

UNCLASSIFIED  
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INCOMING 48663  
TELEGRAM

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ACTION AID-00

THE MARD AND THE COMPANION MAHAWELI SECTOR SUPPORT II  
LOAN (331-010) COMPLEMENT THOSE EFFORTS. MAHAWELI  
SECTOR SUPPORT ADDRESSES COMPLETING INFRASTRUCTURE  
NECESSARY FOR SETTLEMENT AND FULLY EXPLOITING THE  
IRRIGATION SYSTEM IN SYSTEM B AS WELL AS ADDRESSING  
CRITICAL POLICY ISSUES. MARD CONCENTRATES ON THE  
AGRICULTURAL TECHNOLOGIES AND WATER MANAGEMENT ISSUES  
TO RAISE AND SUSTAIN FARM SETTLER INCOMES ABOVE  
SUBSISTENCE LEVELS. IN SUM, THE VARIOUS PROJECTS  
PROVIDE A COMPREHENSIVE FRAMEWORK WITH WHICH TO WORK  
WITH THE GOVERNMENT ON THE SECOND GENERATION OF  
POLICIES.

ACTION OFFICE 01-01  
INFO ANPD-05 GCAN-02 PPCE-01 PPPB-02 GC-01 STFD-01 GCCM-02  
ANTR-06 STAG-02 CASI-01 AURI-01 HELO-01 DO-01 ANSA-02  
/029 A2 913

INFO LOG-00 CIAE-00 EB-00 DODE-09 NEA-07 /015 W  
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R 130501Z DEC 86  
FM AMEMBASSY COLOMBO  
TO SECSTATE WASHDC 0196

UNCLAS SECTION 01 OF 06 COLOMBO 09210

AIDAC

E.O. 12356: N/A

SUBJECT: MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT  
PROJECT, NO. 383-0036 - CONCEPT PAPER

REF: (A) COLOMBO 08331; (B) STATE 364822

OF ALL OF THE ELEMENTS OF OUR APPROACH THE COMPONENTS  
OF THE MARD PROJECT ARE PERHAPS THE MOST RELATIVELY  
STRAIGHT FORWARD AND WELL-KNOWN WITHIN AID. BASED ON  
USAID AND MAHAWELI AUTHORITY EXPERIENCE, THE PROJECT  
WILL CONCENTRATE ON THREE COMPONENTS: WATER  
MANAGEMENT, RAPID TURNAROUND ADAPTIVE RESEARCH AND  
AGRICULTURAL SUPPORT SERVICES. THE MISSION HAS  
EXTENSIVE EXPERIENCE IN THE WATER MANAGEMENT AREA  
THROUGH THE PRIOR WORK IN GAL OYA (WATER MANAGEMENT  
PROJECT, 363-0057), THE DESIGN OF THE NEW IRRIGATION  
SYSTEMS MANAGEMENT PROJECT (383-0080), AND THE CURRENT  
WORK OF CH2MHILL IN MAHAWELI SYSTEM B NOW BEING  
CONTINUED UNDER THE PHASE II AMENDMENT. THROUGH THE  
DIVERSIFIED AGRICULTURE RESEARCH PROJECT (383-0058),  
THE MISSION IS WELL ACQUAINTED WITH THE AGRICULTURAL  
RESEARCH ESTABLISHMENT WHICH WILL BE CENTRAL TO THE  
PROJECT. THE MISSION ALSO HAS HAD EXTENSIVE  
EXPERIENCE WITH THE MAHAWELI AGENCIES, SPECIFICALLY  
THE MAHAWELI ECONOMIC ZONE, WHICH IS  
RESPONSIBLE FOR IMPLEMENTING THIS PROJECT. THE  
EVALUATION OF THE MISSION'S MAHAWELI PORTFOLIO DATED  
JUNE, 1985, IDENTIFIED THE PRIORITY AREAS WHICH ARE

1. SUMMARY: MISSION PROPOSES A DOLLARS FOURTEEN  
MILLION MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT  
PROJECT (MARD) AIMED AT ESTABLISHING THE ECONOMIC  
VIABILITY OF FARMER SETTLERS IN THE LEFT BANK OF  
SYSTEM B OF THE ACCELERATED MAHAWELI PROJECT. THE  
PROJECT IS CONSISTENT WITH GSL, AID AND MISSION  
STRATEGY AND IS DIRECTED TO OPTIMIZE RETURNS TO THE  
HEAVY USAID INFRASTRUCTURE INVESTMENTS IN SYSTEM B.  
THREE MAJOR PROJECT COMPONENTS, FARMING SYSTEMS  
RESEARCH AND EXTENSION, WATER MANAGEMENT AND  
AGRICULTURAL SUPPORT SERVICES ARE DESCRIBED BELOW.  
MISSION REQUESTS AID/W REDELEGATION OF AUTHORITY TO  
APPROVE PID AND PROJECT PAPER IN FIELD. END SUMMARY.

