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U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

SRI LANKA

Agro-Enterprise
383-0111

Dated: March 13, 1992

U N C L A S S I F I E D

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY
Sri Lanka

3. PROJECT NUMBER
383-0111

4. BUREAU/OFFICE
ASIA

5. PROJECT TITLE (maximum 40 characters)
Agro-Enterprises Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
MM DD YY
019 | 30 | 918

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 92 B. Quarter 2 C. Final FY 95

8. COSTS (\$000 OR EQUIVALENT \$1 = 41 Rupees)

A. FUNDING SOURCE	FIRST FY <u>92</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	3,000		3,000	12,000	2,000	14,000
(Grant)	(3,000)	()	(3,000)	(12,000)	(2,000)	(14,000)
(Loan)	()	()	()	()	()	()
Other						
U.S. 1. Private Sector					20,500	20,500
U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	3,000		3,000	12,000	22,500	34,500

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) ARDN						14,000		14,000	
(2)									
(3)									
(4)									
TOTALS									

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

11. SECONDARY PURPOSE CODES

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters).

To stimulate the development and expansion of private agro-enterprises for domestic and export markets.

14. SCHEDULED EVALUATIONS

Interim MM YY | MM YY | Final MM YY
0 | 7 | 9 | 4 | 0 | 1 | 9 | 6 | 0 | 1 | 9 | 8

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 91 Local Other (Specify)

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

Controller's Concurrence: I have reviewed and concur with the assessment of methods of implementation and financing procedures included in this Project Paper as well as the evaluation of the need for audit coverage.

Signature: *Richard M. Brown*

17. APPROVED BY
Name: Richard M. Brown
Title: Director, USAID/Sri Lanka

Signature: *Wayne Butler*
Name: Wayne Butler, CTR

Date Signed: MM DD YY
03 | 13 | 92

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY
| | | | |

PROJECT AUTHORIZATION

Name of Country: SRI LANKA

Name of Project: AGRO-ENTERPRISES

Number of Project: 383-0111

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agro-Enterprises Project for Sri Lanka (the "Cooperating Country") involving planned obligations of not to exceed Fourteen Million United States Dollars (\$14,000,000) in grant funds over a six year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotments process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is six years from the end of fiscal year 1992.
2. The Project consists of technical assistance, training, grants and procurement of commodities for private sector agricultural enterprises in the Cooperating Country, to increase their production, efficiency and profitability and thereby also generate additional farm income and employment opportunities.
3. The Project Agreement, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.
4. Source and Origin of Commodities, Nationality of Services - Commodities financed by A.I.D. under the Project shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. Local source procurement is also approved pursuant to Handbook 1, Supp. B, Section 5B, 4 (a)(6) and (7) for those categories and in the approximate amounts indicated in Annex M to the Project Paper of this same date, and for those additional categories of procurements described in Handbook 1, Supp. B, Section 18A 1.c. Except for ocean shipping, the suppliers of commodities or services shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.
5. I also waive the requirement that the Cooperating Country finance international travel costs for training, pursuant to Handbook 10, Section 16C, based on the justification provided in Annex M to the Project Paper of this same date.

Signature : 
Richard M. Brown, Director

Date : 3/13/92

Clearances : PSD: TPenner 2/4/92
PRJ: WJeffers 2/18/92
PRM: PCrowe 2/7/92
PRM: DGarms 2/11/92
CTR: WButler [Signature]
ANR: GAnders [Signature]
DD: GJones [Signature]
Draftd: RLA.MWard

LIST OF ACRONYMS

ACDI	Agricultural Cooperative Development International
AgENT	Agro-Enterprises Project
ARTI	Agrarian Research and Training Institute
BOC	Bank of Colombo
CMC	Colombo Municipal Council
CISIR	Ceylon Institute of Scientific and Industrial Research
CSFD	Cooperative Small Farmer Development Project of ACDI
CBSL	Central Bank of Sri Lanka
DFCC	Development Finance Cooperation of Ceylon
DAS	Department of Agrarian Services
DBSL	Development Bank of Sri Lanka
DER	Department of External Resources
EDB	Export Development Bank
GCEC	Greater Colombo Economic Commission
IDA	International Development Assistance of the World Bank
MASL	Mahaweli Authority of Sri Lanka
MEA	Mahaweli Economic Agency
MED	Ministry of Export Development
MED	Mahaweli Enterprise Development (Project)
MOF	Ministry of Finance
MOPP&PI	Ministry of Policy Planning and Plan Implementation
NDB	National Development Bank
NGO	Non-governmental Organization
PGRC	Plant Genetic Resource Center
PVO	Private Voluntary Organization
TA	Technical Assistance
UDA	Urban Development Authority

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EXECUTIVE SUMMARY

Research in Sri Lanka has demonstrated the capacity to increase farm income through diversification and commercialization of the agriculture sector. Significant yield improvements are possible and farmers will readily accept new technologies if rewarding markets are available. Furthermore, an increasingly active private sector is emerging in production, marketing, and processing in the once government-dominated agricultural sector. However, new strategies are needed to introduce appropriate production technologies, increase the amount of value-added processing, expand the commercial out-grower schemes, and develop active marketing and financial linkages. Technical innovation and support is necessary to assist Sri Lankan firms and individuals to establish new competitive agro-enterprises. Flexible and creative investment packages are needed in all parts of the agricultural production, marketing and food processing industry.

The Agro-Enterprises Project addresses the unmet demand for comprehensive, creative technical and financial services required to develop Sri Lanka's agro-industrial sector. The Project will assist emerging and expanding agro-enterprises through a combination of technical services in production, processing and marketing, research and training to support the agro-industrial development, and investment packaging to leverage an increased share of the financing available through commercial banks and other financial institutions.

Central to USAID's recently-approved Strategic Framework, the goal of the Project is to diversify and commercialize agricultural systems, thereby increasing employment and rural income. The purpose of the Project is to stimulate the development and expansion of private agro-enterprises for domestic and export markets. Life-of-Project funding is \$14 million in grant funds and the Project Assistance Completion Date is September 30, 1998.

The Project will mobilize significant local resources through private investments from participating financial institutions and agro-entrepreneurs.

The Agro-Enterprises Project will provide a comprehensive set of technical services to Sri Lanka's agro-industrial sector through a competitively-awarded cooperative agreement with an appropriate U.S. private entity. The Cooperative Agreement (possibly including a sub-contract with a commercial firm) will deliver specific financial and technical services to a wide range of nascent agro-enterprises and a number of financial institutions. It will, thus, address the principal constraint to development of the sector; inadequacy of technology, organization, and information. The Cooperative Agreement will provide the following specific inputs: substantial long and short-term U.S. and Sri Lankan technical assistance; selected commodities; specialized training programs; technical and marketing information; and grants for technology innovation, market development and research, analysis of policy issues and related environmental issues.

By the Project Assistance Completion Date (PACD), it is expected that the Project will have facilitated the establishment or expansion of approximately 350 agro-enterprises with consequent increases in farm incomes and employment. The Project is expected to result in generation of approximately 13,000 new jobs, increased production valued at \$8.15 million per year in constant dollars and increased exports of \$4 million per year. Monitoring systems will be devised by the implementing organization to document the accomplishments.

A.I.D. inputs for the Project will largely be provided through a Cooperative Agreement with a U.S. organization and will include:

- Short- and long-term U.S. and Sri Lankan expertise, including operating costs for an information and service center, (\$8.0 million);
- Agro-enterprise Development grants (\$3.5 million);
- Agro-enterprises training fund (\$1.0 million);
- Equipment and Materials (\$0.7 million);
- Evaluation and audit (\$0.3 million); and
- Contingency (\$0.5 million).

Other inputs for the Project are:

- In-kind contributions from individuals and institutions involved with research and development in collaboration with Agro-enterprise Development grants (\$500,000);
- Investment funding or owners equity put up by private agro-entrepreneurs and financial institutions (\$20.0 million).

Feasibility analyses indicate favorable returns to the Project's proposed investments and no significant social barriers to project implementation. The Project feasibility derives from use of market forces to direct investments and Project activities. However, the Project also recognizes a link between resulting economic growth and poverty alleviation through the generation of employment. In addition, the Agro-Enterprises Project will give special attention to promotion of investment in women-owned businesses or to businesses where women are primary beneficiaries.

Professional guidance and oversight for the Project will be provided by an Agro-Enterprise Project Advisory Board to be established early in the Project's life. The group will be comprised of key GSL officials and private sector representatives from business and banking institutions with an interest in the expansion of agro-enterprise opportunities. The principal role of the Board is to advise the implementing organization and participating institutions on matters concerning implementation and to develop strong linkages with the agricultural, financial, and agri-business community.

There will be two interim evaluations during the course of the Project to assess progress toward attainment of objectives and the viability of the proposed approach to stimulating agribusiness. A final evaluation is scheduled for January 1998. Funds are also provided for audits, chiefly directed at the implementing organization and recipients of agro-enterprise development grants.

I. PROJECT BACKGROUND AND RATIONALE

A. Background

On-farm agricultural activity in Sri Lanka accounts for 23 percent of gross domestic product (GDP), 45 percent of employment and 36 percent of the value of exports. Approximately 75 percent of Sri Lanka's population of 17 million live in rural areas. Per capita income in 1990 was US\$420 with average per capita farm income even lower. Despite an estimated growth rate of GNP of 6.6 percent in 1990, unemployment is still the most pressing socio-economic problem and is estimated at 16 percent of the labor force. While employment grew between 1.5 and 3.3 percent per year, on-farm agricultural employment grew at only 1.1 percent with much of the unemployment and underemployment remaining in rural areas.

Low farm income stems, in part, from the small size of land holdings, low farm productivity, and the non-commercial orientation of production of low value crops for subsistence consumption. For many crops, yields are low compared to other nations in the region and post harvest losses high. Thus, despite high farm prices for many crops, farm incomes remain low and consumer prices high. Improved production technology is needed to bring down the unit costs of production and marketing and increase product quality, thus increasing rural incomes and market competitiveness.

Production technology and information for non-traditional crops is limited within Sri Lanka. Research and extension has generally been limited to paddy, rubber, tea and coconut production. In cases where in-country information is available for higher value crops or more efficient production systems, little of this information reaches the farmer or the merchant buying or selling agricultural products. The linkages and interactions between farmers and markets for non-traditional crops and products are weak. Meanwhile Sri Lanka's soils and agro-climatology, agrarian and trading traditions, and low labor costs provide a potential competitive advantage in the production and marketing of many of these non-traditional crops.

Investments in non-traditional agricultural enterprises are considered risky by companies and lenders alike. Due to lack of knowledge of the sector and a view of traditional agriculture characterized by low-productivity, high costs and poor market and post-harvest handling systems, banks or companies and lenders alike consider investments in non-traditional agricultural enterprises to be risky. Few banks or companies are willing to invest large amounts or extend long-term loans to new agro-enterprises. There is an especially acute lack of financing for new innovations and R&D work and only the few larger companies with substantial assets for collateral can readily obtain financing.

USAID/Sri Lanka's earlier successful Rice Research Project (1984) and Agricultural Education (1986) Project helped the GSL build a solid base for the agricultural research and university systems. These contributed directly to success in greatly increasing rice

production but by the early 1980's the GSL recognized the need to diversify cropping in order to increase farmer incomes. The Diversified Agriculture Research Project (1985-1993) is currently assisting the GSL's reorientation of research priorities towards crop diversification. Other USAID production-oriented projects have shown both the potential and need for emphasizing high-income crop production: the MARD and MED Projects in the Mahaweli area, the ACDI-CSFD activity working with farmer organizations, and CARE rural enterprise development programs. Most important is the growth of non-traditional agricultural exports and a nascent agri-business community over the last few years.

USAID/Sri Lanka's analysis for a proposed marketing project revealed that: (1) there is an active private sector which could not obtain the agricultural products needed for onward processing and export; (2) private firms want assistance in obtaining processing technologies; (3) many individual crops require improvements in production, handling and processing technologies to make them profitable; (4) higher value horticultural crops have greater market potential than field crops; and (5) diversified crop production generates considerable employment opportunity for unskilled and low-skilled labor, including a disproportionately high number of women.

In June-July 1990, USAID carried out two in-depth studies to assess constraints and possible strategies in horticultural technology and commercial agriculture. The "Background Study of Technology Transfer Issue in Support of the Proposed High Income Commercial Agriculture (Horticulture) Technology Project" confirmed the potential to increase high income crop production for export. Yet, the study further stated that "the lack of technical information and prior experience on the part of both existing and potential growers, processors, and exporters constitutes a severe hindrance to the growth of export agriculture outside the plantation sector." The study also pointed out that: (1) vertically-integrated production and marketing systems are needed to build export industries; (2) the government research system lacks the critical mass of staff and funding needed to develop new technology for any individual horticultural crop; (3) import of technology is the only cost effective option; and (4) the introduction of new technologies must be accompanied by organization and marketing efforts.

The second study "Review of Constraints to Commercial Agricultural Development" found that commercial agricultural development would benefit greatly from the establishment of a private sector venture capital fund to promote agri-business development and that the GSL's research and extension systems are too ponderous and fragmented to provide necessary support for horticulture and agro-processing. It noted that government support services are essential in several key areas such as pest management, germplasm import and release, and post-harvest handling information services. Furthermore, there is a need to expand training in horticulture and agri-business. A further conclusion of the study is that farmers must be organized as

a primary means of overcoming agricultural constraints due to the small size of holding and the fragmentation of production and marketing system.

Finally, in June - September, 1991, a design team for the Agro-Enterprise Project verified earlier analyses and the Project premise and developed the outline and feasibility analyses for the Project. This work, which was revised based on an Agri-business Financing Review in November, 1991, serves as the basis for project design.

B. Project Rationale

Initial plans for the Agro-Enterprises Project focused only on introduction of production and processing technology. During project design the importance of financing and structuring business plans for agro-enterprises was recognized and A.I.D. financed a 1991 Agri-Business Financing Review under the Mahaweli Enterprise Development (MED) Project. This study revealed that the development of commercial enterprises in the agro-based sector is constrained because:

1. Many entrepreneurs in the sector lack or are unprepared to risk, sufficient owner's equity to attract capital investors, or term lenders.
2. Entrepreneurs in the sector lack management, business administration, and entrepreneurial skills specific to agro-enterprise.
3. Entrepreneurs in the sector lack a permanent reliable supply of raw materials (agricultural produce) by consistent grade, quality and quantity.
4. Entrepreneurs in the sector lack market information, communications and infrastructure support.

The study further concluded that support from the financial sector to the development of agro-based industry has been inhibited by:

1. a lack of a source of long-term funds available to support longer-term loans required in some agro-based enterprises.
2. a reluctance on the part of the financial system to depart from the traditional and conservative collateral based appraisal format.
3. a lack of trained staff in the assessment and monitoring of agro-based enterprises.
4. a perception that the agro-based industrial sector is a high risk and expensive market to develop.

Efforts by the GSL and A.I.D. to alleviate these constraints to agro-enterprise development must be based upon a developmentally-sustainable methodology that addresses the agro-industrial sector and supporting systems as an integrated whole, rather than addressing financial, technological and marketing constraints as separate problems. Support for the development of agro-enterprises requires continued technical assistance in the production of agricultural commodities, the management of enterprises, and the processing and marketing of quality products. In addition, strengthened linkages to the commercial financial system are also necessary to provide the required capital inflows to the sector. The expansion of these links to the financial system would strengthen and contribute to the development of the agricultural, business, and financial systems.

The Agro-Enterprises Project, therefore, considers that commercial agricultural development is currently constrained by a lack of improved production and processing technologies and poor access to investment capital. These two constraints are inter-related as the problem is essentially that of financing innovation in an emerging agri-business sector. The needed innovation includes production technology to lower per unit costs; processing and post-harvest handling technology to add value and enter new markets; and market channel development to link small farm producers with agro-businesses linked to product markets.

Integral to the sound development of agribusiness is a heightened awareness of related environmental considerations, such as pesticide use, the protection of wildlife habitat, etc. The Project will provide funds to advance this understanding and promote responsible agro-industrial development.

The Agro-Enterprises Project is, therefore, designed to respond to these needs and comprehensively address marketing, technological, and financing constraints to investments by working directly with the private sector through a U.S. agency providing support to improve production and processing technologies, enter new markets, develop sources of supply, and obtain investment financing. This assistance will be delivered: (1) through a business advisory group which will assist entrepreneurs access new technology and markets; and (2) through an agro-enterprise financing specialist who will assist financial institutions develop better procedures for financing agro-enterprise investments.

C. Relationship to A.I.D. Strategy

The Agro-Enterprises Project will not only support but will be essential to, achieving the USAID/Sri Lanka's strategic vision, goals and sub-goals as articulated in the USAID/Sri Lanka Strategic Framework FY 1992-1996. It is fundamental to the achievement of two of the four program objectives and directly supports a third objective. Moreover, the Project embraces four of the five

cross-cutting themes. It also provides a positive response to each element in the checklist of criteria for selection of program interventions.

As noted in the Strategic Framework, "Sri Lanka's greatest promise appears to lie in a strategy of 'agricultural development-led industrialization.' That growth path builds on the rapid improvement in agricultural productivity through diversification and increased market orientation to establish a basis for accelerated industrialization."

The Agro-Enterprises Project will contribute to three of USAID/Sri Lanka's sub-goals. Firstly, it will promote an effective, dynamic market economy by focussing technical assistance and investment in the private sector and by supporting policies to improve performance of companies. Secondly, by improving technology in Sri Lanka and technical skills of workers and business people, the project will also support improved productivity of land, labor, and other productive resources. Diversified crops will better utilize the range of productive resources in Sri Lanka. Finally, the Agro-Enterprises Project will take pro-active steps to ensure that project activities promote the wise use and conservation of natural resources.

The Project addresses USAID/Sri Lanka's first strategic program objective of "a sound investment climate and competitive business performance." It will contribute to the USAID/Sri Lanka performance indicator of adoption of new financial market mechanisms that result in increased resources by facilitating funding to the sector and by assisting financial institutions develop capability to analyze and evaluate agricultural investments. In addition, over the next decade, the Project will be USAID/Sri Lanka's major project intervention directed toward achieving the second strategic program objective of "diversification and commercialization of agricultural systems."

In summary, the Agro-Enterprises Project not only closely fits but is fundamental to achieving the goals, objectives and cross-cutting themes of the Strategic Framework. Recent projects (e.g. Agricultural Planning and Analysis) and PL-480 policy-related Self-Help Measures have assisted the GSL move from a strategy of food self-sufficiency to crop diversification, and more recently towards higher-income crop production and processing, i.e. commercialized agriculture. This new project will help to build the managerial, technological and financial systems necessary to make this dramatic shift. The importance of this project is not only its continuity in USAID support to Sri Lanka's vital agricultural development, but also its implementation of a commercialization strategy.

The systems and technologies introduced through this project will also complement higher-income agricultural activities assisted by other USAID projects (e.g., Mahaweli Agriculture & Rural Development), PVO programs (e.g., Agricultural Cooperative Development International's Commercial Small Farmer Development Project) and private sector initiatives (e.g., Mahaweli Enterprise Development and the Technology Initiative for the Private Sector). Facilitating technology transfer and support for the private sector are essential for development of higher-income horticulture, minor crop and agro-processing enterprises.

The Project expands on other USAID interventions which address diversification and commercialization of agriculture. The MARD and MED Project directly contribute to the diversification of cropping patterns of farmers from traditional paddy to high value crops in the Mahaweli area; the Agricultural Policy and Planning Project and the PL480 Title III Program support the development of privatization and commercialization policies; and the DARP Project assists the GSL develop research capability for diversified crops.

