	Direct Reimbursement	96
Short-Term Overseas Training-Study Tours	PIO/Ps	Direct Pay	180
Equipment and Materials	HC Procurement	Direct Reimbursement	155
Vehicles	HC Procurement	Direct Letter of Commitment	145
Special Projects	HC Procurement	Direct Reimbursement	300
Total (Base Cost)			<u>1,434</u>

22/4

ORGANISATION CHART
EMPLOYMENT, INVESTMENT & ENTERPRISE DEVELOPMENT



FIELD LEVEL

DEPUTY MANAGERS IN EACH SYSTEM

දුරකථන }
 දුරකථන }
 Telegrams } FORAID
 මගේ }
 මගේ } FORAID
 Telex } Colombo
 } 1232



අංක }
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 Your No. }

M.B. File

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வெளிநாட்டு வளத்திணைக்களம்
 சி. திட்டமிடல் அமைச்சு

DEPARTMENT OF EXTERNAL RESOURCES
 Ministry of Finance and Planning

දේශීය ආදායම් භාණ්ඩාගාර (15 වන මහල)
 உள்ளதாட்சிமன்றம் 4 கட்டிடம், (15வது மாடம்)
 Inland Revenue Building (15th Floor)

අ. ම. 277, කොළඹ 2
 අ. ම. 277, කොළඹ 2
 P. O. Box 277, Colombo 2

May 7, 1986

*File MBD Phase I
2 EIED*

Mr. Frank D. Correll,
 Director, USAID,
 American Embassy,
 Colombo 3.

Dear Mr. Correll,

I refer to your letter of April 16, 1986 regarding transfer of approximately US\$ 1.75 million to finance the preparation of the Employment Generation / Rural Enterprise Development Programme for the Mahaweli Authority of Sri Lanka.

I am happy to inform you that our authorities have agreed to the utilisation of these funds, although it is the expectation of Government that Technical Assistance Projects of this nature should be funded on a Grant basis.

Yours sincerely,

M. A. Mohamed

M. A. Mohamed
 Director, External Resources

OFFICE	ACT	INFO
DIR		✓
DD		✓
RLA		✓
HSG		
PRM	+	
EXO		
CONT		
PDSP		✓
ARD		
HPHR		
MWRD		✓
C & R		
DUE DATE	A/AP	
ACT. TAKEN		
FILE STA.		
NAN		
INITIALS		

*Action
Rick Keenan
Buchanan*

Copy to S-G., MASL.

REFERENCE NO. 86/901
 DATE RECEIVED 5.9.86
 ACTION.....

3M (2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:

- B.1. applies to all projects funded with Development Assistance loans, and
- B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes Yes

A. GENERAL CRITERIA FOR PROJECT

- 1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project. By Congressional Notifications

- 2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? (a) Yes (b) Yes

- 3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? Not applicable

4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) Yes.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Yes.
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No. However, other donors are financing activities related to the project and the project will be closely coordinated with these activities.
7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to:
 (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
 (a) Yes
 (b) Yes (The essence of the Project)
 (c) Yes
 (d) Yes
 (e) Yes
 (f) No

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprises.
- Attraction of foreign private direct investment is one of the project objectives.
- U.S. technical assistance will be provided under contracts with U.S. firms and individuals including Gray Amendment entities.
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- An estimated 36% of project costs will be met by the GSL. No U.S. owned SL rupees are available for project use.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
- Yes
12. FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
- Not applicabl

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests?
- Yes
- Yes
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?
- Not applicable
15. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?
- No
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?
- There will not be a set aside for such entities. However, encouragement will be given to minority or women-owned enterprises to bid on prime or subcontract work under the project technical assistance component.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance
Project Criteria

- a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?
- (a) A basic aim of the project is to create jobs and increase rural incomes through small-scale private sector development. AID inputs will help provide appropriate technology and training to private businessmen and giving as well as to new ASL agency established to promote rural private enterprise in Mahaweli areas.
- (b) The project does not involve co-operatives. However, it will support the creation and strengthening of democratic private institutions, such as rural and farmer organizations.
- (c) Project relies heavily on local private sector initiatives.
- (d) The project will specifically address the participation of women in both farm-level and off-farm rural enterprises.
- (e) Much short-term training under the project will take place in countries of the South Asia and Southeast Asia region.