2. THE MARD PROJECT IS ONE OF THREE CORE AID  
PROJECTS THAT WILL CONCENTRATE ON THE SPECIAL MAHAWELI  
AREAS OVER THE NEXT SEVERAL YEARS. IN THE PAST USAID  
SUPPORT HAS CONCENTRATED ON THE MAJOR PHYSICAL  
INFRASTRUCTURE REQUIREMENTS, EMPHASIZING MAIN AND  
BRANCH IRRIGATION CHANNELS, IN THE LEFT BANK OF  
MAHAWELI SYSTEM B. (SYSTEM B IS ONE OF THE FIVE MAJOR  
MAHAWELI SPECIAL AREAS.) THE MAJOR CONSTRUCTION IN  
THIS AREA IS NOW NEARING COMPLETION. ATTENTION IS  
SHIFTING FROM CONSTRUCTING MAJOR PHYSICAL  
INFRASTRUCTURE TO CONSOLIDATING THE DEVELOPMENT,  
COMPLETING SETTLEMENT, OPERATING AND MAINTAINING  
IRRIGATION SYSTEMS EFFECTIVELY, AND IDENTIFYING AND  
DISSEMINATING THE AGRICULTURAL PRACTICES CRITICAL TO  
SUSTAINED DEVELOPMENT.

OVER THE NEXT SEVERAL YEARS, USAID PROPOSES TO ASSIST  
THE GOVERNMENT ADDRESS THE MANY AND DIVERSE CHALLENGES  
IN THE POST-CONSTRUCTION PERIOD TO REALIZE THE RETURN  
ON THE CONSIDERABLE INVESTMENT IN INFRASTRUCTURE. THE  
FIRST INITIATIVES WERE THE RECENT AMENDMENTS TO THE  
MAHAWELI BASIN DEVELOPMENT PHASE I AND II PROJECTS  
(383-0056 AND 383-0073). THE PHASE I AMENDMENT  
SUPPORTS THE ENTERPRISE, INVESTMENT, EMPLOYMENT  
DIVISION (EIED) OF THE MAHAWELI AUTHORITY OF SRI LANKA  
(MASL) TO DEVELOP STRATEGIES TO ENHANCE THE ECONOMIC  
ENVIRONMENT OF THE AREA. USAID CURRENTLY INTENDS TO  
BUILD ON THE EXPERIENCE OF THIS COMPONENT THROUGH AN  
EXPANDED PROGRAM OF ASSISTANCE TO PRIVATE INVESTMENT  
AND COMMERCIAL DEVELOPMENT IN FY 83 (REDS). THE PHASE  
II AMENDMENT IS DEVELOPING THE REQUIRED TRAINING,  
OPERATIONAL AND MAINTENANCE ASPECTS OF THE IRRIGATION  
SYSTEM.

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TO SECSTATE WASHDC 0397

UNCLAS SECTION 02 OF 06 COLOMBO 09210

AIDAC

E.O. 12356: N/A

SUBJECT: MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT

ADDRESSED BY THE THREE COMPONENTS OF MARD.

BASED ON MISSION EXPERIENCE, OUR FAMILIARITY WITH THE INSTITUTIONS INVOLVED, AND THE STRAIGHT FORWARD NATURE OF THE PROJECT COMPONENTS, THE MISSION REQUESTS REDELEGATION AUTHORITY TO REVIEW AND APPROVE BOTH THE PID AND THE PROJECT PAPER. PER REFTEL (A), PID REVIEW IS PLANNED FOR THE END OF JANUARY AND THE MISSION ENCOURAGES AID/W STAFF PARTICIPATION. THE CONCEPT PAPER PRESENTED BELOW FORMS THE BASIS OF THE PID THAT THE MISSION EXPECTS TO COMPLETE SHORTLY.

3. BACKGROUND: AGRICULTURE PLAYS A MAJOR ROLE IN THE SRI LANKAN ECONOMY, ACCOUNTING IN 1985 FOR ABOUT 26 PERCENT OF TOTAL GDP, OVER 50 PERCENT OF TOTAL EMPLOYMENT AND 47 PERCENT OF EXPORT EARNINGS. RURAL AREAS CONTAIN 78 PERCENT OF THE COUNTRY'S POPULATION WITH OVER 90 PERCENT OF THIS RURAL GROUP EITHER DIRECTLY OR INDIRECTLY DEPENDENT ON AGRICULTURE. THE ONLY BRIGHT SPOT IN AN OTHERWISE STAGNANT AGRICULTURAL ECONOMY HAS BEEN INCREASED RICE PRODUCTION ATTRIBUTABLE TO ADOPTION OF HIGH YIELDING VARIETIES, FAVORABLE WEATHER, LIBERALIZED PRICING POLICY AND EXPANSION OF IRRIGATION FACILITIES TO NEW LANDS SUCH AS THE ACCELERATED MAHAWELI PROJECT (AMP). DURING 1985, LOCAL PRODUCTION OF RICE AMOUNTED TO OVER 90 PERCENT OF CONSUMPTION, WHICH CONSIDERING POPULATION GROWTH, WAS A REMARKABLE INCREASE FROM 62 PERCENT OF CONSUMPTION IN 1966. DURING THE LAST TWO YEARS, HOWEVER, JUST AS SELF-SUFFICIENCY OF RICE WAS WITHIN REACH, THE INCREASING TREND IN PRODUCTION HAS SLOWED AND BOTH YIELD AND AREA PLANTED HAVE LEVELLED OFF AND EVEN DECLINED SLIGHTLY. CONCURRENTLY, RETURNS TO LAND AND FAMILY LABOR FOR RICE PRODUCTION HAVE DECLINED SHARPLY AS PRICES HAVE SOFTENED AND COSTS OF AGRICULTURAL INPUTS HAVE INCREASED. A TYPICAL FAMILY OF FIVE PRODUCING TWO CROPS OF IRRIGATED RICE PER YEAR ON AN ALLOTMENT OF TWO AND ONE HALF ACRES UNDER MODERATE MANAGEMENT INTENSITY CAN EXPECT TO PRODUCE A NET INCOME OF ONLY ABOUT RS. 10,000 (USD 347), A FIGURE THAT PLACES THEM ONLY MARGINALLY ABOVE THE SUBSISTENCE LEVEL.