The Agro-Enterprises Project will build on the successes of these projects by integrating the production and marketing functions. It will operate on a national basis generally and with a wide range of product possibilities and, thus, will be free to respond to private sector needs and market opportunities. In order to avoid duplication with activities under the MED Project, the Agro-Enterprises Project will not operate in the Mahaweli until such time that MED has expired.

The Project will provide improved access to international market information and agro-processing technology currently unavailable in Sri Lanka and will assist in the strengthening of the financial sector to improve and increase its capability to serve the agro-enterprise sector. Increases in income and employment should also contribute to greater political stability. Given the demonstrated potential for minor crops and access to ports in the West and South, it is expected that project investments will be drawn to opportunities there.

Finally, the U.S. will benefit from greater stability and economic development in Sri Lanka and from the opportunity to export food processing equipment and technical services. Sri Lankan exports are not expected to compete with U.S. exports, as natural markets are different and Sri Lanka will produce tropical crops primarily for counter-seasonal Asian and European markets.

D. Relationship to GSL Strategy

The Agro-Enterprises Project will emphasize private sector mechanisms to improve and expand diversified higher-income agricultural production systems which will provide high quality,

reasonably-priced agricultural products for export markets and value-added processing industries. The Project, thus, combines three elements of current GSL development strategy: agricultural diversification, export development and private enterprise. Moreover, the Project directly supports the efforts of the Presidential Commission on Non-Traditional Agricultural Exports which was established in February, 1991 and is seeking ways to facilitate non-traditional agricultural exports.

Following independence, the GSL's agricultural policy focus shifted from export plantation crops to a focus on self-sufficiency, emphasizing rice. The policy achieved considerable success and, by the early 1980's, as a result of investments in irrigation and a strong research and extension program, Sri Lanka was approaching self-sufficiency in rice. At that time, the Government recognized the need to: diversify agricultural production; reduce dependence on exports of a few major plantation crops; avoid rice surpluses which drive down producer prices; and increase farm incomes.

Initial diversification efforts were directed toward other field crops (OFC's), which are coarse grains, pulses and root and tuber crops primarily for local markets. In general, results did not meet expectations. Although these crops have shown some potential and production has increased over the past decade, markets have been shallow, production areas limited and net returns to the farmer only marginally better than rice.

In pursuing crop diversification efforts, various programs have found the best returns and potential lie with higher-value, horticultural crops. These have included red onions, Bombay onions, chillies and potatoes for the local market, and gherkins for export. There is a wide range of other potential export horticultural crops which can increase the grower's productivity and which have value-added processing potential. In addition there are spice (pepper, cinnamon, clove, nutmeg) and beverage (coffee, cacao) crops which are referred to as "minor export crops", but which have - to varying degrees - potential for increasing export income.

Production of these higher-income export crops is well-suited to the natural agro-climatic diversity and the employment conditions in Sri Lanka. The country has a variety of agro-climatic zones and soils suited to their production; production is labor-intensive and feasible on the small farms; and growing seasons are counter-seasonal with some major markets. The employment generation from such production is especially attractive to the GSL, which is confronted with political problems stemming in part from rural under- and unemployment and the low incomes resulting from rice cultivation on holdings of less than one hectare in size (73% of holdings). In assessing fruit, vegetable, flower and minor export crops, the Sri Lanka Export Development Board notes that these crops are "intended to provide the base for the development of a viable industrial sector in the form of an agricultural processing and packaging industry both for domestic and export markets."

Since 1977, the GSL has moved steadily to liberalize the economy. The Government has begun to privatize state-owned enterprises and has encouraged private investment. The State's role in the economy remains large, but there is a strong commitment at the senior-levels of administration to reduce government's direct role in the economy and to promote private business development. At this time, support for rapid private development is necessary to allow for full implementation of the GSL's economic liberalization strategy. Increased export income will help the economy as a whole and greater employment opportunities and income will improve welfare and provide greater opportunity to private individuals.

In agriculture, this liberalization has been manifested in a 1989 policy statement that the GSL would encourage "commercial agricultural" development. More recently, the Presidential Task Force on Non-Traditional Exports has been moving on an agenda to further liberalize the sector. The private sector is responding to opportunities in high value horticultural crops. Production of vegetables in the higher elevations is intensive, though localized, and served by a private marketing network. Sri Lanka has a long history as a trading nation, and small and large firms are quick to exploit opportunities in a wide range of products. Success with nearby export markets, the Middle East and the Maldives, and with gherkin exports has stimulated interest and many firms and individuals are considering investments in horticultural crops.

The GSL has adopted a strategy of "big investor-small producer" as a means to commercialize agriculture. This policy is not spelled out in detail, but does imply and seems to work so that the government will encourage and facilitate investments that source materials from small farm producers.

E. Relationship to Other Donor Programs

The Agro-Enterprises Project will not duplicate or compete with other donor programs. Many donors are active in the agricultural sector because of its importance to the country, but most programs are public sector efforts directed at development of specific areas, crops, or institutions.

Several donor projects in agricultural research and extension will complement the Project. First is the Food and Agriculture Organization (FAO) funded horticultural project which supports research in the Department of Agriculture (DOA). This should add to germplasm resources in the country and increase fruit tree nursery capabilities, but to date results from the first two phases of that project have produced little program development, technology for farmers, or documented research results.

USAID/Colombo has worked closely with the World Bank (WB) on development of the Project. The WB is developing an Agriculture

Support Services Project which is expected to become effective in mid-1992 and which may provide a \$6 million investment fund, specifically to complement enterprise development under the Project. The technical assistance will promote investments which will draw on this investment funding and on other sources of financing currently available, including private entrepreneurs' own capital, lines of credit for industrial development, and capital in financial institutions. The new WB Agricultural Support Services project also proposes to support government extension programs, crop production and seed production.

A proposed Asian Development Bank (ADB) Agricultural Extension Project will strengthen the field extension system, consolidate extension agencies, and introduce mechanisms for users to control extension programs. An existing WB Agricultural Research Project is providing funding for the government research system and for contract research.

None of these projects' activities is expected to provide a significant level of support to the non-small farm private sector.

The World Bank and ADB-funded Small and Medium Industry IV and Industrial Development III projects provide approximately \$70 million financing for the industrial sector. Although this financing is available for agro-enterprise investments, it does not flow easily to agro-business for reasons noted in the Technical Analysis. These will be addressed by this Project.

II. PROJECT DESCRIPTION

The Agro-Enterprises Project is a calculated response to the unmet demand for increased technical and financial expertise by agro-entrepreneurs in Sri Lanka to develop and expand agro-based enterprises for domestic and export markets. The Project is designed to provide comprehensive technical, marketing, and financial support to the sector and to forge stronger links between agri-businesses and financial institutions, where appropriate.

A. Project Goal

The goal of the Agro-Enterprises Project is to diversify and commercialize agricultural systems. This flows from the USAID/Sri Lanka Strategic Framework: FY 1992-96. Diversified, commercialized agricultural systems can be expected to generate increased employment and higher incomes needed to serve as a base for rural development and future economic growth. Agricultural diversification and intensification is a development scenario most compatible with Sri Lanka's natural resources and cultural traditions.

B. Project Purpose

The Agro-Enterprises Project purpose is to stimulate the development and expansion of private agro-based enterprises. The Project builds on existing entrepreneurial firms and individuals with interest in investments in the agricultural sector and on the production base capable of producing a wide range of crops and products at reasonable cost. Few investments have been made in this sector, except in teas, rubber, and coconut, because of government economic controls and policies that favored production of subsistence food crops.

By the end of the Project, it is expected that private entrepreneurs will have established or expanded 350 agro-enterprises. Of these, it is expected that 50 will be new enterprises and the balance will be expansion of existing enterprises. These enterprises will result in direct creation of approximately 9,700 on-farm and 3,225 off-farm jobs.

The Project has a national scope in order to maximize its ability to address targets of opportunity and to include areas which have been overlooked in earlier USAID efforts. However, it is understood that, where there are competing A.I.D. project activities, the Agro-Enterprises Project will defer its efforts as appropriate.

The Project Assistance Completion Date (PACD) is September 30, 1998.

With support from the Project, new agro-enterprises are expected to adopt 100 new production and processing technologies, introduce 20 new products, and develop 20 new markets for agricultural produce. These efforts will demonstrate the profitability of and means of accessing technologies for agro-enterprises and thus lead to continued dynamic growth of this sector.

A collateral impact of the Project will be to re-focus specific governmental programs to better support commercial agriculture. Government and university research and development institutions will participate under arrangements co-financed by private sector entities through the Agro-Enterprise Development Grants. This participation will encourage these agricultural research institutions to develop a more client-oriented agenda and increase the general level of technical knowledge regarding agri-business in Sri Lanka.

C. Project Outputs

1. Agro-Enterprise Investments

The Agro-Enterprises Project is expected to generate approximately 50 new agro-enterprises and expansion and improvements in approximately 300 others. These investments will result from technical innovations introduced by the project, new market

opportunities identified, and financing provided through participating financial institutions. Other firms and entrepreneurs will benefit indirectly by the spread effect of project-introduced technology and by being able to enter new markets pioneered by initial investors.

All investments will result from natural market forces, e.g. private sector entrepreneurs will identify the geographical areas, products and types of enterprises to be financed, and must obtain financing at market rates. Farms, which also operate as small businesses, will also benefit. An estimated 9,700 farmers will supply products for the agro-enterprises established with project assistance and financing.

2. New Technologies

Over the life of the Project approximately 100 new technologies will be introduced in the enterprises assisted. These technologies will include germplasm, improved irrigation systems, improved pest and disease control, and harvesting techniques for proper time and size for best quality. Post-harvest handling improvements will include in-field or close to field packing, introduction of proper packing crates, proper cooling, improved transport to reduce loss and improved handling at wholesale markets. Several processing technologies are expected to be introduced including modern juice plants, fruit drying, improved packaging materials for foods, frozen fruits and vegetables, processing of crop by-products, and processing of livestock products.

The Project will introduce improved technology through expatriate technical assistance to Sri Lankan firms and entrepreneurs, through training and travel of private sector employees, through grants for R&D and in-country training through marketing and production trials, and by providing funds for procurement of proto-type equipment and testing of improved germplasm.

3. Market Development

The Agro-Enterprises Project will improve market linkages between producers, intermediaries, and consumers. Project-assisted firms and entrepreneurs will develop greater sophistication in assessing consumer requirements and planning to provide products at prices and qualities demanded by consumers. Improved production and post-harvest technology will improve market efficiencies, and project-introduced promotional materials will help firms better market their products.

The Project will also encourage out-grower schemes and contract grower arrangements as a means of assuring regular supplies to processors and exporters. This will involve seeking ways of overcoming past problems with lack of honoring of contract

commitments. Training for field personnel of agro-businesses will improve relations with growers and greater rural investments in marketing and processing infrastructure will bring market intermediaries closer to the producers on whom they depend. Specific outputs from Project-assisted agro-enterprises will be 20 new products entering domestic or export markets, 20 out-grower/contract grower programs established, and 20 new markets developed for agricultural products.

4. Improved Public Sector Support to Agro-Enterprises

GSL agencies and training institutions have been oriented to service the government and small farmers as clients, but have not been well-directed to service businesses. The Agro-Enterprises Project will draw government agencies, primarily the Department of Agriculture, the Department of Export Agriculture, the Department of Livestock Development and Health, the Ceylon Institute of Scientific and Industrial Research (CISIR) and universities, together with commercial firms to resolve technical problems of economic importance. The Project will accomplish this by jointly funding with private companies research and development projects under taken by government agencies. These contract research projects will likely start slowly as procedures are developed, but approximately 25 will be completed under the Project.

The Project will utilize Agro-Enterprise Development Grants (AEDGs) and consultants to complete studies of key policy issues affecting the sector. Twelve studies and reviews during the Project will provide input to government policy reform and implementation of procedures to stimulate non-traditional agricultural exports and to seek ways and means of better linking small procedures with agro-enterprise markets.

5. New Agro-Enterprise Financing Mechanisms

Actions to increase entrepreneur debt capacity are basic to enabling financial institutions to become more active in agro-enterprise investments. These actions will involve: (a) offering longer term loans; (b) introducing new loan appraisal techniques; and (c) providing innovative financial structuring, including loan syndication, debt equity financing, and loan subordination.

The Project will help interested financial institutions to develop new procedures for "packaging" agriculture-related investments. The new financing innovations will increase confidence between the financial system and the private agro-enterprise sector and will increase the debt capacity of entrepreneurs. Confidence will increase through better training and greater experience of financial institution staff with agro-enterprises investments. The Project will also attempt to reduce transaction costs and time required to process loan applications. Ultimately confidence will only come as financial institutions and agro-enterprises develop mutually profitable business relations.

If the World Bank approves its proposed \$6 million agro-enterprise investment fund, A.I.D. will play a key role in directing the investments through existing financial institutions.

D. Project Inputs

1. Technical Assistance

Consistent with the Project's focus on providing technical assistance to emerging agro-enterprises, the major share of the A.I.D. grant funding will be for technical assistance through a Cooperative Agreement with a U.S. organization. Technical assistance will comprise an Agro-Enterprise Development Group staffed by a variety of agri-business specialists. In addition, the services of an agro-enterprise financing specialist will be provided to strengthen the capability of interested financial institutions to increase agro-enterprise lending. All technical assistance will be provided under one agreement.

An Agro-Enterprise Financing Specialist will most likely be located at the office of a private financial institution such as the Merchant Bank of Sri Lanka. Through this specialist, the Project will assist financial institutions to expand capacity for agro-enterprise investments. The Agro-Enterprise Financing Specialist will train staff of interested and committed financing institutions on methods of loan appraisal, development of innovative financial instruments, and structuring of financing packages specific to agriculture. The specialist will also assist financial institutions to evaluate agricultural financing proposals and develop innovative methods for structuring agricultural project finance. The Project will provide approximately four years of long-term expatriate and five months of short-term expatriate professional services for such assistance to participating financial institutions.

The Project will also assist institutions by reviewing and critiquing business plans and financing proposals submitted to those institutions. As appropriate, clients may obtain assistance from the Agro-Enterprise Development Group to improve business plans, access improved technology, and develop new markets.

The Agro-Enterprise Development Group, acting as an independent organization, will provide assistance directly to Sri Lankan private sector firms and individual agro-entrepreneurs. Long-term expatriate specialists in agro-business development, commercial agricultural production, and agriculture processing and marketing will provide assistance in collaboration with Sri Lankan professionals in similar fields. The Project will provide approximately 13 person years of long-term expatriate, 22 person years of long term Sri Lanka, 70 person months of expatriate short-term, and 66 person months of short-term Sri Lanka services for such assistance to agro-enterprises.

The Agro-Enterprise Development Group will provide a range of diverse types of assistance to Sri Lankan private businesses. This will include assistance with obtaining and analyzing market information, technical assistance for production and processing of agricultural produce, advice on formulation of business plans and structuring investments, advice on marketing products, and other business advisory services. All assistance will be in response to applications submitted by businesses in response to advertisements. Applicants will be reviewed and selected on a competitive basis, with criteria including expected returns from the enterprise, the degree of innovation in the proposed enterprise, the financial commitment of the applicant, environmental safety, the potential benefit to farmers, and the potential economic benefit to the nation.

The Recipient will be responsible for preparing a Bumpers Amendment analysis for prior USAID/Sri Lanka approval if assistance will result in the export of agricultural products.

The resident technical assistance team will review applications for assistance and provide initial assistance to the extent possible. The Project will provide consultants to work on specific problem areas for agro-enterprises. These may be very short visits to address specific problems or longer term assignments of up to one year to help with start up of new enterprises. In working with private investors, the project will take care to maintain in confidence proprietary business plans. However, to the maximum extent possible in keeping with the above principle, work and reports of consultants will be available to all potential investors.

The Project will also, in response to specific needs for support in the agro-enterprise sector, provide cost sharing grants to selected GSL programs, such as pesticide monitoring and regulation, germplasm importation, horticultural training, veterinary research, or others.

The Agro-Enterprise Development Group will assist investors prepare business plans and financing applications, but will attempt to provide only technical supporting information and critique of initial plans. The responsibility for preparing business plans and financing proposals must remain with the entrepreneur.

The Agro-Enterprise Development Group will, in the course of its work, establish and maintain an informal information center for reference by agro-enterprises. This center, essentially the Project Office, will maintain information on markets, agricultural production, and value-added processing. It will not be a library, but a collection of available materials and a service for entrepreneurs to request information not readily available locally.

During the first two years, the Agro-Enterprise Development Group will assess whether there is a demand for the establishment of a new Sri Lankan private, non-profit organization to promote agro-enterprise development during and after the Agro-Enterprises

Project. No project funds are provided for such an organization and the assessment would also explore financing options for such an organization.

2. Agro-Enterprise Development Grants

The Agro-Enterprises Project will fund approximately 125 Agro-Enterprise Development Grants up to a total value of approximately \$3.5 million. The grants will support activities which promote: (a) agribusiness technology improvement; (b) policy studies in agribusiness (c) agricultural marketing; and (d) agribusiness environmental concerns.

Grants will support technology in the broadest definition of the term. The Project will advertise the availability of matching grants and award grants on a competitive basis. Selection criteria include the degree of innovation of the proposed activity, commitment of the entrepreneur, and potential benefit from the grant. The implementing organization will manage the grant program and will conform to A.I.D. procedures and regulations. Grants are expected to average \$20,000, but with the likelihood of several larger grants for enterprises for which considerable adaptation and pilot testing is required. AED grants will, in most cases, be on the basis of the Project and entrepreneur sharing cost for the activity. However, with USAID/Sri Lanka approval, the Cooperative Agreement grantee may fully fund a limited number of AED grants to test new technologies or develop support services for agro-enterprises.

The Agro-Enterprise Development Grants will frequently complement other Project activities and be used in conjunction with technical assistance, training or pilot trials of equipment and seeds. They may target specific enterprises or types of activities, such as reducing pesticide use. The implementing organization may also advertise the availability of partial funding for activities such as establishment of asparagus production enterprises, for dairy goat production, for an export quality mango nursery, for banana tissue culture program, for pilot testing of a fruit drying enterprise, etc. One specific area in which the Project will use grants is in encouraging new out grower or contract grower schemes to link small farm producers with processors and exporters.

3. Agro-Enterprise Training

The Agro-Enterprises Project will fund training in a wide range of subject matters relevant to agro-enterprise development. The Project will generally provide training in conjunction with technical assistance, specific investments, or agro-enterprise development grants related to a investment proposal. Training is planned in the U.S., third countries and in-country, and will comprise programs such as observational tours, training at a production facility, or travel to explore and develop new markets.

Private sector entrepreneurs will be expected to share costs of training. As with technical assistance and agro-enterprise development grants, the Project will fund training for private entrepreneurs based on competitive selection of applications in response to advertised availability of funding for training. Criteria will be similar to those for other assistance to private firms.

The Project may fund partial costs of training for government technical department staff, if these staff are collaborating with private entrepreneurs on contract research and development activities.

The Project will provide open in-country training in a few areas identified as being specific constraints to agro-enterprise development. Such training will be open to Sri Lankan entrepreneurs on the basis of space availability and willingness to share the training cost.

Five areas are currently identified for such open training: training in agro-enterprise finance, which will receive special emphasis and target staff of participating financial institutions, but may be open to other participants also; farm manager training for medium to large farms; post-harvest handling; agriculture produce marketing; and pesticide education. Training in these may range from one to two week programs to one to two year certificate programs in certain cases.