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? Yes
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? The project will emphasize low-cost technologies appropriate to rural enterprises
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? Yes (36%)
- e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes. Project aims at strengthening government's capacity to promote rural private enterprise development.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Project sectors to upgrade institutional capacity for rural development, to generate rural employment and to raise rural income levels.

Skills development and practical business - oriented short-term training will be a feature of the project.

2. Development Assistance Project
Criteria (Loans Only)

a. FAA Sec. 122(b).

Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

The GSL is current on its payments; no anticipated problems.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

Not applicable

3. Economic Support Fund Project
Criteria

NOT APPLICABLE

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

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CO RUFHOM
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ZNR 00000 ZZA
O 140215Z JUN 86
FM SECSTATE WASHDC
TO AMEMBASSY COLOMBO IMMEDIATE 4052
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E.O. 12356: N/A

TAGS: N/A

SUBJECT: PROPOSALS FOR AMENDMENT TO MAHAWELI BASIN DEVELOPMENT I (383-0056) AND NEW PROJECT DESCRIPTION FOR RURAL ENTERPRISE DEVELOPMENT SECTOR (383-0020)

REFS. A) COLOMBO 03524; B) STATE 80281; C) COLOMBO 1190

1. PROJECT REVIEW COMMITTEE (PRC) REVIEWED REF. A ON MAY 20TH. BASED UPON REVIEW OF RESPONSE AND PRIOR DOCUMENTATION, BUREAU APPROVES THE FOLLOWING ACTIONS:

A. USAID/COLOMBO PROCEED WITH THE DEVELOPMENT OF AN AMENDMENT TO THE MAHAWELI BASIN DEVELOPMENT I PROJECT (MED) FOR MISSION APPROVAL;

B. USAID/COLOMBO PROCEED WITH THE DEVELOPMENT OF A PID FOR THE RURAL ENTERPRISE DEVELOPMENT SECTOR (REDS) PROJECT TO BE SUBMITTED FOR AID/W APPROVAL; AND

C. BOTH PID AND PROJECT PAPER (PP) BE DEVELOPED WITHIN THE CONTEXT OF THE FOLLOWING GUIDELINES:

1. MAHAWELI STRATEGY: IN DEVELOPMENT OF THE REFS PROJECT, THE MISSION SHOULD BE ASSURED THAT THE ECONOMIC

VIAILITY OF THE AREA, PARTICULARLY OF THE SETTLEMENT FARMERS, IS GROWING AT A REASONABLE RATE THAT CAN SUPPORT EXPANSION OF RURAL ENTERPRISE. IF NECESSARY AND AS APPROPRIATE, SETTLERS' AGRICULTURAL REQUIREMENTS SHOULD BE SUPPORTED, PREFERABLY THROUGH AMENDMENTS TO OTHER AID FUNDED PROJECTS SUCH AS DIVERSIFIED AGRICULTURAL RESEARCH PROJECT (DARP - 383-0052), IRRIGATION SYSTEMS MANAGEMENT PROJECT (ISM - 383-0020) OR THE AGRICULTURAL PLANNING AND ANALYSIS PROJECT (APAN - 383-0023). PRC EXPRESSED CONCERN ABOUT THE APPROPRIATENESS OF SUPPORT OF AGRICULTURAL PRODUCTION ACTIVITIES WITHIN THE REDS PROJECT BECAUSE OF THE ADDED COMPLEXITY FOR PROJECT MANAGEMENT.