THROUGH THE ACCELERATED MAHAWELI PROGRAM (AMP), THE GSL HAS MADE A HUGE INVESTMENT IN EXPANDING THE AGRICULTURAL LAND BASE. THE AMP OBJECTIVES ARE TO INCREASE AGRICULTURAL PRODUCTION AND PROVIDE LAND AND EMPLOYMENT FOR A LARGE POPULATION OF LANDLESS PEASANTS. THIS EFFORT INVOLVES LARGE PHYSICAL

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INFRASTRUCTURE DEVELOPMENT INCLUDING DAMS, IRRIGATION CANALS, LAND DEVELOPMENT AND DISPLACEABLE POPULATION SHIFTS AND RESETTLEMENT. APPROXIMATELY USD 1.3 BILLION HAVE BEEN INVESTED IN THE AMP SINCE 1977.

SYSTEM B IS THE LARGEST AREA OF THE AMP UNDER DEVELOPMENT. THE TOTAL IRRIGABLE LAND EXTENT IN ZONES 1, 2, 3, 4A AND 5 OF THE LEFT BANK OF SYSTEM B IS ABOUT 24,000 HECTARES, YET THUS FAR ONLY 9,900 FAMILIES HAVE BEEN SETTLED. USAID HAS INVESTED HEAVILY IN THE LEFT BANK OF SYSTEM B IN PARTICULAR, FINANCING OVER 100 MILES OF MAIN AND BRANCH CANALS AND ADDITIONAL DOWNSTREAM WORK AT A TOTAL COST OF NEARLY US\$ 120 MILLION.

4. PERCEIVED PROBLEM: IT IS CRUCIAL TO THE SUCCESS OF THE AMP AND INDEED THE GENERAL ECONOMY OF THE COUNTRY, THAT SETTLERS QUICKLY INCREASE THEIR INCOMES ABOVE BARE SUBSISTENCE REQUIREMENTS. AGRICULTURAL SURPLUSES ARE NECESSARY TO INDUCE SETTLERS TO REMAIN IN A RUGGED, OFTEN UNHEALTHY FRONTIER ENVIRONMENT. MOST SETTLERS SELECTED ARE UNEMPLOYED, POOR AND LANDLESS AND HAVE NEITHER THE RESOURCES NOR AN EXTENDED FAMILY TO PROVIDE A CUSHION TO ECONOMIC HARDSHIP.

WHILE AGRICULTURAL PRODUCTIVITY IS CENTRAL TO MAKING THE MAHAWELI INVESTMENT PAY OFF, IT IS NOW EVIDENT THAT DOUBLE CROPPING OF RICE ON THE RELATIVELY SMALL ALLOTMENTS OF IRRIGATED LAND (2.5 ACRES) IN THE AMP DOES NOT PROVIDE SUFFICIENT INCOME TO ESTABLISH THE ECONOMIC VIABILITY OF SETTLER FAMILIES. ONLY A DIVERSIFIED FARMING APPROACH FULLY UTILIZING AVAILABLE LAND, INCLUDING THE 0.5 ACRE UPLAND HOMESTEAD AREA AND FAMILY LABOR RESOURCES, PROVIDES A REASONABLE CHANCE OF LIFTING THE SETTLERS OUT OF THE SUBSISTENCE CYCLE.

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INFO ANPD-05 GCAN-01 PFCE-01 PPHB-02 HC-01 GIRD-01 GCOM-02  
ANTR-06 STAG-01 SAST-01 AGRI-01 DO-01 ANSA-02  
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TO SECSTATE WASHDC 0330

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AIDAC

E.O. 12356: N/A  
SUBJECT: MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT

THIS DIVERSIFIED CROPPING STRATEGY, HOWEVER, REQUIRES A SET OF TECHNOLOGIES LARGELY UNKNOWN TO SETTLERS AND A RANGE OF INSTITUTIONAL SUPPORT SYSTEMS DIFFERENT FROM THOSE IN PLACE FOR RICE MONOCROPPING.