The Project will not fund long-term overseas training. However, the implementing organization will assess the need to increase university level training in horticulture and agribusiness and may provide appropriate support needed to increase university level training in these fields.

USAID will approve all overseas and long-term in-country training programs and will require training to comply with regulations in the A.I.D. Handbook 10 on participant training. The Project Authorization includes a waiver of the requirements for host country funding of costs of international travel of participants. Such travel costs may be beyond the financial capacity of many potential participants and GSL regulations are not conducive to government funding of travel costs for private sector individuals.

The Project will train approximately 60 persons in overseas study tours and specialized training programs; 400 persons in 20 open in-country training courses; and 1,000 persons in specific skill development programs related to specific investments.

The implementing organization will prepare detailed training plans as part of its work plan, for approval by USAID, which presents proposed training subjects, location, candidate selection method and contribution toward project objectives.

4. Commodity Procurement

The Project will provide funding for equipment and materials needed by the implementing organization. This will include vehicles, computers and office equipment, technical publications, promotional materials, and others.

The Project will also provide funding for importation of germplasm resources for testing, equipment for demonstrations and pilot trials, and materials for testing new packaging and processing systems. These equipment trials will benefit approximately 25 agro-enterprises. Project testing and introduction of germplasm and equipment should promote markets for U.S. agricultural technology.

Unless specified to the contrary in writing at the time of approval of equipment procurement, at the end of the Project, title to all Project-funded equipment used by client entrepreneurs in production and processing trials will remain with the client company. At the end of the Project, the implementing organization will transfer title for Project funded-equipment, which is under the control of the Recipient but not used by client companies for trials, to an organization whose objectives are consistent with the Project and which is mutually agreeable to both the Recipient and USAID.

5. Evaluation and Audit

The Project will provide A.I.D. grant funding for a mid-term and final project evaluation and for interim audits of the Cooperative Agreement Recipient. Funds will also be provided for audit coverage of sub-grantees to the extent deemed necessary.

6. HC Contribution

Private funding for agro-enterprise investments is the major host country counterpart contribution to the Project. Sri Lankan private sector investors and local financial institutions are expected to invest \$20.0 million which will be monitored by the implementing organization through a performance monitoring system.

E. How the Project Will Work

The Agro-Enterprises Project advances a novel approach to implementation in Sri Lanka. There is minimal government-to-government business. Rather there is a strong reliance on market forces for capital and the dynamism of the private sector, particularly for developing agro-enterprises.

USAID intends to use one cooperative agreement for implementation of virtually all Project activities. As further explained in the Procurement Plan, this reduces the management burden on the Mission for activities such as grantmaking, training, and commodity procurement. The implementing organization will establish an office in Colombo, in much the same way any service organization would

begin, as the Agro-Enterprise Development Group. It will be necessary to identify office space, hire local staff, and engage in a series of consultations with agro-enterprise interests, financial institutions and appropriate organs of the GSL.

Early consultations, done under the guidance of the USAID Project Manager, will be followed by the establishment of an Advisory Board. The Board will provide a forum for discussion of project activities, but more importantly, will assist the implementing organization in extending contacts to agro-entrepreneurs and financial institutions.

At the same time, the implementing organization will conduct a training needs assessment in the agro-enterprise sector. This assessment will be incorporated into a work plan for USAID approval. In addition, USAID will require the establishment of a performance monitoring system to measure progress toward objectives.

Technical assistance will be provided to a wide range of "client" firms. These can include any majority-private firm registered in Sri Lanka, sole proprietorships, partnerships, cooperatives, registered farmer organizations, or non-profit organizations with productive for-profit enterprises. The Project will work with clients of any size provided they are capable of undertaking innovative commercial ventures in the agriculture sector. Interest in agro-enterprise investment is high and there can be expected to be a large number of potential clients.

The Agro-Enterprise Development Group will promote and market Project services with local entrepreneurs. Promotion efforts will be by direct advertising, by promotional work through Advisory Board members and members of the technical assistance team, and by direct contacts with potential client firms. The objective of this promotion is to obtain the maximum number of requests for assistance from which the Project can select activities for funding.

The technical assistance team can expect to consult with approximately 3,120 clients. Many of these will be preliminary discussions with no follow-up, but at least 175 will result in further assistance in the form of consultant services, training, commodities or equipment, Agro-Enterprise Development Grants, or a combination of the above. Other clients will receive technical or marketing assistance from the Project but without intensive follow-up or special funding. Clients will generally be expected to share costs of training, marketing, or R&D activities. In limited cases, the Agro-Enterprise Development Group may initiate a proposal and seek a private entrepreneur to undertake it, either on a cost-sharing basis or with full Project funding. This approach may be taken for testing of entirely new products thought to hold potential for Sri Lanka. The Project will also initiate activities to promote contract grower/out-grower programs and to train individuals in commercial farm management, post-harvest handling, and other priority fields.

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The Agro-Enterprise Development Group will advise clients on development of business plans and financing proposals. The Agro-Enterprise Development Group may recommend that clients seek financing for enterprises, but will not recommend a specific financial institution. It will be the responsibility of the client firm to make decisions on and seek financing. Successful R&D activities supported by the Project may "graduate" to seek full financing and, on occasion, AEDF financing may be combined with Project support for training, technical assistance, or research and development.

The Project addresses poverty alleviation by supporting agro-enterprise development through introducing new technologies, developing new markets and products, and facilitating agro-enterprise financing. The Project will attempt to achieve some visible successes early in implementation in order to develop credibility and promote further agro-enterprise investment interest. Initial clients are likely to be from well-established, medium-sized firms. However, selection criteria for assistance to client enterprises will be weighted increasingly toward supporting enterprises with out-grower schemes, with farmer equity participation, or that maximize benefits to the rural poor.

In the absence of a cooperating GSL Ministry, the implementing organization under the Agro-Enterprises Project will sign a memorandum of understanding with the GSL Ministry of Policy Plan and Plan Implementation. The memorandum is a standard means of recognizing foreign organizations and provides for duty-free importation of project commodities and personal effects, and for the issuance of visas.

III. COST ESTIMATES AND FINANCIAL PLAN

A.I.D. will fund most Project costs through a Cooperative Agreement for implementation of the Project by a U.S. organization. The exceptions are audit and evaluation of the Project. Participating entrepreneurs and financial institutions will contribute to costs of training and research and development and will provide partial funding for investments.

A. Summary Cost Estimates

The A.I.D. Grant contribution to the Project is \$14 million. The private sector's is \$20,600,000. Table 3.1 presents a summary cost estimate; Table 3.2 presents the Project obligation schedule; Table 3.3 breaks out input costs by outputs; and Table 3.4 presents estimated expenditures by fiscal year. The exchange rate for the Project Paper is taken at Rs.42/\$1.

Table 3.1: Summary Cost Estimate and Financial Plan (\$000)

<u>Element</u>	<u>A.I.D.</u>	<u>Private Sector*</u>	<u>Total</u>
Tech Asst	8,000	--	8,000
Training	1,000	400	1,400
Subgrants	3,500	1,000	4,500
Commodities	700	--	700
Audit/Eval	300	--	00
Contingency	500	--	500
Investment Funds	--	19,100	19,100
Total	14,000 =====	20,500 =====	34,500 =====

* - Private sector contributions include capital and in-kind contributions by individual investors, financial institutions, or subgrant recipients. For information purposes, these contributions will be tracked by the implementing organization.

Table 3.2: Obligation Schedule (\$000)

<u>Fiscal Year</u>	<u>Increment</u>	<u>Total Obligations</u>
1992	3,500	3,500
1993	4,000	7,500
1994	4,000	11,500
1995	<u>2,500</u>	14,000
Total	14,000	

Table 3-3: Estimated Costing of Project Outputs/Inputs (\$000)

<u>Output Input</u>	<u>Agro Enter prise Investments*</u>	<u>New Technology</u>	<u>Market Development</u>	<u>Financing Mechanism</u>	<u>Improved Public Sector Support To Agro Enterprise</u>	<u>Total</u>
AID Appropriated						
- Technical Assistance	-	4,000	1,500	2,000	500	8,000
- Training	-	600	200	100	100	1,000
- AED Grants	-	1,800	800	400	500	3,500
- Procurement	-	550	50	50	50	700
- Audit/Evaluation	-	100	50	100	50	300
- Contingency	-	200	100	100	100	500
Host Country						
- Private Sector	19,100	400	400	400	200	20,500
Total	19,100	7,650	3,100	3,150	1,500	34,500
	*****	*****	*****	*****	*****	*****

* Note that other inputs may also support investments, but will more directly contribute to other outputs.

Table 3-4: Projected A.I.D. Grant Expenditures by
Fiscal Year (\$000)

<u>Item</u>	<u>FY 92</u>	<u>FY 93</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>Total</u>
Technical Assistance	300	1,700	1,700	1,700	1,700	800	400	8,000
Training	50	100	200	200	200	200	50	1,000
AED Grants	-	300	700	800	800	600	300	3,500
Procurement	100	200	200	100	50	50	-	700
Audit/Evaluation	-	-	50	50	100	-	100	300
Contingency	-	-	100	100	100	100	100	500
	450	2,300	2,900	2,950	2,950	1,750	950	14,000
	*****	*****	*****	*****	*****	*****	*****	*****

B. Methods of Implementation & Financing

Proposed implementation and financing procedures are set forth in Table 3-4.

Table 3-4. Methods of Implementation and Financing.

Item	Method of Implementation	Method of Financing	Approximate Amount
Technical Assistance, Training, Commodities, and AED Grants	Cooperative Agreement	Direct Payment or Federal Reserve Letter of Credit	13,200
Audit/Evaluation and Contingency	Direct A.I.D. Contract	Direct Payment	800
		Total	<u>14,000</u> =====

A.I.D. has considerable experience with Cooperative Agreements and with working with non-governmental organizations in Sri Lanka. Under Cooperative Agreement and contracts for technical assistance, training and procurement, organizations have little difficulty with establishing and managing contract or grant teams in Sri Lanka. Including technical assistance, training, AED grant management and procurement functions under one contractor will facilitate implementation and reduce the management burden on the Mission.

C. Payment Procedures

A.I.D. will enter into a competitively-awarded Cooperative Agreement with a U.S. organization for implementation of the Project, including provision of training, technical assistance, procurement, and AED grant program administration and management. The Project manager prefers the A.I.D. Controller in Colombo to make direct payments to the implementing organization based on vouchers submitted by the organization. However, the Recipient may qualify for and request use of a Federal Reserve Letter of Credit for reimbursement of project costs and this method of payment will be acceptable to USAID/Sri Lanka.

The USAID/Sri Lanka Controller will make direct payments on A.I.D. direct contracts for audits and evaluations and any contingency costs.

D. Audit Requirements

The Project budget includes \$300,000 for audit and evaluation. Of this amount, approximately \$150,000 will be needed for evaluations and the balance will be available for audits. It is expected that four

non-federal audits will be conducted over the life of the project. In addition the Cooperative Agreement Recipient is expected to fund audits of its own operations and of sub-grantees, as appropriate, and in keeping with sound business practice.

IV. IMPLEMENTATION PLAN

A. Implementation Responsibilities

Project implementation will be the responsibility of the Cooperative Agreement Recipient. Implementation will require that the technical assistance Chief-of-Party be a strong administrator and able to promote the Project with private sector entrepreneurs, prioritize activities for the Project, take prompt decisions, coordinate a wide range of activities with diverse entities, and fulfill A.I.D. monitoring requirements. The technical assistance team will have wide latitude to work independently.

The Recipient will, within the first six months of the Project, establish an Agro-Enterprise Project Advisory Board to provide advice on project implementation. The Board will be composed of nine individuals, including three GSL representatives named by the National Planning Division's Agricultural Section, three representatives from financial institutions and three private sector individuals to be selected by the Cooperative Agreement Recipient with the concurrence of USAID. USAID Project Officers will serve as ex-officio members on the Board.

The Advisory Board will meet approximately quarterly to review Project activities and progress. The Board will record conclusions of its discussions in minutes, which will be provided to the Cooperative Agreement Recipient, USAID/Sri Lanka, and the APG. The minutes will include significant observations on on-going activities and recommendations regarding future activities. Board members and firms in which they may have interest will not be excluded from receiving assistance from the Project, but members should abstain from discussions regarding investments in which they have a financial interest. Recommendations of the Advisory Board will not be binding on the Cooperative Agreement Recipient, but must be given due consideration.

The Recipient will provide copies of all regular and special reports to the National Planning Division/Agricultural Section. In addition, the Recipient will submit monthly reports of names and addresses of firms for which assistance is proposed or has been approved. This will include information on the enterprise development proposal and the type of support, such as consulting services, training, AED grants or equipment.

Many participating private sector entities will implement Project sub-activities, including investment projects, trials, demonstrations, and training. The Project will seek public sector

collaboration from technical departments to the extent possible. With the exception of a limited number of pro-active initiatives approved by the Board, sub-activities will respond to proposals initiated by the private sector and co-financed by the private sector. The Recipient will evaluate these competitively to allocate Project assistance. Support to GSL technical departments will be in the context of contract agreements to work on proposals from the private sector.

B. Implementation Schedule

The Agro-Enterprises Project is designed as a six-year project. If results are as expected and if funding is available, it is expected that a follow-on project will continue the program of support to agro-enterprise. Six years, rather than a longer period, will allow an opportunity to evaluate the activity and the approach to make any needed revisions before proceeding with the follow-on project.

Project activity can be expected to start up quickly, as there is already considerable demonstrated private sector interest in agro-enterprise investments. However, it will take some time to develop investment proposals to the point of financing and will take time to bring new technologies through the development process and the screen and develop new enterprise proposals. In the early phase of the Project, the Cooperative Agreement Recipient will actively promote awareness of the Project and solicit applications for assistance in order to have as large a selection as possible for sub-activities.

Three of the four long-term expatriate specialist positions are programmed for four years, as it is expected that it will take this long to promote, test and introduce many new production activities and to enter new markets. The Chief-of-Party is programmed for one additional year and short-term assistance and Sri Lankan staff for two additional years. The long-term expatriate specialists are expected to screen proposals and structure support to agro-enterprises. This will be largely complete in four years and the final two years will enable the Project to complete support to new investments.

Table 4-1: Target Dates for Selected Events in Project Implementation

<u>Event</u>	<u>Date</u>
<u>Phase I - Project Approval and Assistance Selection</u>	
Project Authorization	2/28/92
Project Grant Agreement Signing	3/15/92
PIO/T Issued for Technical Assistance	3/16/92
CBD Notice of Request for Applications of Assistance	3/16/92
PIL Number One Issued	3/21/92
RAA for Technical Assistance Issued	4/1/92

<u>Event</u>	<u>Date</u>
RAAs Closing Date	6/1/92
Selection of Cooperative Agreement Recipient	6/15/92
Award of Cooperative Agreement	9/15/92
 <u>Phase II - Project Mobilization</u>	
Technical Assistance Team Arrives	10/15/92
TA Team Introductions to Embassy/GSL	10/22/92
Consultations for Advisory Board Begin	10/22/92
TA Team Establishes Office	11/15/92
Agro-Enterprise Promotion Begins	11/15/92
Draft Annual Work Plan Submitted	12/15/92
--Technical Assistance Delivery Year 1	
--Training Plan Year 1	
--Procurement Plan Year 1	
--Design of Overall Project Monitoring Plan	
First Quarterly Report Submitted	12/15/92
Project Advisory Board Selected	12/15/92
First Advisory Board Meeting	1/15/92
Project 1993 Workplan Finalized	2/22/93
Implementation of Monitoring Plan	2/28/92
 <u>Phase III - Routine Implementation Begins</u>	
Quarterly Project Reports Submitted	Quarterly
Annual Work Plans Prepared & Approved	Annually
Special Reports on Accomplishments Prepared	As Needed
Project Implementation Reports Prepared	Quarterly
 <u>Phase IV - Project Evaluation & Monitoring</u>	
Monitoring of Project Accomplishments	Quarterly
Audits	As Required
First Interim Evaluation	7/31/94
Second Interim Evaluation	1/31/96
Final Evaluation	1/30/98
 <u>Phase V - Project Closeout</u>	
Three Long-Term Specialists Complete Assignment	10/14/96
Expatriate Chief-of-Party Completes Assignment	10/14/97
PACD	9/30/98

V. PROCUREMENT PLAN

Procurement under the Agro-Enterprises Project will be handled directly by A.I.D. Host country contracting is not appropriate as all activities are directed at strengthening private sector enterprises. B/G responsibilities are very limited.

USAID will implement all activities, with the exception of evaluation and audit, through one assistance instrument -- a cooperative agreement with a U.S. organization. The choice of a cooperative agreement was reached due to the broad scope of program

responsibilities required to implement the Project: administration and management of a subgrant program, provision of a wide range of technical and financial services which cannot be anticipated in detail, as well as training to take advantage of targets of opportunity in agro-enterprise. In essence, the Agro-Enterprises Project wishes to support a program approach to implementation not consistent with the use of a contract.

The selection of the implementing organization will be done through a competitive process. USAID wishes to encourage the maximum degree of competition possible and, therefore, encourages for-profit firms to apply. However, due to the nature of a cooperative agreement, payment of fee is not possible. Discussions with the Regional Contracting Officer suggest that there may be substantial opportunities for subcontracting with for-profit firms, where appropriate. Among these subcontracting opportunities will be opportunities for Gray Amendment firms.

Draft terms of reference for the cooperative agreement are included in ANNEX K, which will serve as an attachment to the Request for Applications for Assistance. This section contains detailed cost information.

Further details concerning the various subcomponents of the cooperative agreement -- technical assistance, training, commodities and subgrants -- are presented below.

1. Technical Assistance

The implementing organization will be required to field four long-term specialists: (a) Agro-Business Specialist; (b) Marketing and Agro-Processing Specialist; (c) Agricultural Production Specialist; and (d) Agro-Enterprise Financing Specialist. In addition, the Project calls for the provision of 22 person years of long-term Sri Lankan specialists, 70 person months of expatriate and 66 person months of Sri Lanka short-term technical assistance.

Because of the Project focus on private sector agro-enterprise development, it is essential that the technical assistance bring a solid commercial orientation and business-like approach to the Project. For that reason, the Request for Application for Assistance will encourage non-profit organizations to submit proposals with substantial involvement from for-profit firms as sub-contractors.

The implementing organization will provide all expatriate and local technical support and implement all other Project activities in conjunction with Sri Lankan private sector entities. The Cooperative Agreement Recipient will either supply technical services and training directly through a Memorandum of Undertaking with a separate technical assistance contractor.

2. Agro-Enterprise Development Grants

The cooperative agreement will provide a fund of \$3.5 million earmarked for Agro-Enterprise Development Grants. These funds will be administered and managed by the technical assistance team subject to standard A.I.D. procurement regulations.

The Recipient will advertise the availability of Agro-Enterprise Development grants and make selection of grantees on the basis of strict criteria, including: the innovativeness of the proposal; the demonstrated commitment of the proposer; consideration of environmental factors; and the potential benefit from the proposal. The Cooperative Agreement Recipient will award the grants and monitor their implementation. The Recipient will maintain a degree of involvement in grant implementation and will assist the grantees to complete adequate reporting on the implementation and impact of the grants. The Project will maintain in confidence the business plans of participating entrepreneurs.

USAID/Sri Lanka will request a deviation from Handbook 13 rules to allow source/origin procurement regulations for sub-grantees to follow those for the over-all grant. Most grants are expected to be less than \$25,000. For those above this amount, USAID/Sri Lanka approval will be required.

