

ISSUES PAPER

SRI LANKA  
MAHAWELI AGRICULTURE & RURAL DEVELOPMENT (383-0086)  
MAHAWELI DOWNSTREAM SUPPORT (383-0103)

PROJECT IDENTIFICATION DOCUMENTS

A. Summary Project Descriptions

1. Mahaweli Agricultural & Rural Development (383-0086)

Proposed LOP Funding: \$14.00 million  
Initial FY: 1987  
Final FY: 1990  
Estimated PACD: 1995

This project seeks to establish the economic viability of settler families in the left bank of System B of the Mahaweli through application of farming systems research and extension, establishment of water management systems and development of agricultural support services. The project will attempt to raise farm families' incomes above subsistence level by delivering agricultural technology suited to a diversified farming approach that fully utilizes both the one-hectare irrigated plots and the upland 1/2-acre homestead plots allocated to System B settlers.

The research and extension component, including field trials on farmers' plots, will aim to promote cultivation of subsidiary food crops, and possibly livestock, fisheries and agro-forestry, thereby supplementing and/or substituting for rice production, which cannot produce incomes substantially greater than subsistence level on the given plots, even with double cropping. Research and extension capabilities will be improved through training and technical assistance.

The water management component will establish operation and maintenance procedures for main and branch irrigation canals, as well as farm-level water management systems to support diversified cropping. Farm-level activities will include establishment of water-user groups to maintain field canals and to schedule and coordinate water use within the larger system.

The agricultural support services component will aim to ensure timely and cost-effective delivery of production inputs, wherever possible through private entities, and to provide farmers with maximum return for their output through effective marketing, storage and processing systems. Policy analyses will focus on development of improved support services, including provision of agricultural credit.

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## 2. Mahaweli Downstream Support (383-0103)

Proposed LOP Funding: \$15.00 million  
Initial FY: 1987  
Final FY: 1989  
Estimated PACD: 1992

Like the companion project, this project aims to improve the welfare of Mahaweli settlers and establish the economic viability of System B farm families and communities. Project activities will include construction of infrastructure, improvement of the policy environment and technical assistance/studies.

The infrastructure component will involve completion of secondary and tertiary irrigation and drainage systems served by the \$120 million AID-financed main canal, and down to the individual farm level; on-farm land development; roads; market facilities; administrative and community centers; and water supply systems.

The policy component will include analysis, dialogue and possibly disbursement conditionality aimed at improving GOSL policy in three broad areas:

- (1) Interaction between government and settlers in such areas as water use management (including the establishment of participatory irrigation users' organization and collection of water user fees); land tenure laws and regulations; and allotment of individual land holdings (including the issue of plot size).
- (2) Incentives for private investment in the Mahaweli area, including the availability of credit for entrepreneurial start-ups; restriction of government entry into commercial activities in the region; and consolidation of land parcels, especially in the uplands, for commercial use.
- (3) Relations between the Mahaweli Authority and other GOSL line agencies, including decisions regarding transfer of responsibility for physical infrastructure from the former to the latter, and within the MASL, the shift in budgetary emphasis from the construction engineering to the economic division.

B. Issues:

1. Project linkages to policy performance: Both projects' chances for long term success will be heavily dependent on the policy environment in areas such as water user organizational questions, user fee/cost recovery policies; policies conducive to private sector provision of agricultural support services; coordination of responsibilities among the responsible GOSL agencies; and agricultural production and marketing policies. The MDS PID indicates that that project will address a system-wide range of policy and institutional issues, in effect carrying the main burden of policy performance for both projects. However, it is not planned as a performance-based disbursement project, and it appears likely that if construction proceeds satisfactorily, disbursements would proceed under FAR procedures, leaving the possibility that policy conditions critical to long term viability might not be put fully in place.

- Should disbursements for either project be more directly linked to policy-related performance? As now conceived, how will the linkages between project funding and policy objectives work?
- How will specific policy concerns be identified and addressed during the project life?
- How will policy questions of concern to MARD be addressed after the MDS project, with its shorter implementation period, is completed?
- In addition to the policy areas discussed in MDS (page 5), will agricultural production and marketing issues be dealt with? Can MDS look at these issues, or should MARD explicitly deal with them?