5. PROJECT GOAL AND PURPOSE: THE GOAL OF THE PROJECT IS TO ESTABLISH THE ECONOMIC VIABILITY AND IMPROVE THE WELFARE OF SETTLER FAMILIES ON THE LEFT BANK OF SYSTEM B. THE PURPOSE IS TO SUBSTANTIALLY INCREASE SETTLER INCOMES GIVEN THE CONSTRAINTS OF SMALL LAND ALLOTMENT SIZES AND LIMITED FAMILY RESOURCES. GIVEN THE LIMITED AMOUNT OF FAMILY RESOURCES AND THE DIFFICULTY OF INCREASING LAND ALLOTMENT SIZES IN AREAS ALREADY SETTLED, SETTLER FAMILIES CAN ONLY INCREASE INCOMES THROUGH INCREASED RESOURCE PRODUCTIVITY WHICH IN TURN WILL INCREASE EARNINGS. PROJECT COMPONENTS WILL STIMULATE FARM FAMILIES' RESOURCE PRODUCTIVITY AND EARNING CAPABILITY THROUGH THE TRANSFER OF AGRICULTURAL TECHNOLOGY AND THE CONCURRENT DEVELOPMENT OF SUPPORTING SERVICES. POLICY CHANGES AND ADDITIONAL INFRASTRUCTURE WORK TO BE INSTITUTED UNDER THE COMPANION MAHAWELI SECTOR SUPPORT II PROJECT WOULD BE COMPLEMENTARY TO ESTABLISHING THE ECONOMIC VIABILITY OF THE PROJECT AREA.

6. PROJECT OUTLINE AND HOW IT WILL WORK: THE STRATEGY FOR ACHIEVING THE PROJECT PURPOSE IS TO DELIVER ECONOMICALLY SOUND PRODUCTION TECHNOLOGY TO SETTLERS, TO GET THE IRRIGATION SYSTEM OPERATING EFFECTIVELY, AND TO PROVIDE ESSENTIAL SERVICES SUPPORTIVE TO AGRICULTURAL DEVELOPMENT. THESE THREE OBJECTIVES MUST BE ACHIEVED AS QUICKLY AS POSSIBLE FOR SETTLERS TO PROGRESS FROM SUBSISTENCE PRODUCTION TO MORE MARKET-ORIENTED ENTERPRISES.

A. FARMING SYSTEMS RESEARCH AND EXTENSION: THIS PROJECT COMPONENT WILL SUPPORT THE ESTABLISHMENT OF DIVERSIFIED PRODUCTION TECHNOLOGY ON THE IRRIGATED FARMS AND OPTIMIZE THE PRODUCTION OF THE UPLAND HOMESTEAD AREAS. FARMING SYSTEMS IN SYSTEM B WILL LIKELY BE BASED ON PADDY PRODUCTION, BUT ALTERNATE CROPS ON THE IRRIGATED LAND, PARTICULARLY DURING THE DRY SEASON, MUST BE QUICKLY IDENTIFIED AND ADOPTED BY FARMERS TO REALIZE AGRICULTURAL SURPLUS AND INCREASED INCOME EARNINGS. LIVESTOCK AND FISHERIES PRODUCTION MAY ALSO BE INTEGRATED INTO THE FARMING SYSTEMS. THE EXPANDED REGIONAL RESEARCH CENTER AT ARALAGANWILA WILL BE THE CENTER FOR THE RESEARCH AND

EXTENSION EFFORT. EXTENSIVE FIELD TRIALS AND DEMONSTRATIONS ON FARMERS' FIELDS OF ALTERNATE CROPPING SYSTEMS AND IMPROVED AGRONOMIC PRACTICES WILL BE A MAJOR TACTIC TO QUICKLY TRANSFER TECHNOLOGY. THIS APPROACH HAS GAINED ACCEPTANCE AMONG THE USL RESEARCH COMMUNITY AND WILL RECEIVE SPECIAL EMPHASIS FOR THIS PROJECT.

INTENSIVE IN-SERVICE TRAINING OF RESEARCH AND EXTENSION OFFICERS ALSO WILL BE NECESSARY TO KEEP STAFF ABBREAST OF IMPROVED PRACTICES. THE 0.5 ACRE HOMESTEAD ALLOTMENT DESIGNATED ON THE IRRIGABLE UPLAND AREAS IS A SMALL BUT POTENTIALLY IMPORTANT RESOURCE TO ENHANCE FAMILY INCOME, EMPLOY HOUSEHOLD LABOR AND RAISE LIVING STANDARDS. EXPLOITING THIS RESOURCE WILL BE CENTRAL TO THE APPLIED AGRICULTURAL RESEARCH COMPONENT. THE PROJECT ANTICIPATES SUPPORTING A LOCAL PRIVATE VOLUNTARY ORGANIZATION, PERHAPS IN CONJUNCTION WITH A U.S. PVO OR U.S. PEACE CORPS VOLUNTEERS, TO ASSIST SETTLER FAMILIES, WITH A PARTICULAR EMPHASIS ON WOMEN, TO MANAGE MORE EFFECTIVELY THE HOMESTEAD PLOTS. THE POTENTIAL FOR INTENSE COORDINATION WITH THE ONGOING USAID FUNDED DIVERSIFIED AGRICULTURE RESEARCH PROJECT EXISTS AND WILL BE TAPPED TO SUPPORT THIS PROJECT COMPONENT. THE PROJECT WILL PROVIDE TECHNICAL ASSISTANCE, TRAINING AND POSSIBLY SOME COMMODITIES TO SUPPORT THE TECHNOLOGY TRANSFER PROCESS. ESTIMATED COST FOR THIS PROJECT COMPONENT IS 0.6 MILLION.