3. Training and Invitational Travel

The cooperative agreement will provide \$1.0 million for in-country, U.S. and third country training. The implementing organization will arrange training and travel for Sri Lankan entrepreneurs to access new technology and new markets in accordance with its approved training plan. The Project and the participating entrepreneurs will generally co-finance the costs for such training and travel. The Project will arrange training in cases where a participant will attend a formal course or receive information and training passively. When more inter-action is required for an entrepreneur to make contacts for marketing Sri Lanka exports, obtain planting materials or prototype equipment, or obtain details on processing or production systems, the Project will share costs of invitational travel. The Recipient will adhere to all A.I.D. training and travel regulations in the implementation of this program.

4. Commodities

The implementing organization will be responsible for procuring necessary equipment and materials for Project implementation. The source/origin requirement for this procurement will be U.S. and Sri Lanka. A justification for local source procurement is attached as Annex M. Procurement related to the Agro-enterprise grants will be the responsibility of the grant recipient except in cases where this is impractical.

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5. Evaluation and Audit

Evaluations and project audits will be procured directly by USAID. Approximately \$300,000 is reserved for this purpose. The most like source of these services is the U.S. or Sri Lanka and the suggested instrument is a delivery order under an I.Q.C. or a direct contract.

VI. MONITORING AND EVALUATION

The Agro-Enterprises Project monitoring plan will be relatively straight forward as all activities will be under one technical assistance team working from Colombo. Impact monitoring and evaluation will present some difficulties in view of the wide range of agro-enterprise developments and their geographic dispersion. However, the implementing organization will be required to develop a performance reporting system which can be monitored and checked by USAID/Sri Lanka on a routine basis.

A. Monitoring

1. Routine project monitoring - USAID, USDH And FSN Project Officers will monitor project activities on a periodic basis through site visits, TA team reports, and meetings with participating entrepreneurs. Project Officers will visit the TA office regularly and meet frequently with staff. USAID oversight will include approval of all short-term expatriate consultants, overseas travel, and grants of over \$25,000.

2. Project Progress - The TA team will submit quarterly reports to USAID and the GSL. These will include information on administrative aspects of the Cooperative Agreement and on status of technical assistance, training activities, grants and other activities. The TA team reports will document the number, value and type of technical, research, training and grant requests received and funded. Reports will also indicate number of requests, number of companies assisted, type of commodity, type and size of company and those extended to disadvantaged groups, particularly women-owned enterprises. Publicly available reports shall not be in sufficient detail to identify operations of individuals or individual companies.

3. Special Accomplishments - The TA team will prepare special reports on individual project accomplishments. These may be interim reports for long gestation activities and unusual achievements for grants, technical or training support activities, or investments. The reports will assess performance of activities based on sub-grantee reporting requirements. The reports will identify problem areas and recommend solutions and will document impacts and benefits of activities.

4. Project Performance Monitoring - Broad goal-level impact will be very difficult to measure until after the end of the Project. It will be possible to analyze national level statistics for broad substantiation of Project success, but this would provide only indirect evidence. Consequently, the performance monitoring plan focusses on outputs and on purpose level indicators.

For purpose level monitoring, the technical assistance team's reports will provide necessary data. This will include data on a) new agro-business starts; b) investments in expansion or improvement of existing businesses; and c) value of non-traditional agricultural exports. Baseline data necessary for the measurement of employment will be collected early in the Project pursuant to a plan devised by the implementing organization. In addition to the USAID/Sri Lanka project performance monitoring, the Project will collect data to assess the impact on the sector and to assist with analysis of sectoral problems. Since public data on farm income is not expected to be available in sufficient detail and accuracy to allow measurement of results of Project-assisted enterprises, the Project will obtain its own information on changes in farm income in sample areas where agro-enterprise investments are made. Summary data on sales, profits and employment by the enterprises assisted shall not be released in sufficient detail to identify individual companies.

B. Evaluation

The Project will be evaluated at three intervals as described below. External contract teams will conduct the evaluations with the GSL requested to participate in the evaluations. Evaluation teams may be small, but regular evaluations are needed to provide advice on program operations.

1. Process Evaluation - A "process" evaluation is scheduled for July, 1994. It is expected that all components will be operational by this time and progress should be evident. The evaluation team will evaluate the success of the Project in getting underway effectively. The team will review the assumptions, update benchmarks, and comment where circumstances warrant modification. The budget contains funds for approximately two person months for evaluation and one person month for audit purposes. USAID will most likely contract for services through an IQC.

2. Interim Evaluation - An interim evaluation is scheduled for January, 1996 to assess the validity of the Project approach. The evaluation will review the agricultural situation and business and economic climate prevailing in the country. The evaluation will assess the performance of the technical assistance team in that context. The evaluation team will review Project reports and documentation; AED grant agreements and reports; and performance of individual grants. The major issue for the interim evaluation is

whether project progress and results warrant additional A.I.D. funding for continuation of Project activities. This will be early to observe or measure Project impacts, but the assessment must be done at this time to allow for programming funds and negotiating extension to the Cooperative Agreement without a break in assistance.

In addition to the above and to other issues which will arise during project implementation, the interim evaluation will address the following issues:

- How successful has the project been in introducing new production and processing technologies?
- What impact has the Project on investment in agro-enterprise?
- What operational changes would be desirable?
- What problems are affecting the project? What newly-identified policy constraints are affecting agro-enterprise development? What changes might be needed in project design?
- What issues should be specifically addressed in the final evaluation?

Funding and contracting arrangements are similar to those of the "process" evaluation and audit.

3. Final Evaluation - The final project evaluation should be completed in early 1998, or as close as possible to the PACD. In addition to the issues addressed in the interim evaluation, the final evaluation should:

- Assess effectiveness and efficiency of providing USAID support to the developing agri-business sector;
- Assess impact on agro-enterprise investments and farm income; and
- Recommend further program directions for agri-business

VII. SUMMARIES OF ANALYSES

A. Technical Analysis

Project technical analysis reveals no critical constraints to Project success. Sri Lanka possesses the land, labor, and climatic conditions to produce and process a wide range of agricultural products for both local consumption and export. Private sector agro-enterprise development has been constrained by past government policies and entrepreneurs have not modernized production and processing functions or increased investment in the sector. The

policy environment has now dramatically improved, but agro-enterprises required assistance in funding the research and development work needed to modernize and increase efficiency of the sector.

Technological improvement is needed in a wide range of production and processing activities. Furthermore, post-harvest handling and better market linkages to small farm producers hold promise for major improvements.

Considerable technical expertise exists in country, but much of this is in the government sector, where regulations and procedures limit responsiveness to private sector needs. The Project will draw on this expertise and help increase the relevance of government technical programs. However, experience from other countries indicates that specialized high-value production and processing technologies cannot be developed in-country, but rather must be "imported" and state-of-the-area technologies adopted in an integrated investment package linked with markets.

Financial markets are not oriented to finance agro-enterprise developments. However, the financial system is gaining sophistication and can adopt procedures to leverage owner equity and to better assess agro-enterprise financing proposals. These changes can significantly improve the financial services available to the agricultural sector.

Two technical constraints that have become evident in other A.I.D. projects working on agro-enterprise development are land availability and restrictions on importation of planting material. Neither is judged a major obstacle to achievement of project objectives, although each may constrain specific agro-enterprise investments.

The land issue stems from the land tenure pattern with a mean size small holding of 0.7 ha. Government ceiling on land holdings of 20 ha. and lack of clear title for much land restrict availability of land for many enterprises. However, the GSL with A.I.D. assistance is moving to issue clear title to land and has adopted policies to make larger tracts of land available to investors on a lease basis.

Access to export-quality planting materials has been limited due to overly-restrictive regulations on plant quarantine and varietal release. The GSL has now freed up import of seed materials, announced clear requirements for planting material import, begun an in-depth review of plant quarantine, and obtained Japanese funding for improving quarantine and germplasm maintenance facilities. Current A.I.D. projects have been able to obtain planting materials in most cases and it appears that the GSL will strike the proper balance between facilitating imports and protecting against introduction of pests and disease.

The Project design team studied the feasibility of Project funding for a new wholesale fruit and vegetable market in Colombo. Although the team concluded that this is a high priority investment and that other changes in produce marketing may be dependant on modernization of the market, there remain too many issues outstanding for this to be included in the Project. The major issues are that the market must be under private management and a suitable location selected. Cost of construction was estimated at approximately \$2.5 million.

B. Social Analysis

Economic growth, equitable distribution of income and alleviation of poverty are basic goals of Sri Lankan society. The Agro-Enterprise Project will contribute to the diversification of agriculture which will lower production and marketing costs and increase the quantity and value of agricultural outputs. The net effect will be increased employment and income as measured by independent surveys.

Direct benefits to the rural poor deriving from the diversification and commercialization of agriculture are well-documented in development literature. Much evidence exists which demonstrates that economic growth sustained over years is the surest way to raise living standards of the rural poor. Moreover, in Sri Lanka, agricultural-led industrialization is the most likely source for economic growth.

The Project operates nationally, but is restricted from the North and East for security reasons. Project services will be available to all Sri Lankans irrespective of sex, religion, or race. Special efforts will be made to increase the participation of women and to facilitate investment in women-owned businesses.

C. Administrative Analysis

Reliance on private sector mechanisms will facilitate project implementation. Existing financial institutions are interested in expanding agro-enterprise financing and an institutional arrangement similar to arrangements for successful industrial investment financing programs appears fully adequate to Project needs. The Project will be facilitated by, but is not dependant on, the World Bank IDA Agro-Enterprise Investment Fund.

Numerous U.S. organizations engaged in agro-enterprise development work overseas can be expected to submit proposals for implementation. If not-for-profit institutions wish to bid, incorporation of a sub-contract with a private firm(s) will be highly desirable to increase the commercial orientation and business linkages of the Project.

During Project design, careful consideration was given to establishing a Sri Lankan non-profit Agro-Enterprise Development Corporation to implement the Project. The option was rejected due to uncertainties regarding the length of time for establishment of such an organization and recurrent cost implications of such an entity. The implementing organization will, however, study the feasibility and need for such an organization and may promote its establishment; but no Project funding is provided for it.

D. Economic and Financial Analysis

Project economic analysis estimates benefits from increased employment and profit to new agro-enterprises and farmer producers. The analysis is based on creation of 350 new or expanded agro-enterprises which generate additional 3,225 off-farm and additional 9,700 on-farm jobs and yield an average 16 percent return on capital in real terms. Farm income will also increase with production of high-value, diversified crops and adoption of commercial production technology. The analysis based on conservative estimates yields a very acceptable IRR in real terms of 16.4.

If the benefit stream is delayed and full production increases achieved by year eleven instead of year seven, the IRR declines to 12.5. Reliance on market forces to identify and finance Project activities ensures required financial vigor in choosing viable investments and is a major factor in assuring sound investments.

E. Environmental Analysis

No detailed environmental analysis of the Project is possible, because sub-activities are not known and will only be identified by private entrepreneurs during the life-of-project. The Project will require environmental review prior to financing any sub-grants with potential environmental impacts and, except for controlled experimental trials, will not fund pesticide use directly or indirectly without obtaining clearance from A.I.D./W.

The Project will promote sustainable and intensified agricultural production and should have a consequent beneficial effect on the environment. To this end, the Project will actively solicit applications for its Agro-enterprise development grant programs from organization which promote the wise use and conservation of natural resources associated with agri-business. Examples of these grants would include integrated pest management research, conserving biodiversity in agribusiness, etc.

VIII. CONDITIONS AND COVENANTS

A. Conditions Precedent to Disbursement

No conditions to disbursement are proposed for the Project Agreement other than the standard legal opinion and designation of authorized representatives.

B. Covenants

In addition to the standard covenants on evaluation and payment of duties, the following are recommended as Covenants to the Project Agreement:

1. The GSL will onlend to an appropriate apex institution \$6 million of funding from the World Bank Agriculture Support Services Project, if approved, for an Agro-enterprise Investment Fund.
2. The GSL will continue efforts to make more, suitable land available for commercial agro-enterprises.
3. The GSL will continue efforts to facilitate the importation of planting materials by the private sector, consistent with the need to protect against introduction of plant pests and diseases.

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E.O. 12356: N/A
 TAGS:
 SUBJECT: PID APPROVAL AUTHORITY

REF: A) COLOMBO 1239, B) (90) STATE 2911408

1. AA/AIRE HEREBY DELEGATES PID APPROVAL AUTHORITY FOR THE AGRO-ENTERPRISES (3830111) TO THE DIRECTOR, USAID/SRI LANKA. PER DELEGATION OF AUTHORITY FOR THE BUREAU FOR ASIA AND PRIVATE ENTERPRISE DATED NOVEMBER 19, 1990, THE DIRECTOR HAS PP APPROVAL AND AUTHORIZATION AUTHORITY UP TO 20.0 MILLION DOLLARS.
2. IF THE PLANNED LOP FUNDING LEVEL OR INITIAL FY 92 OBLIGATION LEVEL CHANGE DURING THE DESIGN, APRE/W APPROVAL WILL BE REQUIRED. CABLE REQUESTING SUCH APPROVAL SHOULD BE SENT TO THE ATTENTION OF DR/PD AND FPM.
3. AN IEE MUST BE APPROVED FOR THIS PROJECT. PLEASE SUBMIT THE IEE ALONG WITH THE PID OR PROJECT DESCRIPTION TO M. KUI, APRE/DR/TR.
4. APPROVED PID SHOULD BE SENT TO APRE/DR/PD FOR FILING AND DISTRIBUTION. PLEASE IDENTIFY ANY ISSUES, RESEARCH TOPICS, ETC. WHERE WE CAN HELP IN THE DESIGN PROCESS.
5. ON ANOTHER MATTER: PENDING RECEIPT OF ADDITIONAL INFORMATION ON ISSUES RAISED IN PARA 2.B OF REF (B), WE WILL CONSIDER DELEGATING PID AND PP AUTHORITY FOR IRRIGATION SECTOR PRIVATIZATION (383-0113). PLEASE ADVISE. BAKER

OFFICE	ACT	INFO
DIR		✓
HSG		
PAF		✓
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CTR		✓
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PID ISSUES AND RESOLUTION

The PID identified four issues to be addressed by the Project Paper. In addition the AID/W approval cable raised questions regarding the Initial Environmental Evaluation. These issues have been resolved by the project design and are briefly discussed below.

1. Institutional Mechanism for Project Implementation

The PID proposed that the Agro-Enterprises Project be implemented by a private, non-profit foundation, which would be established under the Project to provide technical support to agro-enterprises and to make equity investments in new enterprises. However, in review of potential legal, financial, and administrative problems with forming a new institution to be responsible for implementing a major project, the viability of this approach was a major question put to the consultants on project design.

The initial consultant team worked with consultants from the World Bank designing the Agro-Enterprise Fund Component of the Agricultural Support Services Project and proposed establishment of an Agro-Enterprise Development Company to implement the Project. On review of the consultants' final design, USAID/Sri Lanka noted concern with: (a) the possibility of slow start-up for the Project working with a new institution; (b) remaining questions on institutional duplication, sustainability and recurrent costs; and (c) risks of having both financing and technical assistance functions under one institution. The World Bank review of the proposed project design noted concern with establishment of a new financing institution and the possible subsidization of interest rates. These concerns led to a USAID/Sri Lanka-funded study to review alternative agro-enterprise financing options.

The "Agro-Business Financing Review " identified several existing financial institutions that are well able and interested in participating in the Project and could manage the World Bank Agro-Enterprise Development Fund. The Agro-Enterprise Project will therefore provide technical assistance to and work through these institutions and will provide technical support to private enterprise directly under a Cooperative Agreement with a private, non-profit agency.

2. Structure of Financial and Technical Assistance Function

The PID noted concern that providing financing and technical support through the same agency could result in conflicts of interest and skew investment and technical support decisions. At the same time it is desirable that technical assistance and investment financing be coordinated and mutually supportive.

The final project design provides technical assistance and training for both financial institutions and new agro-enterprises under the same Cooperative Agreement. This facilitates implementation and coordination of activities. However, participating financial institutions will make decisions on financing agro-enterprises and since it will be their money at risk, they can be expected to make sound financial decisions. The Agro-Enterprise Financing Specialist will have an office at the lead financial institution (Merchant Bank of Sri Lanka) and will advise staff of financial institutions, but will not be in a decision making role and will work quite independently of the rest of the team, which will work with private firms promoting new enterprises. The project design thus largely separates investment decision making from decisions on technical support, but still provides for good coordination.

3. Complexity and Number of Project Activities

The PID identified six separate institutions which might directly receive assistance from the Agro-Enterprises Project. The project design has reduced this complexity by providing all assistance through one Cooperative Agreement with all sub-activities (training, research, institutional strengthening) proposed in the PID to be combined and managed under the Agro-Enterprise Development Grant program. This simplifies administration and provides better market direction for the program activities in that all sub-activities will respond to needs of private entrepreneurs. GSL oversight will be provided by an existing inter-ministerial group and the Project Advisory Board will provide input from experienced private and public sector individuals to guide Project implementation.

The Project design is further simplified by dropping the funding for a central wholesale market. However, this facility is still considered important and the Project technical assistance team will continue to explore the feasibility of market construction.

The Project will work with a large number of private entities and, potentially, with several government agencies. However, the structure of activities as sub-grants to be managed by a non-profit, non-governmental organization should facilitate implementation.

4. Policy Environment, Opportunities and Constraints

The project design team gave major consideration to policy constraints to agro-enterprise development and did not identify any policies that would constrain the Agro-Enterprises Project from accomplishing its objectives. There will likely be policy constraints for specific investments, such as difficulties in obtaining land or certain planting materials. Agro-Enterprise Development Grants will fund studies of policy issues and these will be the subject of continuing dialogues between the Agro-Enterprises

Project Advisory Board, USAID and the GSL. Overall, the GSL has substantially improved the policy environment and agro-enterprise investments can proceed and companies can make profits sufficient to justify loans and equity investments.

5. Environmental Impacts

As Project activities will be defined by the interests of participating entrepreneurs, it is not possible to predict environmental effects of the Project. For that reason, no environmental assessment was required for the over-all project, but environmental assessments will be required for individual sub-activities. If at a later stage the Project develops sufficient expertise in pesticide use and management, A.I.D. will consider expanding authority for the Project to finance work with pesticides. A copy of the IEE for the Project is attached as Annex G of the Project Paper.

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AGRO-ENTERPRISES PROJECT LOGICAL FRAMEWORK

<u>Narrative Summary</u>	<u>Objectively Verifiable Indicator</u>	<u>Means of Verification</u>	<u>Important Assumptions</u>
<u>Project Goal:</u>	<u>Measures of Goal Achievement:</u>	<u>Goal Verification:</u>	<u>Goal Assumptions:</u>
- To diversify and commercialize agricultural systems.	- 8 Percent annual increase in value of export of non-plantation crops 1992-1999.	GSL Reports	- Government maintains policies neutral to production of diversified crops viz-a-viz paddy and traditional plantation crops. - High proportion of new production goes into export markets.
<u>Project Purpose:</u>	<u>Measures of Purpose Achievement:</u> (EDPS)	<u>Purpose Verification:</u>	<u>Purpose Assumptions:</u>
To stimulate the development and expansion of private agro-based enterprises.	1. 50 new agro-enterprises established with some project support. 2. 300 existing agro-enterprises expand operations and profitability with some Project support.	- Project reports. - Evaluation follow-up surveys of firms assisted.	- Estimated numbers of new and improved existing firms are based on assumptions regarding size of investments are high degree of interest in new enterprises. - Investment climate remains such that entrepreneurs will make new investment. - Project assistance identifies viable new production and processing technologies and markets.
<u>Output:</u>	<u>Magnitude of Outputs:</u>	<u>Output Verification:</u>	<u>Output Assumptions:</u>
1. Agro-Enterprise Investments.	1. Investments from Agro-Enterprise Investment fund for 250 new enterprises or expansions.	1. Project reports and World Bank Agricultural Support Services (AgSS) Project reports.	1. World Bank proceeds to implement AgSS Projects or other funding is available.
2. Introduction of new production and processing technologies.	2. 100 new technologies introduced.	2. Project reports.	2. Enterprises will co-finance R&D work with Project.