Recommendation: The Project Committee accepted the Mission's position that completion of the secondary and tertiary canals and other works, the primary objective of MDS, is critical to optimizing the return on AID's prior Mahaweli investments, and that disbursement should be related to construction progress to assure that it is completed. The Project Committee recommends that a mechanism for periodic policy review be built into the MDS project to identify needed policy actions and review progress. Agricultural issues should be explicitly addressed. During the PP design, the Mission should examine carefully the need for policy studies and should budget adequate funds as a separate line item for this purpose.

2. Private Sector Participation: Private sector involvement in provision of support services to farmers is critical to long-term success of the projects, yet the stated objectives in this area are modest, and the MARD PID indicates that it may be necessary for some services to be provided initially through public entities. Further, it is unclear whether the necessary and sufficient conditions for private-sector development will be present in the Mahaweli region during the life of the two projects; these include the generation of surpluses that can be used for investment in enterprises with reasonable prospects of profitability and freedom from disruption by civil strife.

- Are the constraints to full private participation sufficiently understood to give confidence that the project will be able to overcome them?
- Can these constraints be effectively addressed at the regional level?

Recommendation: The full analysis of this set of issues has not yet been undertaken. The Project Committee recommends that the PP design team thoroughly review the private-sector issues and demonstrate how the project will promote private participation in the critical areas.

3. Credit: There may be a need for farmer production and marketing credit, but neither project budgets for this need, although the MARD PID states that the design team will define an appropriate project role in agricultural credit.

Recommendation: The PP design should determine the need for a credit component, but it is understood that any needed funds would derive from PL 480 generated local currencies and would not be a dollar cost to the projects.

4. Program Mortgage: These two projects have life-of-project amounts of \$29 million, and are the first of six planned new 1987/88 starts totalling \$68 million. If ethnic conflicts were to be resolved, would there be sufficient program flexibility to fund additional initiatives ?

Recommendation: Total program mortgage is indeed high, but there is no basis to postpone new starts based on this issue. The Mission would seek supplemental OYBs should the ethnic conflict be resolved.

5. Security and ethnic equity considerations: Is the settlement process equitably distributing land among ethnic groups? Is the security situation likely to hinder implementation of the projects?

Recommendation: The Project Committee concurred with the Mission view that so far, with regard to security, implementation is feasible, and the GSL settlement policies are acceptable. The Mission will further review these issues during PP design.

6. Environment: Should the projects receive negative environmental threshold determinations?

Recommendation: The Project Committee and the Mission have agreed that an update of the Mahaweli environmental assessment is appropriate, and in fact contracting with TAMS for the work is underway; hence no negative determination will be made and this issue is essentially moot.

7. PDS Funds: In the view of some PRC members, the projected design period of five calendar weeks and 24 person-weeks of outside consultant time for the two projects appears to be inadequate. Seven to eight calendar weeks appears more desirable to address the many critical issues.

Recommendation: Additional PDS funds should be allocated to permit a seven to eight week design period.

8. PP Approval locus: The Mission plans to approve the PPs in the field, since life-of-project amounts fall within the delegated authority.

Recommendation: The Project Committee agreed that substantial AID/W involvement and guidance has been provided thus far, and that field approval of the PP is appropriate.

### C. Design Guidance:

1. FAR Procedures under MDS: The use of FAR procedures to reimburse construction costs may seriously slow disbursements and may prove very burdensome to the Mission, since each item would have to be inspected. The Mission should study USAID/India's approach to disbursement to try to simplify the procedures adopted.

2. Role of Women: The MARD project should include study of such gender issues as joint titling of land allotments, and gender-specific labor implications of crop diversification. The PP design team should address this issue.

3. Other: A number of technical points for consideration in design have been provided by ANE/TR/ARD to the Project Committee and the Mission Representative, and can be included in the ANPAC cable.

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Clearances:

ANE/SA:DGarms(draft)  
ANE/TR/ARD:MKorin(draft)  
ANE/DP:ASilver(draft)  
USAID/Colombo:GNelson(draft)