B. WATER MANAGEMENT: THE OBJECTIVE OF THIS COMPONENT IS TO ESTABLISH BOTH SYSTEM LEVEL AND FARM LEVEL PRACTICES AND INSTITUTIONS TO ENSURE EFFICIENT DELIVERY AND USE OF IRRIGATION WATER. THE INFRASTRUCTURE SUPPORTING DELIVERY OF WATER TO FARMERS' FIELDS IS THE LARGEST INVESTMENT MADE BY BOTH

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INFO AMPD-15 GCAN-01 PPCE-01 PPF8-02 CC-01 CCM-02 ANTR-06  
STAG-02 SASI-01 RELO-01 UC-01 AVR1-01 /026 A2 91J

INFO LOG-02 COPY-01 CIAC-00 FB-00 DODE-00 NEA-07 AMAD-01  
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AIDAC

E.O. 12356: N/A  
SUBJECT: MAHVELI AGRICULTURE AND RURAL DEVELOPMENT

THE GSL AND THE DONORS IN GENERAL AND AID IN PARTICULAR. PROPER MANAGEMENT, OPERATION AND MAINTENANCE OF THE IRRIGATION SYSTEM IS CRITICAL TO PRODUCTIVITY AND REALIZING A FAVORABLE RETURN TO THE CAPITAL INVESTMENT.

EQUALLY IMPORTANT IS DEVELOPING A WATER MANAGEMENT SYSTEM AT THE FARM LEVEL FAVORABLE TO THE DIVERGIFIED CROPPING SYSTEMS AND RELATED BOTH TO FARMER GROUP'S NEEDS AND TO THE OPERATION OF THE MAIN SYSTEM. THE PROJECT WILL ORGANIZE EFFECTIVE FARMER GROUPS TO PLAN AND SCHEDULE WATER USE, ASSIST IN MAINTENANCE OF FIELD CANALS AND COORDINATE WATER DELIVERY WITHIN THE SYSTEM. WITH RESPECT TO O&M, UNDER THE AMENDMENT TO THE MAHVELI BASIN DEVELOPMENT II PROJECT, TECHNICAL ASSISTANCE IS BEING PROVIDED TO DEVELOP OPERATIONS AND MAINTENANCE PROCEDURES AND TO TRAIN STAFF ON THE IMPLEMENTATION OF THOSE PROCEDURES. THIS ASSISTANCE, HOWEVER, WILL END BEFORE THE ENTIRE LEFT BANK IRRIGATION SYSTEM IS OPERATIONAL. THE MARD PROJECT WILL PROVIDE FOLLOW-ON SUPPORT TO ENSURE THAT THE SYSTEM LEVEL O&M CAPABILITY IS FULLY INSTITUTIONALIZED WITHIN BOTH THE GSL AND TARGETTED FARMING COMMUNITIES. ESTIMATED COST FOR THIS PROJECT COMPONENT IS DLRS 5 MILLION.

C. AGRICULTURAL SUPPORT SERVICES: THE OBJECTIVE OF THIS PROJECT COMPONENT IS TO ENSURE THAT THE INPUTS REQUIRED TO SUPPORT THE PRODUCTION TECHNOLOGY ARE IMMEDIATELY AVAILABLE, THAT MARKET FORCES EXPRESSED THROUGH THE PRIVATE SECTOR ARE ENCOURAGED TO PROVIDE THE NEEDED INPUTS AND THAT FARMERS OBTAIN THE LARGEST POSSIBLE MARKET SHARE FOR THEIR PRODUCE. THE CROP DIVERSIFICATION STRATEGY EMERGING FROM THE APPLIED RESEARCH WILL REQUIRE SUPPORTIVE AGRICULTURAL SERVICES AND INPUTS SUCH AS SEEDS AND NURSERY STOCK, IMPLEMENTS, CHEMICALS, ETC. THE PRIVATE SECTOR IS EXPECTED TO PROVIDE THESE INPUTS. AS THE NEW TECHNOLOGIES ARE IDENTIFIED, HOWEVER, THE PROJECT MAY NEED TO DEVELOP SOME BRIDGING MECHANISMS TO PROVIDE INPUTS IN CONCERT WITH TECHNICAL ASSISTANCE PRIOR TO TRANSFERING THESE FUNCTIONS TO THE PRIVATE SECTOR. ONE CONCEPT WE EXPECT TO EXPLORE IS THE REFINEMENT AND EXPANSION OF COMMERCIAL LEASING OR SUPPLYING OF EQUIPMENT SUCH AS HAND AND 4-WHEEL TRACTORS, VILLAGE MACHINERY AND POSTHARVEST THRESHING AND PROCESSING EQUIPMENT.