<u>Output:</u>	<u>Magnitude of Outputs:</u>	<u>Output Verification:</u>	<u>Output Assumptions:</u>
3. Improvements in market linkages.	<p>3. (a) 20 outgrower/contract grower programs started.</p> <p>b) 20 marketing initiatives implemented by private entrepreneurs.</p> <p>(c) 20 new products enter export or domestic markets.</p>	3. Project reports.	3. Entrepreneurs identify and move to exploit new markets and new products.
4. Improved agro-enterprise financing facilities.	<p>4. (a) Agro-enterprise Investment Fund (AEIF) fully disperses within Life-of-Project.</p> <p>(b) At least five financial institutions participate in AEIF.</p> <p>(c) AEIF participating financial institutions adapt new loan appraisal procedures; new procedures for financial structuring; and make at least \$250,000 each in equity investments.</p>	4. Project Reports.	4. Participating financial institutions are willing to adopt new investment appraisal techniques and new financing methods.
5. Improved public sector support to agro-enterprises.	<p>5. (a) GSL agencies and university undertake at least 25 contract research activities for private sector.</p> <p>(b) 12 Project policy studies and reviews are utilized by GSL in policy formulation.</p>	<p>5. (a) Project reports.</p> <p>(b) A.I.D. dialogue with GSL policy makers.</p>	5. No major change in current government policies.

<u>Inputs:</u>	<u>Magnitude of Inputs:</u>	<u>Inputs Verification:</u>	<u>Input Assumptions:</u>
1. <u>A.I.D.</u>			
A. Technical Assistance	1. Long-Term: Expatriate 17 years. Sri Lankan 24 years. Short-Term: Expatriate 60 months. Sri Lanka 24 months.	Cooperative Agreement Reports.	Cooperative Agreement Recipient is able to provide varied assistance contemplated by Project and requested by private sector.
B. Training.	2. Overseas observational tours - 60 persons; in- country - 1400 persons.		
C. Agro-Enterprise Development Grants.	3. 125 grants totalling \$3.5 million.		
D. Commodity Procurement.	4. \$700,000.		
E. Evaluation and Audit.	5. Mid-term and final evaluation and audits.		
2. <u>Host Country</u>			
A. Investment funds.	AEIF - \$6 million* private sector - \$19.8 million.		

* - if World Bank Project Approved

STATUTORY CHECKLIST FOR AGRO-ENTERPRISE PROJECT

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. Negative Certification (FY 1991 Appropriations Act Sec. 559(b)):

Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No

b. Positive Certification (FAA Sec. 481(h)): (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a

N/A

country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

c. Government Policy (1986 Anti-Drug Abuse Act Sec. 2013(b)):
(This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.)
If recipient country is a "major illicit

N/A

drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec. 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. Indebtedness to U.S. Citizens (FAA Sec. 620(c)): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies; (b) the debt is not denied or contested by such government; or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

3. Seizure of U.S. Property (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

4. Communist Countries (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restriction on assistance to Communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

No

No

No

5. Mob Action (FAA Sec. 620(j))
Has the country permitted or failed to take adequate measures to prevent damage or destruction by mob action of U.S. property?

No

6. OPIC Investment Guaranty (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

No

7. Seizure of U.S. Fishing Vessels (FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No

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**8. Loan Default (FAA Sec. 620(q);
FY 1991 Appropriations Act Sec. 518**

(Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under FAA? (a) No
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1991 Appropriations Act appropriates funds? (b) No

9. Military Equipment (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A

10. Diplomatic Relations with U.S. FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No

11. U.N. Obligations FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Sri Lanka is in arrears; however, this has been taken into account by the Administrator at time of approval of Agency OYB.

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12. International Terrorism

a. Sanctuary and Support

(FY 1991 Appropriations Act Sec. 555; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

No

b. Airport Security (ISDCA of

1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

13. Discrimination (FAA Sec.

666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

14. Nuclear Technology (FAA Secs.

669, 670)): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any

No

material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Section 620E permits a special waiver of Section 669 for Pakistan.)

15. Algiers Meeting (ISDCA of 1981 Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on September 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Sri Lanka was not represented at the meeting and entered a written reservation subsequently.

16. Military Coup (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

17. Refugee Cooperation (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

No

18. Exploitation of Children (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No

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B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations (FAA Sec. 116)**: Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

2. **Abortions (FY 1991 Appropriations Act Sec. 535)**: Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

1. **Human Rights Violations (FAA Sec. 502B)**: Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

5C(2) ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP-TO-DATE? YES

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Effort:
(FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

project activities directly promote private sector investment and trade with special emphasis on increasing international trade. It also directly contributes to increasing technical efficiency of agriculture. Project assistance will be available to cooperatives and farmer organizations and will promote new enterprise entry into the market place.

2. U.S. Private Trade and Investment
(FAA Sec. 610(b)): Information and conclusions on how assistance 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 enterprise).

The use of U.S. technical assistance will encourage the development of the U.S. as a permanent source of equipment, planting materials and technical support. The project will promote U.S. investment and joint ventures.

3. Congressional Notification

a. General Requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes

b. Notice of New Account Obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash Transfers and Nonproject Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an 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?

Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

N/A

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501):

If project is for for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)):

Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has the Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

Project activities directly promote private sector investment and trade with special emphasis on increasing international trade. It also directly contributes to increasing technical efficiency of agriculture. Project assistance will be available to cooperatives and farmer organizations and will promote new enterprise entry into the market place.

10. U.S. Private Trade (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 enterprise).

The use of U.S. technical assistance will encourage the development of the U.S. as a permanent source of equipment, planting materials and technical support. The project will promote U.S. investment and joint ventures.

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): 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.

The GSL and Sri Lankan private sector are contributing 51 percent of the cost of project activities and investments.

b. U.S.-Owned Currency (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?

N/A

c. Separate Account (FY 1991 Appropriations Act Sec. 575): If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out

the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): 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?

The implementing organization will prepare a Bumper Amendment Analysis to determine eligibility for financing for all investments aimed at exports.

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807", which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

N/A

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No

14. PVO Assistance

a. Auditing and Registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

If assistance is provided to a PVO this will be considered.

b. Funding Sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

See 14a, above.

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State I/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision.)

N/A

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and

Yes

other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric and are components, sub-assemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements length, area, volume, capacity, mass and weight), through the implementation stage?

Yes

Yes

17. Women in Development (FY 1991 Appropriations Act, Title II under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes, the project provides for targetted promotion of assistance for women-owned enterprises.

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

This project will not encourage developing countries to cooperate in regional development programs.

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby or abortion?

No

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Project assistance will be available to cooperatives and farmer organizations.

21. U.S.-Owned Foreign Currencies

a. Use of Currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

The U.S. does not own enough local currencies to meet project costs.

b. Release of Currencies (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

22. Procurement

a. Small Business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes. Project will utilize standard A.I.D. procurement processes.

b. U.S. Procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes

c. Marine Insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. Agricultural Procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where

N/A

commodity financed could not reasonably be procured in U.S.)

e. Construction or Engineering Services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

f. Cargo Preference Shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A

g. Technical Assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes, although technical assistance is to be provided under a cooperative agreement with a non-profit organization in order to draw on the strengths of these organizations, the procurement process will encourage the involvement of private commercial firms.

h. U.S. Air Carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes

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- i. Termination for Convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504):** If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes
- j. Consulting Services (FY 1991 Appropriations Act Sec. 524):** If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes
- k. Metric Conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):** Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, sub-assemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? Yes
- l. Competitive Selection Procedures (FAA Sec. 601(e)):** Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

23. Construction

a. Capital Project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

b. Construction Contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

c. Large Projects, Congressional Approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

25. Communist Assistance (FAA Sec. 620(h)): Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

26. Narcotics

a. Cash Reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. Assistance to Narcotics Traffickers (FAA Section 487): Will arrangements take "all reasonable steps" Yes

to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing to provide for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

31. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

32. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

33. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will arrangements preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes
34. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes
35. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes
36. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No
37. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes
38. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, No

if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):

If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities:

(1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

No

No

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small business, and small incomes of the poor)?

The project will introduce technology appropriate to the needs of the entrepreneur and the specific enterprise assisted. With Sri Lanka's small farm production base this will in most cases have to be labor intensive technology suited to such conditions.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity 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 civic education and training in skills required for effective participation in governmental processes essential to self-government.

The Project will provide assistance to private entrepreneurs (firms, individuals, cooperatives, farmer organizations) in response to requests for assistance and will in most cases require that these client entrepreneurs initiate, jointly finance and manage the activities. It will develop productive private enterprises and provided needed training to private entrepreneurs. GSL employees and other Sri Lankan technical specialists, working in conjunction with a U.S. technical assistance, will be used to provide assistance to participating clients under the Project.

5. Economic Development (FAA Sec. 101(a)): 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

6. Special Development Emphasis (FAA Secs. 102(b), 113, 281(a)): Describe 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, dispersing investment 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 appropriate U.S. institutions; (b) encourage democratic private and local governmental

The project promotes development of sustainable commercial agriculture and enterprises and will increase on-farm employment in marketing and processing enterprises. Market forces will determine location of new enterprises, but these are expected to be dispersed throughout the country. The project will specifically promote enterprise development in the south and by women

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; and (e) utilize and encourage regional cooperation by developing countries.

entrepreneurs. It is expected to generate significant employment opportunities for women. The project does not encourage regional cooperation.

7. Recipient Country Contribution (FAA Sec. 110, 124(d)): Will the recipient country provide at least 25 percent 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

8. Benefit to Poor Majority (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

9. Abortions (FAA Section 104(f); FY 1991 Appropriations Act, Title II under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of

No

coercive abortion or involuntary sterilization?

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No

10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

11. Disadvantaged Enterprise (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, 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

To comply with the statutory requirements, all solicitations for contracts in excess of \$500,000 will include a requirement that the contractor sub-contract not less than 10% of the gross value of the contract with entities described in the statute.

disadvantaged (including women)?

12. Biological Diversity (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

No

No

No

No

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) and (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which

Yes. Environmental assessments will be required for any Project activities which might affect forest resources and the natural environment. Employment generation in sustainable agricultural enterprises should reduce slash-and-burn agricultural cultivation.

have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity.

- c. Forest Degradation: Will assistance be used for:
- (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; No
 - (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; No
 - (3) activities which would result in the conversion of forest lands to the rearing of livestock; No
 - (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for No

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logging or other extractive industries) which pass through relatively undegraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

No

No

d. Sustainable Forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental Impact Statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-

N/A

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reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing and watershed management.

N/A

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be

N/A

exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

18. Loans

a. Repayment Capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A

b. Long-range Plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? Yes

c. Interest Rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

d. Exports to United States (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 percent of the enterprise's annual production during the life of the loan or has the requirement to enter into such an agreement been waived by the President because of a national security interest? The implementing organization will prepare a Bumpers Amendment Analysis for such enterprise investments.

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)):
Extent to which activity will: (1) effectively involve the poor in development, by expanding 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

The project is expected to generate significant employment opportunities for women. The project does not encourage regional cooperation.

poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) 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; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural Poor and Small Farmers:

If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research of local conditions shall be made.

The Project will generate technology and markets and promote investments in enterprises which generate employment in rural areas. Efforts to develop outgrower and contract grower schemes should increase the participation of small farmers in commercial agriculture.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

The Project does not have a specific nutrition component, but increased employment and incomes are expected to lead to improved nutrition.

c. **Food Security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

The Project directly promotes the diversification of agricultural production with potential to reduce imports of certain crops and increase exports, thereby earning essential foreign exchange and generating employment which will benefit the poor.

21. **Population and Health (FAA Secs. 104(b) and (c)):** If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and children, using paramedicals and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. **Education and Human Resources Development (FAA Sec. 105):** If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Project provides technical training to the private sector to support economic development. Training will improve management of private agro-enterprises and of financial institutions lending to the agricultural sector.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106):** If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

Project may provide assistance through U.S. private and voluntary organizations.

c. research into, and evaluation of, economic development processes and techniques;

N/A

d. reconstruction after natural or man-made disaster and programs of disaster preparedness;

N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY N/A

1. Economic and Political Stability (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?

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. Commodity Grants/Separate Accounts (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? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see 575(a)(5).)

4. Generation and Use of Local Currencies (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirement of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575 (b)): If assistance is in the form of a cash transfer:

a. Separate Account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b. Local Currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account

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for deposits and disbursements?

1 c. U.S. Government Use of Local Currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. Government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. Congressional Notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

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 Telegrams } FORAID
 ටෙලෙක්ස් } FORAID
 செலக்ஸ் }
 Telex } Colombo
 21232



Annex E
 මගේ අංකය } CA 9/9/175 B
 எனது இல. }
 My No. }
 ඔබේ අංකය }
 உமது இல. }
 Your No. } FEB 28 1992

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 இரல் අමාත්‍යාංශය
 வெளிநாட்டு வள திணைக்களம்
 சிசி அமைச்சு
 DEPARTMENT OF EXTERNAL RESOURCES
 Ministry of Finance

හතලේකම් කොට්ඨාසය (3 වැනි මහල)
 செயலகம், (3ம் மாடி)
 The Secretariat, (3rd Floor)
 නැ. පො. 277, කොළඹ 1.
 சு. பெ. இல. 277, கொழும்பு 1.
 P. O. Box 277, Colombo 1.

19...28th...February...1992.

Mr. Richard Brown
 Director
 USAID.

OFFICIAL FILE COPY

Dear Mr. Brown,

Agro Enterprises Project

On behalf of the Government of Sri Lanka, I wish to submit a formal request for USAID grant assistance, in the sum of US \$ 14.0 mn to undertake a project to improve income and generate new employment in Sri Lanka by expanding & diversifying commercial farming & agro enterprises.

The project as envisaged has two major Components. One is to facilitate investment in agro enterprises through provision of financial support and the other is to promote technology innovation, develop marketing information and research etc. by providing technical assistance. Of these two Components the technical assistance is to be supported by USAID with US \$ 14.0 mn and the financial assistance is expected to be supported by IDA with US \$ 6.0 mn. The financial contribution of \$ 6.0 mn is to be channelled through private financial institutions for agro business investments sponsored by the project.

OFFICE	ACT	INFO
DIR/DD		✓
HSG		
PRM		✓
EXO		
CTR		✓
PRJ		✓
ANR	X	
FSD		✓
PER		
C & R		
DUE DATE		3/10
ACT. TAKEN		
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INITIALS		

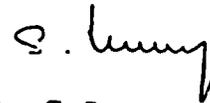
REFERENCE NO. 92/436
 DATE RECEIVED. 02. 28. 92
 ACTION.....

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Such support is integral to the success of the project and therefore it is important that funding for both Components are available to achieve the desired objectives of the project.

We shall be grateful if a request for grant assistance in a sum of US \$ 14.0 mn for the above project is recommended to your authorities pending finalization of the balance funds required for the project.

Yours sincerely,



(Mrs. S.L. Kuruppu)

Director, External Resources.

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ANNEX F

TECHNICAL ANALYSIS

Although agriculture is a major component of the Sri Lankan economy, accounting for 23 percent of gross domestic product and 45 percent of employment, economic growth of the agricultural sector lags growth in other sectors of the economy.

Farm income is low because of the small volume of production on many farms, high cost post harvest handling, high cost transport and inefficient parastatal companies which do most food processing. One of the essential improvements needed in the marketing process is for production plans to be based on needs of the market. This basic change in producing commercial volumes of a product for which a market has been identified, rather than trying to sell small volumes of surplus subsistence production will go a long way to improving the marketing system. Other marketing innovations are needed and an overcrowded, inefficient wholesale market in Colombo is a major bottleneck in the market chain.

A second reason for low farm incomes is the low yields and levels of production for many crops. This is a function of poor production technology due to lack of GSL resources to develop and extend improved technologies, and due to the small acreage base for production for many crops. Intensification of production of high valued crops is essential to increasing incomes.

The third reason for low incomes results from the first two and is the lack of stability in market prices. Because there is little processing or storage, farm products are sold fresh as soon as harvested. This results in large price differences between on and off harvest seasons. Large price swings make planning and budgeting more difficult for processors and raises risks and prices. Direct consumers often adjust to large price swings by purchasing alternate foods, so for any one product large price changes discourage growth in consumption. The limited domestic market and limited processing facilities mean that improved production can easily result in over-supply and depress prices. Processing introduces some stability in demand and often opens new sales opportunities. For example, pineapple is an excellent fresh fruit in Sri Lanka, and expanding juice production would result in greater total pineapple consumption.

Except for traditional plantation crops of tea, coconut and rubber and for paddy, there has been little government investment in agriculture. Private sector companies, including farmers, are free to enter or leave this business and to set most prices, but private companies, like governments, have invested little in the marketing and processing system. In some cases this is due to lack of technology and expertise to improve existing businesses and in some cases to lack of investment capital.

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Private companies reported to the project design team that investments in agriculture are regarded as risky. Banks also expressed this view and gave two reasons for it. First, the supply of raw product is uncertain and at times unavailable, especially in the quantities and qualities needed. Second, economic and political instability make risky the long-term investments often needed in agricultural.

The Agro-Enterprises Project will respond to these concerns first, by helping introduce technology needed to improve production, processing and marketing of agricultural products, and by facilitating equity investments and loans to entrepreneurs. Provision of these inputs in an integrated package is needed to be mutually supportive. Improved production technology and increased value added processing should increase farm incomes and lead to improvements in marketing.

I. Feasibility of Increasing Agricultural Production

Availability of land

Land availability is a potential constraint to commercial agriculture. However, the Project design team concluded that land is available from new lands and redirected use of existing cultivation. The 1982 census listed 91,648 hectares of unused cultivatable land. (Table 1). Most available new land is in the dry zone, but even wet zone land is available, especially for higher value crops. Population pressures and land alienation schemes since 1982 have brought more land into use, but the Mahaweli Program and other efforts are still bringing additional land under cultivation.

Table F1: Land utilization within agricultural holdings, 1982

<u>Land use</u>	<u>Hectares</u>	<u>Percent</u>
Tea, rubber, coconut	798,103	40
Other permanent crops	176,500	9
Paddy	556,982	28
Temporary crops other than paddy	195,048	10
Wood and forest land	54,129	3
Pasture land	20,097	1
Cultivable area but not cultivated	91,648	5
Area under roads and buildings	75,416	4
Rocky and waste land	40,805	2
Total	<u>2,008,728</u>	<u>100</u>

Source: Census of Agriculture, 1982

Commercial agricultural production of many crops requires farms larger than the small holdings prevalent in Sri Lanka. Inflexible land tenure laws and procedures restrict the land market and do not allow free land exchange. Nonetheless, farms of adequate size (20-50 Acres) are available, many of which are under-utilized and in private hands. In addition, the GSL has many government farms under the Department of Agriculture, the Mahaweli Authority, the National Livestock Development

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Board and others. The GSL stated policy is to make these available to the private sector and access to these lands would be a boon to private investment. However, even without these farms, adequate land resources are available for commercial agriculture and local firms generally are not concerned about problems of access to land.