THE REDS PID SHOULD DESCRIBE THE SUPPORT ENVISIONED BY THE MISSION TO BE PROVIDED BY THE PROJECTS, OTHER DONORS AND THE USL FOR DOWNSTREAM ACTIVITIES IN THE MAHAWELI. THESE DESCRIPTIONS SHOULD ADDRESS THE SERIOUS CONCERNS

OFFICE	ACT	INFO
DIR		✓
DD		✓
RLA		✓
HSG		
PPM	✓	
EXO		
CONT		✓
FDSF		✓
ARD		✓
HPHR		
MWRD		✓
C & R		
DUE DATE	6/17	
ACT. TAKEN		
FILE #		
NAME		
INITIALS		

CHECKED

WHICH REMAIN WITHIN THE BUREAU THAT THE DOMESTIC, AGRICULTURAL PRODUCTION REQUIREMENTS OF THE MAHAWELI, MIGHT NOT BE ADEQUATELY MET.

II. AGRICULTURAL SURPLUSES AND INCOME STREAMS: AS NOTED IN EARLIER MEETINGS AND IN REF. 5., THE NEED FOR AGRICULTURAL SURPLUSES TO PRODUCE ADEQUATE INCOME STREAMS HAS BEEN SUGGESTED AS BEING NECESSARY IN ORDER FOR ENTERPRISE DEVELOPMENT TO SUCCEED. PRO APPRECIATES MISSION'S COMMENTS ON THIS ISSUE (PARA. 3.A.1. OF REF. A.) WHICH SUGGEST THAT THE ROLA OF ANTICIPATED INVESTMENTS ARE INTENDED TO PROMOTE AND SUPPORT INCREASED AGRICULTURAL PRODUCTION AND INCOME GENERATION.

ALSO, IT WAS SUGGESTED BY DR. THAYER SCUDDER, DURING HIS RECENT BRIEFING, THAT A MAJOR STUDY OF SETTLER INCOME, EXPENDITURES AND LEVELS OF SURPLUS INCOME IN EACH OF THE SETTLEMENTS TARGETTED FOR ENTERPRISE DEVELOPMENT ACTIVITIES BE PERFORMED AS EARLY AS POSSIBLE.

RESEARCHERS (SUCH AS SCUDDER) HAVE BEEN CALLING FOR MORE ATTENTION TO BE PAID TO OFF-FARM EMPLOYMENT GENERATION AND ENTERPRISE DEVELOPMENT REQUIREMENTS IN THE MAHAWELI SINCE 1979.

AS A GENERAL RULE, THE REDS PROJECT SHOULD, WHERE POSSIBLE, INITIATE ACTIVITIES IN AREAS WHICH HAVE STRONG AGRICULTURAL PRODUCTION CAPABILITY OR NEAR-TERM POTENTIAL. ACTIVITIES WHICH TARGET AREA RESIDENTS AS CONSUMERS SHOULD BE INITIATED ONLY IN AREAS WHICH ARE GENERATING ADEQUATE DISPOSABLE INCOME STREAMS. SYSTEM

SYSTEM B, WOULD APPEAR TO BE AN APPROPRIATE AREA AND THERE ARE PROBABLY OTHERS. TO THE EXTENT THE PID ANALYSIS CANNOT DEMONSTRATE AN ADEQUATE ECONOMIC BASE TO SUPPORT THE REDS PROJECT IN THE MAHAWELI AREA, THE MISSION IS ENCOURAGED TO PURSUE A MORE WIDELY BASED GEOGRAPHIC ENVIRONMENT.

III. NATIONAL LEVEL POLICIES AND CONSTRAINTS: THE PP AMENDMENT AND PID SHOULD DEMONSTRATE HOW THE PROJECT AND THE FID WILL BE ABLE TO IDENTIFY AND EFFECTIVELY IMPACT UPON NATIONAL LEVEL POLICIES WHICH MIGHT RESTRICT OR OTHERWISE INHIBIT THE GROWTH OF ENTERPRISE DEVELOPMENT AND EMPLOYMENT GENERATION IN THE RURAL AREAS OF THE COUNTRY. IN ADDITION, AT A MINIMUM THE PID SHOULD ANALYZE EXISTING POLICIES (AND STUDIES WHICH HAVE EXAMINED THEM) TO ASSURE THAT THE CURRENT POLICY ENVIRONMENT WILL NOT CONSTRAIN THE REALIZATION OF THE PROJECT OBJECTIVES.