EFFICIENT MARKETING OF FARMERS' PRODUCE IS ANOTHER PREREQUISITE TO THE INCOME MAXIMIZING PROJECT PURPOSE. PRIVATE SECTOR TRADERS ARE ALREADY ACTIVE IN

PURCHASING AND TRANSPORTING PADDY FROM SYSTEM B MARKETS AND MARKETING FOR ALTERNATIVE CASH PRODUCTS ARE NOT AS WELL ESTABLISHED AND IT IS LIKELY THAT INTRODUCTION OF NEW CROPS WILL REQUIRE STRENGTHENING OF MARKET SERVICES. PRIVATE TRADERS ARE EXPECTED TO PLAY AN IMPORTANT ROLE, BUT WITHOUT SPECIAL ASSISTANCE THEY MAY BE CONSTRAINED BY LACK OF CAPITAL TO INVEST IN TRANSPORTATION, STORAGE AND PROCESSING EQUIPMENT. FARM PRODUCE MAY NEED TO BE GRADED TO QUALITY STANDARDS TO ENSURE HIGHEST PRICES. SEASONAL MARKET CYCLES HAVE BEEN OBSERVED FOR MANY AGRICULTURAL COMMODITIES IN SRI LANKA. THE PP DESIGN TEAM WILL INVESTIGATE THE FEASIBILITY OF INCLUDING ON-FARM OR VILLAGE LEVEL STORAGE AND/OR PROCESSING FACILITIES TO HELP FARMERS TAKE ADVANTAGE OF HIGHEST SEASONAL PRICES AND TO ADD VALUE TO THEIR PRODUCE. A MARKET INFORMATION SYSTEM WILL BE DEVELOPED BY THE PROJECT TO PROVIDE INFORMATION TO FARMERS ON CURRENT COMMODITY PRICES AND TO LINK COMMERCIAL TRADERS TO FARMER GROUPS. ESTIMATED COST FOR THE AGRICULTURAL SERVICES COMPONENT IS DLRS 3 MILLION. ALL THE ABOVE THREE COMPONENTS WOULD BE COMPLEMENTED BY A GSL CONTRIBUTION OF AT LEAST 25 PERCENT OF PROJECT COSTS.

7. IMPLEMENTING INSTITUTIONS: THE MAHVELI AUTHORITY OF SRI LANKA (MASL) AND ITS SUBSIDIARY AGENCIES IS THE IMPLEMENTING INSTITUTION. MASL HAS THE AUTHORITY TO CONTRACT WITH OTHER GSL AGENCIES AND PRIVATE SECTOR FIRMS FOR SPECIFIC WORK. FOR EXAMPLE, THE DEPARTMENT OF AGRICULTURE (DOA) WILL BE CONTRACTED TO PROVIDE THE RESEARCH EXPERTISE IN SYSTEM B. THE MAHVELI ECONOMIC AGENCY (MEA) IS IN CHARGE OF AGRICULTURAL EXTENSION, WATER MANAGEMENT AND AGRICULTURAL SERVICES.

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ACTION: AID-00

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INFO ANPD-05 GCAN-02 PPCE-01 PPPB-02 GC-01 STRD-01 GCCM-02  
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AGRICULTURAL CREDIT AND MARKETING LOAN FUND; FOR  
PRIVATE SECTOR TRADERS AND INDUSTRIALISTS WILL BE  
INVESTIGATED BY THE DESIGN TEAM.

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10. RELATIONSHIP TO MISSION AND HOST COUNTRY STRATEGY: A MAJOR ELEMENT OF THE MISSION STRATEGY IS TO INCREASE PRODUCTIVITY AND INCOMES OF THE SMALL FARMERS OF SRI LANKA. THE STRATEGY IS IMPLEMENTED WITH FOUR CROSS-CUTTING THEMES, NAMELY: RELIANCE ON MARKET FORCES, SOOT RECOVERY AND REDUCED SUBSIDIES, COMMUNITY PARTICIPATION AND AVAILABILITY AND MORE EFFECTIVE USE OF PRIVATE INVESTMENT CAPITAL. THE GSL IS COMMITTED TO OPENING NEW LANDS FOR AGRICULTURE TO EXPAND AGRICULTURAL EMPLOYMENT AND ON GIVING A GREATER ROLE TO THE PRIVATE SECTOR. THE OUTLINE OF THIS PROPOSED PROJECT SUPPORTS THESE OBJECTIVES. THE PROJECT BENEFICIARIES ARE THE SMALL FARMER SETTLERS OF SYSTEM B WHO BY DEFINITION ARE AMONG THE POOREST MEMBERS OF SOCIETY. THE PROJECT WILL IMPROVE THEIR ECONOMIC CONDITION BY STIMULATING THEIR PRODUCTIVITY AND ENCOURAGING STRONG AND COMPETITIVE PRIVATE SECTOR INPUT AND MARKETING STRUCTURES. GRASS ROOTS PARTICIPATION OF FARMERS IN THE DEVELOPMENT PROCESS WILL BE STRONGLY ENCOURAGED THROUGH FARMER IRRIGATION ORGANIZATIONS AND RESEARCH/EXTENSION ACTIVITIES.