For larger producers, or companies wanting to start commercial crop production, policies limiting the amount of land that can be made available have prevented some investments. Most companies, however, find land is available, especially if they are willing to work with out-growers. Land use policy is changing and a recent policy statement by the Ministry of Land Development, Irrigation and Mahaweli relaxed restrictions on land access. In brief, the policy allows a company to obtain as much land as needed depending on the needs of the project. A nucleus farm may be on land purchased or on long-term lease. Land for out-grower schemes may also be obtained but must be turned over to out-growers within 10 years. A draft policy announcement and a memo describing the policy change is at the end of this Technical Analysis.

Feasibility of Adopting New Technology and Increasing Production

A wide range of crops are or can be grown in Sri Lanka and yields are frequently well below those commercially obtainable in other countries. Several reports from various USAID projects (MARD, MED, Daines) have documented long lists of products with high potential.

Farmers working with the MARD project have shown they can accept new crops and new production technology. Most are literate and receptive to new crops or production skills. When the market for gherkins began, many farmers - too many - began production with a resulting surplus. Farmers pointed out to the design team that barriers to producing new crops were mostly from uncertainty mentioned above rather than lack of interest or inability to adapt new technology. Some officials mentioned the slow rate of adoption by farmers of new crops. From the team's observation, there was no evidence to suggest the rate of adoption of new technology and crops in Sri Lanka is less than other countries. Most farmers observed by the team planted at least three crops, helping them spread risks and labor requirements and avoid disease and pest problems.

For many years GSL policy encouraged rice production, by subsidy, by supply of or restrictions on inputs, by promotion and by price controls. However, crop budgets from the DOA and the MARD project show other crops give higher returns to farmers. Although today, farmers may grow whatever crop they desire, they are reluctant to switch to new crops because of uncertainty regarding production problems that may arise, lack of assistance from support agencies and uncertainty of available markets or adequate prices. With assured markets, farmers can and will produce other crops.

While opportunities for farmers to diversify production is improving they still face production constraints, especially if they hope to be low cost producers. Large scale production organized on small farms is possible, but requires special support and management activities for farmers to

produce and companies to obtain the desired quantity and quality of product in a timely manner. Supply of credit, inputs, and services and collection of farm output is more costly. Government extension and input supply agencies cannot effectively resolve these problem, but linkages with commercial firms can meet these needs to the mutual benefit of producer and processor/trader.

Farmers are faced with the problem of limited information on varieties of crops to plant and on cultural practices, especially for supply to export markets. Even when the correct variety is known, seed, especially if imported, may not be available and there are more severe limitations on importation of live plant tissues materials for planting. Despite these restrictions commercial farms can obtain needed planting stock in most cases and the GSL is aware of problems with availability of planting stock and is moving to facilitate imports of seed and planting materials and to expedite recommendations for new variety release and technology dissemination.

II. Feasibility of Market Development

Sri Lanka's relatively high urban consumer prices are not reflected in high farm gate prices. Lowering transport, handling and marketing costs is necessary to lower retail prices, increase farm prices, increase domestic sales and open additional export markets. Improved fresh fruit and vegetable marketing facilities in Colombo is needed to improve handling and transport efficiency and reduce post-harvest losses so that farmers, who sell on consignment will be paid for a greater portion of the product they ship.

Improved marketing will make higher quality produce available for consumers who can pay higher prices. A marketing system able to differentiate product based on consumer classes would increase total revenue. New products will also increase total sales and there should be further processed products produced in Sri Lanka. The urban market in particular will absorb more products if they are of better quality.

Most farmers report receiving little market information useful to their decision making. Available price data is not sufficiently detailed nor understandable to be useful. A weekly price bulletin for a number of crops is available, but is not widely used by buyers and sellers of agricultural products. Other publicly available price data is scarce, and virtually no price or profitability analysis is available to help farmers select the most profitable crops. A more effective market information system is needed, but there is no obvious institution or mechanism to implement one. In the short run contract production arrangements for agreed upon prices are the most likely means of facilitating market transactions.

Growth in export markets is possible and several studies have pointed out export possibilities in both fresh and processed products. Some growth in exports of fresh fruits and vegetables is possible to nearby markets, but exports to distant markets in Europe and Japan require air freight

for which limited space is currently available. Supply of specialty products to ethnic markets will likely continue because of high prices and sales to regional markets such as the Middle East will continue and probably increase.

Large increases in exports, however, will be from products shipped by sea. Markets for processed fruits and vegetables are potentially large, but accessing these markets requires lower production costs and improved processing in Sri Lanka. Nearby access to good ports with frequent shipping services is one advantage Sri Lanka has compared to many competitors.

III. Improved Post Harvest Handling, Processing, Marketing is Possible

Despite their small size, Sri Lankan companies are capable of improved handling, processing and marketing, if properly rewarded by improved profits. Farmers have shown they will grow proper varieties, harvest when needed and pack properly if the market sends the proper signals. Likewise, Sri Lankan companies handling and marketing products have shown they can sort and select for quality, pack properly, control processing, and advertize and sell if returns are adequate. There are a number of businesses capable of managing investments and accounting for use of funds, although many need technical assistance to identify markets and develop processing and marketing programs. A number of companies are capable of handling higher technology processing and marketing systems than are standard in Sri Lanka.

Improvement in agricultural production and marketing requires improvement in all aspects of the system. Better production technology to increase yields, better support to farmers, improved handling and new technology in transportation to reduce losses, higher quality products for consumers, new products for consumers and for export are all needed. These improvements vary widely by crop and by target market and there are no simple interventions which can change post-harvest handling across the entire sector. However, the sum of many improvements for individual products by individual firms can lead to development of new standards and attitudes toward post-harvest handling and will result in general modernization of the sector.

Establishment of new fruit and vegetable market facilities in Colombo is important as it can lead to greater domestic consumption of fruits and vegetables and should provide a better alternate source of produce for processing and export. Improved wholesale market facilities can also spur innovation and improvements in other aspects of the marketing and distribution system.

The Department of Agriculture has targetted horticulture crops to receive increased research funds. However, research is long-term and results in practical terms for growers and companies are several years distant.

Quality of services to growers and handlers by public agencies is mixed. There is good research and extension in some areas, in particular, tea, rubber and coconut all have their own research institutions providing service to their sectors. Other crops and livestock are sometimes well-supplied with information and other times not. Rice for example, has received much attention. Other export crops and horticultural crops have received little support. There is no information available to growers on many of their questions and growers have no way of providing input on their needs to the research establishment as it determines research priorities. Businesses report little useful information available from public agencies and several business people reported having asked for information, but having received answers that were not timely or adequate for their needs.

IV. Agro-Enterprise Financing Needs

Financing, or at least the risk associated with financing agro-enterprises, has been identified as a constraint to development. Sri Lankan financial institutions have achieved significant growth, sophistication, and diversity during the 1980's and its legal system is capable of making and enforcing contracts and loan agreements. However, loan analysis skills and understanding of marketing is weak and no institutions are skilled in analyzing or making loans to agro-enterprises. Local financial institutions will need to adopt new techniques for analysis of agro-enterprise investment and new financial instruments to serve the sector. The "Agro-Business Financing Review" concluded as follows:

"Finance can be the key to the development of entrepreneurial capacity, and as such, can unlock the door that leads to investment and growth in an economy. It is a natural complement to enterprise development and both should be treated in an integrated approach. As a market-based mechanism, finance and financial markets, efficiently allocate resources by making investment decisions. Entrepreneurs, driven by the profit motive but tempered by risk, compete through financial markets for the limited amount of capital available to implement their projects. This competition stimulates innovation in the development of new financial products and services and encourages efficiency in their allocation of capital. Innovation in financial markets in turn stimulates entrepreneurial activity which leads to innovation in productive activities and higher economic output. Financial markets and enterprise development are inter dependent. Innovation in either sector, encourages and complements expansion in the other, creating broad-based private sector growth.

The Agro-Enterprises Project is positioned to provide direct technical assistance at the point of contact between entrepreneurs and financial markets. By focussing on this point, the critical interaction between entrepreneurs and financial markets, two interlocking cycles of innovation and economic expansion can be stimulated simultaneously. By addressing the finance constraint facing entrepreneurs, the Project contributes to the development of a

sector with huge potential economic benefits of the population, the industry and the government. By strengthening the existing financial sector, the Project can influence the introduction of innovative financial techniques and establishment sustainable relationships between the agro based entrepreneurs and the financial sector. These industry contacts and relationships will foster private sector investment and growth into the future in both the agro based industries and the financial markets. The introduction of new banking and financial technology increases capacity and broadens the services available through the commercial banking sector. New markets will be developed by the banks leading to innovative techniques and instruments to service the expanding market.

The goal of the financial assistance component is to use the Project Fund to help broaden the types of term lending and equity participation available to new and existing enterprises in the agro-based sector. It will be coordinated with the technical assistance component to provide integrated technical assistance to enterprises. The financial assistance will work with the banks participating in the Project in the refinement of their appraisal techniques, loan monitoring, and financial structuring for client enterprises. Enterprises and the commercial banking sector both must mature and extend themselves to meet in some new middle ground of new financial mechanisms available to aid the growth and development of agro-based enterprises. Enterprises must be more competent and professionally managed. They must be efficient in their handling of raw materials, their processing and in the identification of their markets. The commercial banks must be able to innovate methods to work with new clients and continue to expand their markets. Additional agro-enterprise funding will serve as a catalyst to commercial bank development and provides the Project with access to the financial sector."

V. Agro-Enterprise Investment and R&D Needs

Some possible agro-enterprise investments in Sri Lanka are listed below with estimated costs for small plants. These are some of the investment ideas presented to the project design team by local business people. Some of these would be one time investments and others, such as transportation, could be replicated many times.

Table F-2: Estimated investment costs for selected projects. 1/

Project	Plant Cost	Out-grower and Other
	(\$000)	(\$000)
Four farms in Mahaweli for Vegetables	500	-
Tropical fruit juice plant	30,000	100,000
Fresh Vegetable Export	800	1,500
Mango Export	500	1,500
Avocado Export	400	1,500
Blast Freezer	2,000	3,000
Frozen vegetable exports 3/	1,000	-
Cashews	800	2,500
Gherkins	400	200
Coir dust	500	20
Waste product dryer (each) 4/	25	5
Solar dryer (each) 4/	20	5
Chocolate factory	1,500	2,000
Dried Fruits	1,000	2,000
Cut flowers	500	1,000
Feed manufacturing	800	200
Irrigation services	50	-
Transport services	25	-
Packing and transport crates	25	-
Food processing engineering and testing	100	-
Tea factory and plantation	500	1,000
General farm supply companies	50	5
Equipment rental companies	50	5

1/ Estimates for minimum size plant.

2/ After blast freezer installed

3/ Many possible investments if successful.

Demand for Agro-Enterprise Development (AED) grants is expected to be high. The existing MARD and MED projects use similar grants to share risk of new investments with private sector firms. Although these grants are constrained by the requirement that they support investments in Mahaweli areas and by conditions that they not fund salary costs or certain other costs, twenty four proposals were submitted to the MARD Project for its Commercialization Fund. Activities receiving grants or other support are representative of the types of proposals which are expected under the Agro-Enterprises Project. These include:

- ornamental fish breeding
- hatchery for chickens and ducks
- pickling plant for local market
- hearts of palm production for export
- Bombay onion storage facility
- fruit drying operation for local market
- asparagus production
- grape production
- research (prior to investor input) on a wide variety of high value crops
- establishment of a cold chain operation in System B.

In the course of background discussions prior to design of the Agro-Enterprises Project, USAID/Sri Lanka staff discussed with various GSL officials the needs for support for development of new technology to support non-traditional agro-enterprises. These discussions resulted in several proposals or requests for assistance. These have not been fully reviewed or revised but are listed in Table F-3 to provide an indication of possible TIG grants involving GSL support agencies. These proposals will be reviewed and considered for funding by the technical assistance team, if they can be linked to support private agro-enterprises.

VI. Technical, Staffing Facility

Much of the research, technical assistance and training needed to improve agro-enterprises can be found in Sri Lanka. Most is in public agencies such as government and universities. Some staff may be available to work on private enterprise projects, either through their agencies or on their own time. The locally available technical staff when combined with some support from specialized consultants and training will be adequate to implement all project activities.

One problem identified by the project design team was a limited communication between DOA and university researchers and businesses and farmers who ultimately use the information. Neither businesses nor farmers were contacted nor asked for input in meetings to determine research priorities and budgets. The DOA pointed out that extension agents were included in the meetings and to some degree they represented farmers, but to the knowledge of the design team no business person was asked to participate in these meetings.

The Agro-Enterprises Project will have funds to support research on problems identified by client companies. On a limited basis, DOA indicated its willingness to conduct research on projects identified as priorities by businesses, even to the extent of temporarily releasing workers for specific projects. Some GSL agencies can receive contract research money and contract research funded by the Project will send a message to the research establishment and help focus work on priority problems and needs of commercial agriculture.

Over-All Technical Feasibility

Over-all there are no technical constraints that would preclude the success of the Agro-Enterprises project. The project approach of introducing special technology in response to specific market oriented investment opportunities and coupling this with market development and financing should carry a high chance of success.

In summary, production of non-traditional crops can be increased, post harvest handling can be improved and costs lowered, and additional markets including exports can be developed. The Project design provides adequate financing and technical support.

Table F-3: Possible Technology Improvement Grant Activities With GSI Agencies.

<u>Agency</u>	<u>Field of Activity</u>	<u>Requested Program</u>	<u>Estimated Cost</u>	<u>Comment</u>
Ceylon Institute of Scientific and Institute of Research (CISIR)	* Food Processing and Post-harvest Handling	* Provision of lab and equipment to expand food processing and post-harvest handling work	Over \$100,000 for documentation centre; cost of other activities not estimated.	CISIR is likely collaborator for much applied post-harvest handling research. Some support for expansion of facilities may be justified.
	* Development of Natural Product			
	* Information Center	* Farm development and management assistance * Support to documentation center		
Agricultural Engineering Society of Sri Lanka	* Development of Research and Training Capabilities in Agricultural Engineering	* Funding for training and research support costs for 60 graduates and 25 post graduate agriculture engineers in fields related to high value crops production	\$300,000	May be adaptable for funding individual participants with partial funding from private sector firms.
Faculty of Agriculture (Peradeniya)	* University Level Training and Research in Agriculture	* Establish Agri-business Chair at University	\$1.8 million for all proposed activities.	Much of the institution building is outside the mandate of the Agro-Enterprises Project. The University is a prime candidate for training and research for AEDC
		* Support two 2 year technical college courses in agriculture		
		* Fund faculty development		

<u>Agency</u>	<u>Field of Activity</u>	<u>Requested Program</u>	<u>Estimated Cost</u>	<u>Comment</u>
Department of Export Agriculture (DEA)	* Research on Minor Export Crops	* Tissue culture lab * Funds for contract research. * Funds for publica- tion of research work. * Funds for contract growing of cocoa, pepper and coffee.	No budget given	Good potential for joint funding of contract research
Department of Agriculture (DOA)	* Research on Horticul- tural Crops and Other Field Crops * Pesticide and Plant Quarantine Control * Germplasm Laboratory	* Pending request for assistance to Plant Germplasm Resource Center (PGRC)	Budget not broken down by activity appro- priate for Agro- Enterprises Project funding.	PGRC received high level of support. DOA would be prime candidate for joint funding of contract research if pro-procedures worked

Attachment

**National Policy on Alienation of State Land and
land vested in the Land Reform Commission
for large scale enterprises**

1. Policy

- 1.1. The new policy for large-scale investments is based on the concept of 'Big Investor - Small Producer' to attract both local and foreign investment with a view to raising land productivity and alleviating rural landlessness.
- 1.2. The Policy of leasing State land to local or foreign investors for commercial agriculture has been re-formulated incorporating the requirement that a substantial part of the land leased out for development should be operated and cultivated through out-growers selected from among the landless of that area.
- 1.3. The alienation of land on lease for large-scale agricultural investment must, therefore, consist of a nucleus area and an out-grower area. The total size of the out-grower area and the nucleus farm would depend on the crop, the magnitude of the total investment and the length of the pay-back period.
- 1.4. There will be no limit on the initial total size of the out-grower area.
- 1.5. An investor could obtain a lease of the entire extent of the nucleus farm as well as the out-grower area for the first ten years.
- 1.6. The investor will be free to employ labor of his choice on the farm from among the landless of the locality in which the farm is established. The Government could provide assistance in the selection of landless persons.
- 1.7. At the end of ten years, landless agricultural labor employed by the investor would be conferred title as out-growers affiliated to the investor company.
- 1.8. The unit size of such an out-grower plot would be determined on the basis of profitability to a smallholder from that particular crop.
- 1.9. The nucleus area can be used for farm production, research and demonstration plots, processing facilities, infrastructure requirements, housing and other needs of the project.

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- 1.10. The nucleus area retained by the investor can be given on a lease for a period of thirty years or even a longer period depending on the magnitude of the total investment and the pay-back period. The size of the nucleus farm would be determined by Government based on the requirements of each project.
- 1.11. In the case of land leased out for re-forestation and environmental improvement projects such as fuel-wood and industrial timber plantations, the out-grower system will not be compulsory.
2. Legal Framework
 - 2.1. There is no legal restriction with regard to leasing of State land under the Crown Lands Ordinance for entrepreneurs requiring large extent of land for agricultural investment.
 - 2.2. The Land Reform Law, No. 1 of 1972, as amended by Act No. 39 of 1989, enables the Government to lease out State land in extent over fifty acres for agricultural development projects approved by the Minister. Under the same Act legal provision has been made for agricultural land to be leased out by the Land Reform Commission in extent over fifty acres for purposes approved by the Minister.
 - 2.3. However, in the case of Land Reform Commission land, persons who are not citizens of Sri Lanka are legally debarred from obtaining Land Reform Commission-owned land. There is, however, no legal restriction with regard to the alienation of State land under the Crown Lands Ordinance.
 - 2.4. Within the above mentioned legal framework, State land and LRC-owned land could be made available for large-scale enterprises.
3. Terms and Conditions
 - 3.1. Of the total extent of land required for a project, the extent of land for the nucleus estate will be given to the investor on a long-term lease for a period of thirty years. The balance land comprising the out-grower area will be released on a lease for a period of ten years to the investor initially. At the end of the period of ten years, the out-growers will be given title to the plots of land cultivated by them.
 - 3.2. Lands identified by the State as suitable for a particular venture/crop will be given on lease, after calling for bids for the annual lease rent. The lease rent will be revised every five years, subject to the limit that the revised rent shall not exceed fifty per cent of the previous rent. The normal period of the lease shall be thirty years.

- 3.3. Leases for periods over thirty years (fifty years and ninety-nine years) would be considered in exceptional cases depending on the nature of the investment and the period of pay-back. Fifty-year leases also will be given on competitive bidding for the lease rent, and will be subject to revision as in the case of thirty-year leases.
- 3.4. Where an entrepreneur on his own initiative identifies land, and prepares a sound investment proposal in keeping with the national policy, land may be leased out to such investor on a preferential lease for thirty years under Regulation 21 of the Crown land regulations. In such event, the lease rent will be fixed between 4% - 6% of the present value of the land.
- 3.5. When a land is released on a preferential lease for a ninety-nine year period, the market value of the land will be recovered as the premium and a nominal annual rent will be charged.
4. Procedure
 - 4.1. Bids will be invited for lands identified by the State as suitable for a particular venture, by publication of a notice in the Government Gazette and in the newspapers.
 - 4.2. The bids should be accompanied with a project proposal, with an appraisal report.
 - 4.3. The bids will be evaluated by the Ministry of Lands, Irrigation and Mahaweli Development, with regard to the economic feasibility and sustainability of the project proposal. The overall national economic profitability of the proposed venture will be the final yardstick, on which the successful bids will be determined. Therefore, the highest bids for the rental or premium may not be the deciding factor.
 - 4.4. Application for preferential leases will be received by the Secretary, Ministry of Lands, Irrigation and Mahaweli Development and will be subject to a similar evaluation by a team of experts.
 - 4.5. All leases of over fifty acres will be subject to Cabinet approval on a case by case basis.