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IV. INSTITUTIONAL DEVELOPMENT FOR THE EMPLOYMENT, INVESTMENT AND ENTERPRISE DEVELOPMENT OFFICE (SIED): ALL/W AGREES WITH MISSION'S CONCERNS EXPRESSED DURING ACTION PLAN AND EARLIER PRC AND ANPAC MEETINGS THAT USAID TAKE ADVANTAGE OF QUOTE GETTING IN ON THE GROUND FLOOR WITH THIS NEW OFFICE AND PROGRAM, AND NOT GET LEFT BEHIND UNQUOTE. HOWEVER, PRC CONSIDERS THAT ADEQUATE GSE LONG TERM COMMITMENT SHOULD BE ASSURED BEFORE ANY SUBSTANTIAL OPERATIONAL, TRAINING OR OTHER ORGANIZATIONAL DEVELOPMENT ASSISTANCE IS PROVIDED BY AID.

WITH REGARD TO THE POSSIBILITY THAT NON-MAHAWELI AREAS MIGHT BE CONSIDERED FOR POTENTIAL ENTERPRISE DEVELOPMENT ACTIVITIES, THE AMENDMENT SHOULD ALSO IDENTIFY OTHER POSSIBLE AGENCIES OR INSTITUTIONS WHICH MIGHT APPROPRIATELY BE CONSIDERED FOR INCLUSION IN THE PROJECT.

V. SUBSIDIZATION: AS A GENERAL RULE, EFFECTIVE DEMAND SHOULD BE ALLOWED TO DRIVE OPPORTUNITIES FOR ENTERPRISE DEVELOPMENT WITHIN THE MAHAWELI AND OTHER AREAS UNDER MASL AUTHORITY. DEFINITE STEPS SHOULD BE BUILT INTO THE PROGRAM TO PREVENT THE INTRODUCTION OF SUBSIDIES OR OTHER NON-MARKET BASED INTERVENTIONS WHICH MIGHT BE CONSIDERED TO BE COUNTER-PRODUCTIVE IN THE LONG TERM.

3. CONCERNS:

A. PROJECT MANAGEMENT: THE MISSION HAS INDICATED THAT THE PROJECT SHOULD NOT REQUIRE A HIGH DEGREE OF SPECIALIZED MISSION MANAGEMENT. HOWEVER, CONCERN WAS

EXPRESSED THAT IT MAY IN FACT BE MANAGEMENT INTENSIVE AND ALSO REQUIRE AN ARRAY OF SKILLS NOT AVAILABLE TO THE MISSION. THE PID SHOULD ADDRESS THIS CONCERN, PARTICULARLY GIVEN LIKELY BUDGET AND STAFFING LEVELS.

B. INVESTMENT CLIMATE: IT IS ENCOURAGING TO NOTE THE CONTINUED GROWTH IN PRIVATE MANUFACTURING IN SRI LANKA OVER THE PAST COUPLE OF YEARS, IN SPITE OF THE DISTURBING ETHNIC SITUATION. NEVERTHELESS, NEWS ABOUT THE POLITICAL, FINANCIAL AND ECONOMIC SITUATION IN SRI LANKA CONTINUES TO WORSEN AND THE CONCERNS EXPRESSED DURING THE ANPAC ABOUT THE EFFECTS ON POTENTIAL INVESTMENT WITHIN THE MAHAWELI AREA AND THE COUNTRY AS A WHOLE REMAIN.

C. SEQUENCING: GIVEN THE MAJOR TURN-OVER IN MISSION PERSONNEL SCHEDULED FOR THIS SUMMER, THE BUREAU NOW ANTICIPATES THE SUBMISSION OF THE PID SOMETIME DURING THE FIRST QUARTER OF FY 1987. SROLTZ

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earlier OK, but offer curvival on review by Chase & Nelson

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