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A10AC

E.O. 12356: N/A  
SUBJECT: MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT

11. DESIGN ISSUES AND STRATEGY: THE PROJECT DESIGN TEAM WILL CONSIST OF FIVE PERSONS WITH EXPERTISE IN WATER/IRRIGATION MANAGEMENT, RESEARCH/EXTENSION AGRONOMY WITH SPECIAL EMPHASIS ON SOILS, AGRICULTURAL ECONOMICS AND MARKETING AND RURAL SOCIOLOGY PLUS A TEAM LEADER WITH EXPERTISE IN SYNTHESIZING A COHERENT IMPLEMENTABLE PROJECT DESIGN. THE TEAM WILL WORK COLLABORATIVELY WITH THE MAHAWELI SECTOR SUPPORT PP TEAM AND GSL STAFF. CONTRACTING IS ANTICIPATED BY A DIRECT AID CONTRACT VIA AN IQC. THE

8. PROJECT OUTPUTS AND END OF PROJECT STATUS: BY THE END OF THE PROJECT, AVERAGE REAL NET FARM INCOMES IN SYSTEM B WILL EXCEED SUBSTANTIALLY THE INCOME OF MORE TRADITIONAL RICE CROPPING SYSTEMS. AGRICULTURE SUPPORT INSTITUTIONS WILL BE DEVELOPED AND OPERATING EFFECTIVELY IN THE SYSTEM. THESE ARE ANTICIPATED TO INCLUDE SOME COMBINATION OF FARMERS' IRRIGATION ORGANIZATIONS, PRIVATE SECTOR MARKETING, AGRICULTURE RESEARCH AND EXTENSION SERVICES, AND INPUT DELIVERY SYSTEMS. GSL PERSONNEL WILL BE TRAINED IN THE OPERATION AND MAINTENANCE OF THE IRRIGATION INFRASTRUCTURE AND THE SYSTEM WILL BE OPERATING EFFICIENTLY WITH STRONG LINKAGE TO FARMER IRRIGATION ORGANIZATIONS.

9. PROJECT INPUTS: TECHNICAL ASSISTANCE IS EXPECTED TO BE THE LARGEST PROJECT INPUT FOLLOWED BY COMMODITIES, TRAINING, CREDIT AND LIMITED CONSTRUCTION, AND OPERATING EXPENSES. TECHNICAL ASSISTANCE WILL HELP ESTABLISH THE CAPACITY OF THE DOA AND NEA TO CONDUCT APPLIED AND ADAPTIVE RESEARCH AND EXTENSION GEARED SPECIFICALLY TOWARD SYSTEM B DIVERSIFIED CROPPING. TECHNICAL ASSISTANCE ALSO WILL ASSIST WITH THE DEVELOPMENT OF HOMESTEAD SITES, MARKET RESEARCH AND EXTENSION, ANY CREDIT EXPANSION, AND THE DEVELOPMENT OF FARMER IRRIGATION ORGANIZATIONS. THE MAINTENANCE AND OPERATIONS OF THE MAIN IRRIGATION SYSTEM REQUIRE ADDITIONAL TECHNICAL ASSISTANCE AS THE SYSTEM EXPANDS TO REACH NEW SETTLERS AND GREATER PARTICIPATION BY FARMERS IS ENCOURAGED. APPROXIMATELY 40 PERSON YEARS OF LONG-TERM TECHNICAL ASSISTANCE, SOME OF WHICH WILL BE LOCAL, AND 150 PERSON MONTHS OF SHORT-TERM TECHNICAL ASSISTANCE WILL BE REQUIRED. LONG-TERM ACADEMIC TRAINING WILL BE MINIMIZED UNDER THE PROJECT SO THAT KEY STAFF ARE NOT ABSENT FOR LONG PERIODS. THE PROJECT WILL FUND SHORT-TERM U.S. AND THIRD COUNTRY TRAINING AND IN-COUNTRY WORKSHOPS AND SEMINARS. UP TO 160 PERSON MONTHS OF SHORT-TERM TRAINING AND 10 PERSON YEARS OF LONG-TERM ACADEMIC TRAINING ARE ENVISIONED. LIMITED CONSTRUCTION ACTIVITIES WILL FOCUS ON PILOT LAND DEVELOPMENT MODELS FOR IRRIGATED, NON-PADDY CROPS AND SMALL STORAGE FACILITIES AT FARM OR VILLAGE LEVELS. FACILITIES FOR IN-SERVICE TRAINING OF GSL TECHNICAL STAFF MAY ALSO BE NEEDED ALONG WITH SUPPORT COST TO CONDUCT FIELD RESEARCH AND EXTENSION WORK. COMMODITIES INCLUDE VEHICLES FOR PROJECT STAFF, RESEARCH EQUIPMENT AND SUPPLIES AND EQUIPMENT FOR PROCESSING AND STORING AGRICULTURAL PRODUCE. THE FEASIBILITY OF CAPITALIZING