Initial Environmental Examination

Project Country: Sri Lanka
 Project Title: Agro-Enterprises Project
 Project Number: 383-0111
 Funding Level: \$15,000,000
 Funding Years: FY's 92-96
 IEE Prepared by: Gary Alex, USAID/Sri Lanka

Positive Determination: _____
 Negative Determination: XXXXXXXX
 Categorical Exclusion: _____

that IEES will be prepared on sub-activities,

The Agro-Enterprises Project will assist Sri Lankan firms and individuals develop commercial agricultural-based enterprises. Testing and adaptation of technology for production and post-harvest handling of agricultural products will respond to private sector requests. A.I.D. consequently does not have knowledge of details of specific activities that will be funded. A.I.D. will not fund pesticides, except for possible research activities of a limited scope, carefully controlled nature, and with effective monitoring. Central wholesale market facilities as proposed in the PID will likely not be funded.

Environmental review of specific project activities will be deferred until adequate information is available on their nature and content, and the environmental review and assessment, when appropriate, will be taken into account prior to financing and implementing those activities. USAID/Sri Lanka will ensure that implementation plans will be modified in accordance with any environmental review, if USAID/Sri Lanka, in consultation with AID/Washington, determines that such modifications are necessary. If, at any point in the life of the project, the procurement or use of pesticides is considered, then an EA will be required.

Action Requested by: *[Signature]* Date: 11/5/91
 Richard M. Brown
 USAID/Sri Lanka

Mission Environmental Officer's Clearance: *[Signature]* Date: 12/5/91
 Stan StaTTa, PRJ

Concurrence: *[Signature]* Date: 1-10-92
 Molly Kux, APRE/DR/TR
 Bureau Environmental Coordinator

Clearance: ANR:GEA lex *[Signature]*
 GAnders *[Signature]*
 DJenkins (Draft) *[Signature]*

** as amended above*

ECONOMIC AND FINANCIAL ANALYSIS*

I. Economic Analysis

Economic benefits from the Agro-Enterprises Project are estimated based on: returns to agro-enterprises established with Project assistance; wages paid to employees of new agro-enterprises; wages paid to additional agricultural laborers required to produce diversified crops; and additional income to farmers from switching from paddy to diversified crops.

A. Returns to Agro-Enterprises

Table H-1 presents a profile of agro-enterprise investments projected to be established with support from the Project. The projection is consistent with the World Bank estimate of the number of enterprises to be financed under the AEIF program, but envisions a somewhat greater (50%) contribution of owner equity. Total size of investment is conservative and less than estimated by Bunker and may be under-estimated. Likewise the size of the additional investments (100) projected to result from Project activities is conservatively estimated. Most investments are expected to be small. However, it is also likely that one or more large investments over \$2 million will result from the Project.

Total investment in 350 agro-enterprises is estimated at \$25.8 million (average \$73,700 per enterprise). If investments are spread evenly over six years, the value, in constant 1992 dollars, is \$22.92 million. Using an estimated average real rate of return of 12 percent for all investments, the total annual return, in 1992 dollars, when all funds are invested is \$2.75 million. However, in the absence of the Project, the funds from participating entrepreneurs and financial institutions would be invested in alternate investments, but yielding a lower rate of return, estimated at 8 percent. The total net return due to the Project is therefore \$1.34 million in constant 1992 dollars. (Note: The cost/benefit estimate and IRR calculation in Section E. used \$1.28 million/year.)

Total gross production resulting from these new and expanded enterprises is estimated at twice the total investment or \$51.6 million per year of which approximately 25 per cent or \$12.9 million would be exported.

* - This analysis is based on methodology and estimates from the draft Agro-Enterprises Project Paper by Arvin Bunker, ACDI, August, 1992.

B. Additional Wages of Employees of New Agro-Enterprises

The total number of new employees employed in agro-enterprises established with Project support is estimated at 3,225. These are assumed to be jobs in the organized sector in off-farm employment and in operation of more commercialized nucleus farm operations. In these positions, assuming a daily wage of \$2 on average and 168 days of employment per year, the total value of salaries generated in agro-enterprises would be \$1.08 million.

C. Additional On-Farm Income

The Agro-Enterprises Project will generate on-farm benefits to the economy in two ways: (1) through increased on-farm employment; and (2) through production of higher value crops. The Project is conservatively estimated to impact on 9,700 farms which will produce agricultural commodities to supply new agro-enterprises. The shift of these farms to more commercial production operations is estimated to generate increased employment for 9,700 farm laborers working 168 days per year at \$1.50 per day. The total additional on-farm wage generation from the Project will be \$2.44 million.

Table H-1: Employment Profile of Investments

AEIF Invest- ment Per Enterprise **	Total Investment per Enterprise	Number of Enter- prises	Total Investment (US\$ Millions)	Non-Farm Jobs Gene- rated per Enterprise	Total Non- Farm Jobs	Farm Jobs Generated per Enter- prise	Total Farm Jobs	Total Jobs Generated
\$200,000	400,000	5	2.0	50	250	200	1,000	1,250
\$100,000	200,000	10	2.0	25	250	60	600	850
\$ 40,000	80,000	165	13.2	10	1,650	30	4,950	6,600
\$ 20,000	40,000	70	2.8	5	350	15	1,050	1,400
0	200,000	5	1.0	25	125	60	300	425
0	80,000	25	2.0	10	250	30	750	1,100
<u>0</u>	<u>40,000</u>	<u>70</u>	<u>2.8</u>	<u>5</u>	<u>350</u>	<u>15</u>	<u>1,050</u>	<u>1,400</u>
Total		350	25.8		3,225		9,700	12,925
		***	*****		*****		*****	*****

* Adapted from estimates by Arvin Bunker in draft Project Paper, August, 1991 and estimated cost of \$8,000 per non-farm job generated.

** Includes AEIF and participating financing institution investment.

In addition to increased employment generated, the increased commercial production will result in increased profits for farm operators. Estimates of potential additional income from new crops and from use of commercial production technology on various existing crops vary widely. MARD Project research shows increases ranging from \$79 to \$179 per farm per season. Using a conservative estimate that farmers increase profit by only \$79 per farm per season and have two cropping seasons per year, the annual benefit from commercial production on 9,700 farms amount to \$1.53 million per year.

Section II below presents additional information on the financial profitability of investments in diversified crops.

D. Other Benefits

The problem of estimating direct benefits from 350 new, as-yet-unidentified enterprises based on a wide array of possible crops and production systems requires some gross estimates of level of benefits. Project benefits are expected to accrue from increased efficiency in the production, processing, and handling which may not be counted in these estimates. For example, post-harvest handling losses for fruits and vegetables are estimated at 20 percent of production or an annual loss of \$100 million. Project introduction of improved handling of fresh produce is expected to reduce this loss significantly. These savings are not fully captured in the estimates of employment and profit resulting from the Project.

With investments in new plants and technologies, indirect benefits usually exceed direct benefits. Multiplier effects of indirect benefits would apply to Project activities, but are not estimated here. Benefits from the spread of new technologies introduced are also not estimated. Spread of new technology, competitor penetration of new markets, and additional firms entrance into new processing enterprises is certain to occur once project-assisted enterprises have demonstrated their profitability.

Also not estimated are benefits resulting from improved operation of agro-enterprise financing institutions, increased relevancy of GSL technical institutions, and improvements in policy environment for agro-enterprise as a result of the Project. These impacts are expected but can not be clearly identified, will occur later in the Project, and do not have easily qualifiable benefits.

E. Costs and Cost-Benefit

Project costs are presented in the Project budget tables. In comparing costs and benefits, the incremental costs of on-farm production are not estimated as benefits shown are not incremental benefit (profit) from operation of the Project. Table H-2 presents the benefit flow from the Project. Benefits are estimated in constant 1992 dollars and Project costs and investment funding are also deflated to constant 1992 dollar values using an inflation rate of seven percent per year. Inflation in

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Sri Lanka is estimated at approximately nine percent and has been declining over recent years. Assuming continued decline in the inflation rate and in view of the fact that some Project costs will be from the U.S. where a lower inflation rate prevails, seven percent appears to be a reasonable rate. Investments are assumed to maintain their value, which is shown as salvage value at the end of 20 years. Benefits are estimated to begin in year two of the Project and increase at a constant rate until full benefits are obtained in year seven.

Table H-2: Costs and Benefits

<u>Year</u>	<u>Project Costs</u>	<u>Investment Costs</u>	<u>Project Benefit</u>	<u>Salvage Value of Investments</u>	<u>Net Benefit Stream</u>
1	2.40	4.30	-	-	-6.70
2	2.29	4.10	.66	-	-5.73
3	2.18	3.90	1.32	-	-4.76
4	2.07	3.71	1.97	-	-3.81
5	1.97	3.54	2.63	-	-2.88
6	1.88	3.37	3.28	-	-1.97
7	-	-	3.94	-	3.94
8	-	-	4.59	-	4.59
9	-	-	5.25	-	5.25
10	-	-	5.90	-	5.90
11	-	-	6.56	-	6.56
12	-	-	6.56	-	6.56
13	-	-	6.56	-	6.56
14	-	-	6.56	-	6.56
15	-	-	6.56	-	6.56
16	-	-	6.56	-	6.56
17	-	-	6.56	-	6.56
18	-	-	6.56	-	6.56
19	-	-	6.56	-	6.56
20	-	-	6.56	22.92	32.36

Based on the above estimated cost and benefit flow, the Project is projected to yield an IRR of 16.4 in real terms. If the benefit stream is delayed and full production increase achieved by year eleven instead of year seven, the IRR declines to 12.5. If the Project generates 25 percent fewer jobs than estimated, the resulting IRR is 14.5 and if it influences farm production on 25 percent fewer farms, the IRR becomes 13.5.

II. Financial Analysis

A. Overall Financial Viability

Overall shadow prices for Project costs and benefits are not significantly different from financial costs and benefits. Price controls and subsidies have been largely eliminated. Tariffs are a factor for some prices, but Project investment costs and benefits will be spread over a wide range of goods for which tariff and the shadow price

effects are difficult to estimate but which will be at least partially off-setting. Water is one production input which may have a significant subsidy attached, but again, this will constitute only a small and unestimable portion of total costs.

B. Profitability of Individual Investments

Many examples of potentially profitable agro-enterprises have been identified. Exporters of fresh fruit and vegetables, spices and other field crops report inability to acquire sufficient high quality product to fill all the orders they could sell. They complain that the marketing system does not encourage nor protect the quality of produce needed for export.

Thomas Hart, in a review of production potential on four farms for the Mahaweli Enterprise Development Project, estimated that an investment of \$500,000 could yield returns of \$1.5 million in excess of direct production and labor costs over 2 years. Dr. Hart pointed out, however, that significant risks remain and many production and marketing problems could arise for which little information is available locally on corrective actions. Following sections described large increases in farm income from diversifying to crops other than paddy.

The Agro-Enterprises Project will be market driven and will support agricultural enterprises that show profitability and loan repayment capability. However, returns to paddy are relatively low and it is expected few equity investments or loans will go to that sector, except possibly for waste heat dryers. In most instances, investments will be in crops other than paddy. Farm budget studies and research data suggest large increases in farm income for farmers switching from paddy to other crops. Table H-3 shows net returns (Rs.42/\$US) to farmers, including imputed cost of labor, for paddy compared to an average of 11 vegetable crops. Maha 1989 season had extremely high paddy prices compared to most years. Even so, returns from vegetable production compared favorably with paddy. Yala 1990 season showed returns to vegetable crops far exceeding returns to paddy.

Table H-3. Net Returns to Land and Management for Selected Crops

Crop	Net Returns per Acre	
	Maha 1989	Yala 1990
	Rupees per Acre	
Paddy, irrigated average of 6 sites	6,415	4,364
Paddy, rainfed, average of 5 sites	3,155	1,326
11 vegetable crops, average, at 9 sites	4,921	7,838

Source: Div. of Agric. Economics and Projects, Dept. of Agric. Cost of Cultivation of Agricultural Crops, Maha 1989/90 and Yala 1990. Peradeniya, June 1990 and March 1991.

7/10/91

Similar results are reported by researchers at MARD/MDS projects. Table H-4 shows net returns for paddy below returns for most other crops in Yala 1989 and 1990 seasons. In many cases other crops have returns two or more times returns to paddy. In 1989 only greengram was below paddy and in 1990 only gherkin and groundnuts returned less than paddy.

Table H-4. Net Returns to 11 Crops, Yala 1989, 1990 System B

Crop	Net Return in Rs. per Hectare	
	Yala 1989	Yala 1990
Paddy	21,898	11,403
Big Onion	84,163	61,157
Butternut	30,032	46,053
Cabbage	-	82,685
Chillie	46,715	34,232
Cowpea	10,108	21,790
Gherkin	38,412	9,582
Greengram	11,812	17,289
Groundnut	44,913	9,179
Red Onion	45,738	283,895
Zucchini	-	47,534

Source: Gleason, J.E., et.al. Diversification Report Yala 1990 Mahaweli, System B. Agric. Econ. Report 10.

Most farmers will substitute some of their land to new crops, but retain some in paddy as a risk control measure. Data from 41 farms shows performance of farmers who shifted to other crops compared to what they would have earned growing paddy only (table H-5). On average the 41 farms planted 27 percent of their land to other crops.

Table H-5. Comparison of Returns from Paddy and Other Crops for 41 Farmers in System B, Yala 1990.

	Actual Profit from Diversification	Profit From Rice
	Rupees per Farm	
With actual prices 1/	22,977	20,288
With normalized price	13,908	8,722

Source: Gleason, J.E. Diversification Report: Yala 1989, MARD/MDS, January 1990.

1/ Paddy prices were usually high for the year.

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Unpublished DOA data indicate high net income potential for fruit crop production. Most fruit crops require several years to establish during which they generate negative income, but DOA data show large annual incomes in later years. Net present values of estimated income stream at a 12 percent discount rate are shown in Table H-6. Estimates ranged from Rs.116,000 per acre per year for mangosteen to Rs.1,726,000 per acre for orange. Average annual incomes ranged from Rs.7,000 for mangosteen to Rs.364,000 for orange. Part of the reason mangosteen returns were low is the long establishment period of 10 years, but even mangosteen compares favorably with returns to paddy.

Table H-6. Net Income per Acre from Production of Fruits

Fruit	Cost to <u>Establish Crop</u>		<u>Net Present Value</u> <u>of Income Stream</u>		Average Annual Net Income
	Years	Amount	Years	Amount	
Pineapple	1	57	5	239	75
Mango	4	45	25	287	67
Papaya 2/	-	-	4	391	139
Avocado	4	41	25	374	99
Orange	4	131	15	1,725	364
Mangosteen	10	61	25	116	7
Rambutan	4	39	25	1,557	206

Source: DOA unpublished data, 1990

1/ Valued at discount rate of 12 percent

2/ Net income in the first year

These extremely high returns to other crops versus returns to paddy may not hold as other crops become more abundant in markets. More likely, prices for other crops will decline so returns become more closely related to paddy. However, lower prices mean consumption will increase. These tables do show, however, that introducing markets for these other crops will significantly improve farm income. The Project will facilitate this market and technology development to generate these financial returns.

SOCIAL SOUNDNESS ANALYSIS

Economic growth, equitable distribution of income and alleviation of poverty are basic goals of Sri Lankan society. Since 1977, more and more Sri Lankans have begun to accept the reality that the way to achieve these goals is through a market economy. The GSL has replaced earlier policies which focussed on nationalization and adopted policies which reinforce macroeconomic adjustment. A.I.D.'s intention to stimulate agro-enterprise development through appropriate private sector investments will lower production and marketing costs and increase the quantity and value of agricultural outputs. The net effect will be increased employment and income as measured by independent surveys.

Direct benefits to the rural poor deriving from the diversification and commercialization of agriculture are well-documented in development literature. Much evidence exists which demonstrates that economic growth sustained over years is the surest way to raise living standards of the rural poor. Moreover, in Sri Lanka, agricultural-led industrialization is the most likely source for economic growth.

I. Entrepreneurs in Sri Lanka

Entrepreneurship comes quite naturally in Sri Lanka. Sri Lankans have been exposed to a variety of business and commercial ventures since the Portuguese invasion in 1505. Even before then, Arab traders developed mutually advantageous trade with Sri Lanka in spices, gems, skins and tusks. Many Sri Lankans have shown high initiative by venturing out into international business activities and have filled many a niche in various foreign markets. Sri Lanka is the world's largest tea exporter with a number of private sector companies participating. Many private sector companies also participate in the gem trade.

Most of these achievements in the business field have been despite debilitating policies of the successive governments established in Sri Lanka since the late fifties. Many entrepreneurs have risen to the call of the governments since 1977 to speed up a process of export-led growth. Non-traditional export products have expanded in the fields of new beverage products, gems and jewelry, garments, wood products, component parts and so forth. Sri Lankans have rapidly adjusted during the last few years to trade and industry, producing for the emerging market and undertaking economic risks in new businesses.

II. Technology Innovation in Sri Lankan Agriculture

Some have described Sri Lankan farmers as risk adverse and slow to respond to production opportunities for new crops or to adopt new technologies. However, recent experience with the commercialization of

gherkin production would indicate otherwise. In response to market inducements, farmers readily increased production far beyond what local companies were able to procure. In general, agricultural extension agents report farmers as willing to plant new crops, often to the farmers' economic disadvantage when expected markets did not materialize. Experience in the MARD project also found farmers willing to grow new crops and to accept new production methods. The willingness of farmers to accept new buyers, crops and production methods suggests that further diversification and commercialization of agriculture is highly appropriate.

III. Impact on Youth, Women and Farmers

Studies of rural household income tend to reveal considerable income pooling which make intra-household and gender-related data difficult to disaggregate. However, information concerning rural families who benefit from the increased income of diversified agriculture suggests that women and youth gain a disproportionate share of those benefits.

Many of the benefits of the Agro-Enterprise Project will go to: (a) current and new employees of the companies, many rural-based, strengthened or created through assistance provided by the Project; and (2) farmers and their families supplying agricultural products for processing. The most likely employment growth category in the food processing sector will be females who make up the majority of such workers. The project should collect data on new employment generated through the projec disaggregated by gender.

IV. Ethnic Group, Race, Religion, Age, Region

Because of security problems in parts of the north and east, Project activities will be restricted. Ethnic Tamil and Muslim groups are largely in the insecure areas and, consequently, may benefit only indirectly from the Project. Since the Project has a national rather than strictly regional focus, if areas in the north and east become secure, the potential for Project-assisted investments will increase.

It is acknowledged that certain religious beliefs discourage livestock and meat production in Sri Lanka. However, enough people participate in producing and processing these products that it is likely to attract investment. Reluctance to produce livestock does not prevent a market from operating in these products.

All loans, equity investments, technical assistance, training and other services shall be available without regard to race, religion, origin, sex or age. The Project should actively promote services to women-owned businesses and support programs to help this group increase investments in agro-enterprises.