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GROUPS; ALBERT SOME ARE MORE SKEPTICAL ABOUT THE  
LIKELY PACE OF ACTUAL IMPLEMENTATION. WHEREAS THE  
ABOVE CONSTITUTES A FORMIDABLE AGENDA OF ISSUES, THE  
MISSION BELIEVES, THAT GIVEN THE IMPORTANCE OF THIS  
PROJECT TO GOVERNMENT STRATEGY THAT THESE ISSUES CAN  
BE SATISFACTORILY RESOLVED DURING THE DESIGN OF THE  
PROJECT. SPAIN

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E.O. 12356: N/A  
SUBJECT: MAHAWELI AGRICULTURE AND RURAL DEVELOPMENT

MISSION PROJECT COMMITTEE UNDER THE LEADERSHIP OF THE  
COMMITTEE CHAIRMAN WILL MANAGE THE DESIGN TEAM. THE  
MISSION ESTIMATES FOUR MONTHS TO DESIGN, REVIEW AND  
FINALIZE PROJECT DESIGN. COLLABORATION WITH THE GSL  
SHOULD FACILITATE NEGOTIATION AND ALLOW PROJECT  
OBLIGATION DURING FY 87.

THE SECURITY PROSPECTS FOR THE LEFT BANK APPEAR  
ACCEPTABLE. THE GSL MILITARY APPEARS TO BE IN  
REASONABLY EFFECTIVE CONTROL OF THE AREA; USAID TA  
CONTRACTORS HAVE BEEN WORKING THERE FOR THE PAST FOUR  
YEARS WITH ONLY MINIMAL PROBLEMS. THUS, THE MISSION  
BELIEVES THAT THE SECURITY CONDITIONS AT THIS TIME  
NEED NOT IMPAIR DESIGN, IMPLEMENTATION OF THE  
PROJECT. THE ENTIRE LEFT BANK IS, HOWEVER, ON THE  
VERY FRINGE OF AREAS UNDER DISPUTE AND THE SECURITY  
SITUATION WILL NEED TO BE MONITORED ON REGULAR BASIS.  
MAJOR DESIGN AND NEGOTIATION ISSUES ANTICIPATED ARE  
VARIED. THEY INCLUDE THE RELATIVE EMPHASES ON TA, THE  
MIX OF PUBLIC AND PRIVATE INVOLVEMENT AND THE  
APPROPRIATE ROLE OF FARMER IRRIGATION ORGANIZATIONS.  
THE LIKELY AVAILABILITY OF DIVERSIFIED CROPPING  
TECHNOLOGY THAT WILL QUICKLY INCREASE SETTLER INCOMES  
IN SYSTEM B IS ANOTHER TECHNICAL ISSUE THAT WILL HAVE  
TO BE ASSESSED DURING PP DESIGN. THE NEED FOR AN  
AGRICULTURAL CREDIT PROGRAM TO SUPPORT THE  
DIVERSIFICATION EFFORT WILL ALSO BE ADDRESSED DURING  
THE PP DESIGN. THE INSTITUTIONAL CAPACITY OF THE MASL  
TO UNDERTAKE THIS PROJECT AND THE IMPLICATIONS OF THE  
PROJECT ON RECURRENT COSTS ALSO WILL NEED CAREFUL  
ASSESSMENT DURING PP PREPARATION ALTHOUGH THERE ARE  
GROUNDS FOR CONFIDENCE THAT THESE ARE MANAGEABLE; THE  
MAHAWELI CONTINUES TO ENJOY A HIGH PRIORITY IN  
COMPETING FOR BUDGETARY RESOURCES, AND AS A PRACTICAL  
MATTER WE WILL BE LOOKING FOR SUMS SUBSTANTIALLY BELOW  
THOSE ALLOCATED IN RECENT YEARS. AND FINALLY, DURING  
THE DESIGN PROCESS OF BOTH THIS PROJECT AND SECTOR  
SUPPORT II, WE WILL WISH TO SEEK ASSURANCES WITH  
RESPECT TO THE EQUITY AND EFFICIENCY OF THE PROCESS  
FOR DETERMINING BENEFICIARIES, BY ETHNIC GROUPS IN  
PARTICULAR. AS A PRELIMINARY NOTE, ALTHOUGH THERE ARE  
ALREADY TAMIL AND MUSLIM SETTLEMENTS IN SYSTEM B, WE  
EXPECT THE VAST MAJORITY OF NEW SETTLERS WILL CONTINUE  
TO BE SINHALESE. THE RIGHT BANK OF SYSTEM B (AS WELL  
AS LATTER DEVELOPMENT IN SYSTEM A) ARE EXPECTED TO  
PROVIDE A HOMETOWN FOR TAMIL SETTLERS IN SUFFICIENT  
NUMBERS TO ESTABLISH ETHNIC PARITY THROUGHOUT THE  
AMP. AS OF THIS TIME AT ANY RATE, THIS POLICY APPEARS  
TO BE ACCEPTED BY PRINCIPAL REPRESENTATIVES OF ALL

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