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V. Employment Generation Potential

Table I-1 presents an estimate of employment generation resulting from Project activities. This results from both AEIF-financed enterprise and from other enterprises resulting from Project support for technical innovation and market development. Employment figures are based on estimates made by the project design team. Farm producers indicate approximate on-farm employment generated as producers will generally increase their own family labor use and hire additional unskilled labor.

Project generated employment will have beneficial effects on rural youth, both male and female. Youth are more innovative and receptive to new ideas and modern practices. Faster adaptation of new technology and more commercialized approaches to agriculture will lead to them adopting advanced cultural and management practices faster than older farmers.

VI. Investment in Agri-business and Poverty Alleviation

One of USAID's Program Objectives is to "diversify and commercialize agricultural systems." This will lead to higher incomes and the creation of employment opportunities, according to the Mission Strategic Framework. Of equal importance is the underlying and implicit objective for A.I.D. projects to benefit directly Sri Lanka's poorest citizens. There is ample evidence to suggest that investment in agro-enterprises will contribute to this objective in a meaningful way.

In Sri Lanka, the poorest of the poor are generally considered to be the rural landless. Structural poverty, which is principally a rural phenomena, is the most difficult to address directly in developing countries due to the lack of systems or administrative mechanisms to reach them. Rural poor are largely isolated from government assistance programs and consequently, unlikely to participate directly in development programs.

The literature suggests that targetting structural poverty is best accomplished through broad-based economic growth. Indeed, sustained economic growth is viewed as the engine of social improvement leading to increased employment and incomes, both of which are critical in poverty alleviation. In Sri Lanka, it has suggested that economic growth may be achieved through an agricultural-led industrialization process resulting in increased income and a concomitant reduction in poverty, citing a higher unskilled employment elasticity than export-led industrialization.

The Agro-enterprises Project is based on the premise that greater economic growth can be achieved through increased investment in agri-business. This will result in increased employment, principally for rural unskilled workers, and increased income. The Project expects to create approximately 13,000 new jobs. Monitoring employment generation figures during implementation to verify that benefits are accruing to the poor should be designed into the implementing organization's work plan.

VII. Summary

In summary, social constraints to investment in the agro-enterprise sector do not present significant feasibility issues. In fact, there is evidence to suggest that the project will result in considerable benefits reaching the rural poor, women and youth as employment is generated and incomes are increased. A monitoring plan will be devised for implementation to measure the extent of accomplishments in this area.

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ADMINISTRATIVE ANALYSIS

I. Need for the Agro-Enterprise Project

Despite being the largest sector of the Sri Lankan economy, the agricultural sector is poorly developed. Both production and marketing systems are underdeveloped. Despite low wage rates, production costs are high because of low yields. Post harvest handling is poor, with loss estimates of fresh fruits and vegetables put between 35 and 40 percent. Better handling techniques are known but the marketing system is unable to implement them.

Improved production, processing and marketing are restrained by the low level of technical and market information available to growers and marketing companies. Much of the information generated in country by researchers does not reach users in a timely and useful manner. Even if users do obtain better information, financial institutions are not equipped to properly evaluate loan requests on the basis of earning capacity for agricultural enterprises.

II. Weaknesses in GSL Support Agencies

Recently there has been increasing interest by the private sector in production of horticultural crops. However, the Department of Agriculture (DOA) research and extension efforts are focused on rice and other field crops and research on and support for horticultural crops is limited. In addition research projects are defined with little input from the business community and so are poorly designed for needs of businesses handling agricultural products. Needs of producers are represented slightly better because extension agents participate in decision making on selection of research projects. But even here, research results are often not prepared in a form useful to farmers. Several business people reported asking DOA for research information they need in business operations, but results, even if available, are slow to arrive, and are not made available in a manner that can be used to improve decision making.

The recent assignment of agricultural extension officers from control of DOA to Provincial Governments appears to have further reduced service to growers. Despite the wealth of well-trained people in GSL agencies, agricultural production and marketing information is limited. Some good market research data is available but it seldom reaches market participants.

The AGENT Project will access information and make it available to market participants as needed to solve production or marketing problems. This will frequently involve accessing technologies from abroad for which specialized local capability is not developed.

III. Weakness of Banking Institutions

The banking sector is a mix of private and public sector companies and is currently moving toward less government ownership. However, neither private nor public banks provide significant funding for agro-enterprises except under two conditions. First, banks make agricultural loans to large companies using their financial strength for collateral. Second, banks loan to farmers or businesses under government subsidized programs.

Credit is available to farmers through informal money lenders at very high interest rates. A few farmers also obtain credit through fruit and vegetable wholesalers.

Banks tend not to lend for agricultural projects because of perceived high risk and long repayment periods. Even when presented with agricultural loans, banks are unable to properly analyze for risk and repayment ability. Consequently, little financing is available for agriculture. Overall, there is a serious lack of capital to modernize the sector available for farmers and companies.

By contrast, most banks reported availability of funds and a willingness to loan to agro-enterprises. Likewise, GSL encourages investments in agriculture. What is limiting from the banks point of view is the shortage of qualified and bankable loan applications.

Businesses report that projections on costs and income for agricultural investments are not accepted by lenders, who cite unknown factors that often exist such as future prices, projected sales, disease and insect problems, availability of transport, and others. Both groups will benefit substantially from technical support; the businessman by improved estimates of costs and returns; and lenders by improved loan analysis and reduced risks. Technical assistance and financing provided under the AGENT Project will help bridge the gap between businesses and lenders. Technical support alone in the form of technical assistance and new technologies, is not adequate nor will financing alone provide the needed support.

IV. Weakness of Local Firms

Because of the predominant position of state-owned companies for many years, private sector companies are relatively small, not well-skilled in market approaches to business problems, and poorly-skilled in non-traditional agricultural products. Firms have little or no experience with agricultural investments except the traditional export crops; tea, rubber and coconut. There are perceived opportunities in agricultural products, but too many unknown factors create unacceptable risk for business decision makers.

Several companies visited were processing and marketing agricultural products. They had done product development for products new to Sri Lanka, but there was little knowledge of how to estimate potential sales for their products, or funding to ask others to provide estimates. Without accurate sales projections, investments are perceived as risky and are avoided.

Most Sri Lankan companies are small and unable to finance from their own resources the needed investment and working capital for agricultural processing and marketing. Even a small juice plant, for example, was beyond the levels of investment and risk which one of the larger companies was willing to assume without technical assistance in defining more accurately the potential market. Business funding for research and technology development is extremely limited.

V. Target Market for the AGENT Project

Private sector agro-enterprises are the primary target group for Project services. There are many in Sri Lanka. The larger companies want to increase investments in agriculture but often struggle with lack of information on production and marketing of the crop. These businesses have literate employees, but often lack business experience, especially in a market driven economy. Nonetheless, the many private sector firms in Sri Lanka do have entrepreneurial spirit and wide business contacts and are fully capable of developing expertise for agro-enterprise investments.

The AGENT Project will work with farmers indirectly through businesses receiving financing or through other financial intermediaries. There are insufficient resources in the Project to provide direct services to farmers. With many small holdings for production, processors and other buyers of farm products often prefer to have other companies perform the gathering function. Cooperatives are a good instrument for this task, but in Sri Lanka, cooperatives are controlled by the Department of Cooperatives, a government agency, rather than by members. A company relying on cooperatives to procure products from farmers and deliver to processing plants, cannot accept the risks of having outside control of the cooperative organization with a third party. A new cooperative law is reportedly being written that will correct these problems. For the present, Project-supported agro-enterprises will link with farmer producers mainly through out-grower schemes and production contracts.

A second function of cooperatives is for farmers, or any other group of customers, to organize a company to serve their needs if private sector companies fail to do so, or if these companies treat them unfairly. With parastatal companies, farmers may complain through political organizations. In a free market economy, companies are under no obligation to provide services or, if they do, they may charge whatever they can get. Cooperatives serve as an important check on monopolistic tendencies of private sector companies.

Participating financial institutions will benefit from loan opportunities that would not have developed without the project. These institutions will also benefit from access to AEIF funding and from adopting new methods for loan analysis and structuring of agro-enterprise financing. Adequate banking expertise and sound institutions exist and can rapidly develop the necessary expertise for agro-enterprise lending.

The Project will have contact with many government agencies. Some contacts will be on behalf of client firms that need government data, services or approvals for their business activities. Some will be for public agencies to

conduct research and provide technical assistance and training on issues identified by businesses. A wide variety of agencies are likely to be involved. These include agencies such as Department of Agriculture, Department of Export Agriculture, Export Development Board, Ministry of Lands, Irrigation and Mahaweli Development, Ceylon Institute of Scientific and Industrial Research, and others. These agencies will receive funding from the Project AED grants and directly from businesses, if their programs and services are relevant to the needs of agro-enterprises. This linkage is expected to have a gradual affect on making GSL programs more relevant to the needs of business.

Universities will be another beneficiary. It is expected several universities and colleges will receive AED grant funding for research and technical assistance requests by businesses. Universities and other training institutions will be requested to provide short-term training for specific business needs. Local consultants, like universities, will benefit from the increased demand for them to provide services to businesses.

**TECHNICAL ASSISTANCE TRAINING & PROCUREMENT PLAN
SCOPE OF WORK**

A. GENERAL

The Agro-Enterprises Project Cooperative Agreement Recipient (hereinafter, "the Recipient" or "implementing organization") will be responsible for: (1) providing long- and short-term U.S. and Sri Lankan technical assistance; (2) analyzing training needs in the agro-enterprise sector, and planning and implementing a training plan; (3) managing a subgrant program to strengthen the agro-enterprise sector; and (4) procuring commodities required to implement the Project. This assistance will be provided to local private sector firms and entrepreneurs, to participating financial institutions and, in some cases, to GSL technical agencies. The Recipient will coordinate program activities and operating policies with guidance from an Agro-Enterprises Project Advisory Board. The Recipient will prepare Annual Work Plans for approval by USAID and will develop appropriate operating procedures for managing consultant services, training, commodity procurement, research grants, in-country training and local technical assistance.

The Project seeks to promote agro-enterprise investments by working with the private sector relying on market forces to direct investments and research and development work. With this Project strategy, it is essential that the Cooperative Agreement Recipient have a strong private sector orientation and business-oriented approach to project implementation. It is also essential that technical assistance and training be practical and linked to established commercial operations. For these reasons, it is expected that the successful application for assistance will include sub-contracting agreement(s) with for-profit firms for a significant portion of the assistance to be provided and that the implementation plan be structured to draw on the strengths of the for-profit firm(s).

Depending upon experience during implementation of the Project, A.I.D. may identify follow-on work, possibly a second phase of the Project, and will reserve the right to negotiate an extension to the Cooperative Agreement to cover such additional work.

The Agro-Enterprises Project promotes agro-enterprise development, and will lead to increased farm income, increased employment, and expanded value and range of agricultural exports. The Project will facilitate private sector investments in agro-enterprises by facilitating loan and equity investments in private firms from established financial institutions and by introducing or developing improved production and processing technologies.

Work with financial institutions will focus on a group of financial institutions which may also be participating in the World Bank-funded \$6 million Agro-Enterprise Investment Fund which will include the Merchant

Bank of Sri Lanka (MBSL), as the apex agency for the fund, and Hatton National Bank, Seylan Bank, Commercial Bank, and the EQUIL (Equity Investments Lanka, Ltd.).

Project activities in support of private firms will generally be demand-driven by responding to private enterprise requests for assistance. The Project will, however, initiate a limited number of research and development activities, policy studies, and feasibility studies for new products or to promote specific agro-enterprises prior to identification of a private sector partner.

The Recipient will be responsible for providing assistance to private financial institutions and agro-enterprises. This will include establishing an informal information center for agro-enterprise technology and responding to Sri Lankan private sector requests for assistance. The Recipient will assist entrepreneurs to develop investment proposals and business plans; prepare Bumpers Amendment analyses for USAID/Sri Lanka approval for any enterprise contemplating export of agricultural products; complete environmental impact analyses and obtain A.I.D. concurrence for all AED grant activities; obtain information on agricultural production and processing and on markets; locate and obtain required technical support services and training; and undertake needed research and development activities. The Recipient will also assist five Sri Lankan financial institutions to develop innovative financial instruments and new appraisal methods in order to expand their agro-enterprise lending and equity financing. To accomplish these tasks, the Recipient and its staff will have to become thoroughly familiar with Sri Lankan agriculture and the Sri Lankan business community and environment.

The implementing organization will be required to consult with technical assistance teams on other USAID-funded projects in Sri Lanka, including MARD, MEDP, DARP, and ACDI's CSFD to ensure that its activities do not duplicate activities of those projects. Without prior USAID approval, the Agro-Enterprises Project will not assist agro-enterprises in the Mahaweli areas during the life of the MED Project.

During the initial six months of the Cooperative Agreement, the Recipient will establish an Agro-Enterprises Project Advisory Board to help guide Project implementation and advise on operating policies. The Board will consist of three individuals nominated by the National Planning Division's Agriculture Section, three representatives of financial institutions, and three from private enterprise.

During the Project it is expected that participating financial institutions will revise their lending and investment procedures to increase financing of agro-enterprises with total investments under the program (including the private entrepreneurs' share) totalling approximately \$10 million. Private entrepreneurs will initiate 50 new agro-enterprise ventures and expand operations of 300 others. These investments will involve introduction of 50 new production technologies, 50 new processing and post-harvest handling technologies, 20 new products, 20 new markets, and 20 new outgrower/contract grower schemes.

The Project addresses poverty alleviation by supporting agro-enterprise development through introducing new technologies, developing new markets and products, and facilitating agro-enterprise financing. The Project will attempt to achieve some visible successes early in implementation in order to develop credibility and promote further agro-enterprises investment interest. Initial clients are likely to be from well-established, medium sized firms. However, selection criteria for assistance to client enterprises will be weighted increasingly toward supporting enterprises with out-grower schemes, with farmer equity participation, or that maximize benefits to the rural poor.

The direct impact of these investments will be to create 3,225 new jobs in agro-enterprise processing and marketing and 9,700 new jobs in the production sector and increase value added production by \$51.6 million per year, including value of \$12.9 million in exports per year.

To support these outcomes the Recipient will implement a program of support to agro-enterprise development by:

- * conducting a training analysis to determine needs in the agro-enterprise sector (including financial institutions) and implementing a training program for 1,360 individuals to assist entrepreneurs develop needed skills, introduce technologies, and access new markets;
- * recommending improvements in reviewing financing applications for agro-enterprises and recommending new financing instruments for at least the five participating financial institutions (PFIs);
- * reviewing and advising PFIs on approximately 500 agro-enterprise financing proposals;
- * assisting PFIs to structure 250 financing packages under the Agro-Enterprise Investment Fund;
- * consulting with 3,120 private firms or individuals on agro-enterprise investments;
- * assessing the need for a Sri Lankan non-profit agri-business promotion foundation;
- * administering an Agro-Enterprise Development Grant Program to provide approximately 125 grants for applied research, technology development/commercialization, market development and improved sourcing of raw materials;
- * procuring approximately \$440,000 worth of equipment and materials required to test 50 new production and processing technologies;
- * commissioning eleven special feasibility or policy studies; and
- * preparing quarterly progress reports, annual reports, and a final report, and other special reports as required by USAID.

In order to fulfill the responsibilities described above, during the six year life-of-Project it is expected that the Recipient will provide 17 person-years of long-term expatriate and 24 person-years of long-term Sri Lankan technical assistance, 60 person months of specialized expatriate and 72 person months of Sri Lanka short-term services, specialized overseas study tours for approximately 60 entrepreneurs, in-country training for approximately 1400 persons, 125 AED grants with a total cost of \$2.5 million; and \$700,000 worth of procurement of vehicles and computers and specialized agricultural materials (seeds, lab equipment, processing equipment).

Offerors may suggest alternate configurations for inputs to fulfill cooperative agreement responsibilities and meet project objectives.

B. SPECIFIC RESPONSIBILITIES

B.1. Long-Term Technical Assistance:

Technical assistance will be a major input of the Recipient to assist Sri Lankan financial institutions and agro-enterprises. Long-term technical staff will establish annual work plans and procedures for providing assistance to financial institutions and agro-enterprises. Activities will be split between support for financial institutions from an Agro-Enterprise Financing Specialist and support to agro-enterprises from an Agro-Enterprise Development Group. The Recipient will prepare one annual workplan covering both sets of activities, but the two will be expected to operate somewhat independently.

The Agro-Enterprise Financing Specialist will be assigned to work at the apex agency for the IDA Agro-Enterprise Investment Fund (the Merchant Bank of Sri Lanka) and will work with financial institutions participating in investments from that fund.

The Agro-Enterprise Development Group will work with a large number of private sector agro-enterprise investors. The Recipient will advertise the availability of Project assistance and respond to requests from private enterprises. The Recipient will provide assistance based on competitive selection of requests for assistance. Selection criteria will include the private sector entrepreneur's demonstrated commitment to the activity, the degree of innovation and introduction of new product, process or market contemplated by the proposal, and the potential benefits to the entrepreneurs, to the country, and to farmers and workers. In addition to direct consultancy assistance provided to agro-enterprises, the long-term technical staff of the Agro-Enterprise Development Group will help plan and coordinate short-term consultancies, training, AED grants and other project support to private entrepreneurs.

The services described below are based on a team of four long-term expatriate technical specialists, including an Agro-Business Specialist (5 years), a Agro-Business Financing Specialist (4 years), a Marketing and Agro-Processing Specialist (4 years), and an Agricultural Production Specialist (4 years). One of the team members, preferably the

Agro-Business Specialist, will be designated as Chief-of-Party. Prior experience in developing countries will be useful to all team members. The Recipient will also provide the services of four senior Sri Lankan professionals to work with the expatriate specialists on a collegial basis. The four Sri Lankan specialists should remain on the Project for six years to provide continuity and complete activities initiated during the first phase of the Project.

Proposers may recommend alternative configurations for the technical assistance team to accomplish the same objectives. In view of the uncertainty of exact technical areas in which private firms will need assistance, the proposer may wish to maintain flexibility to adjust specialist assignments and periods of service during the life of the Cooperative Agreement.

B.1.a. Agro-Business Specialist:

The Agro-Business Specialist should have extensive experience with agri-business development. Experience with start-up and financing of new enterprises would be especially useful, as would wide experience with marketing agricultural products and with agricultural export trade. The Agro-Business Specialist should be proficient at evaluating business proposals, developing business plans, and promoting investments and making deals. He/she will:

1. Plan and implement a program to promote awareness of the availability of Agro-Enterprise Development Group assistance among private sector entrepreneurs and promote requests for assistance from private firms;
2. Coordinate the Agro-Enterprise Development Group's screening and evaluation of private sector requests for assistance for short-term consultants, training, proto-type equipment, and Agro-Enterprise Development Grants;
3. Advise Sri Lanka private sector firms on business plans and investments;
4. Review and critique business plans submitted by private sector firms for financing or assistance;
5. Prepare studies on policies affecting agro-enterprise investments, feasibility of certain investment strategies, and impacts of agro-enterprise development.

B.1.b. Marketing and Agro-Processing Specialist:

The Marketing and Agro-Processing Specialist should have broad experience with processing agricultural products. Preferably, this would include experience with arranging supplies from producers and with start up of new plants and processing facilities. This Specialist should be sensitive to issues of quality control and maintaining hygiene standards of operations in developing countries. Extensive contacts in the

industry and knowledge of where and how to source specialized expertise and training will be useful. Experience with marketing agricultural products and with agricultural export trade is essential. He/she will:

1. Advise agro-enterprises on matters related to processing and post-harvest handling of agricultural produce (first, priority will be given to Agro-Enterprise Investment Fund investments; second to Agro-Enterprise Development Grant recipients; and third to other investors);
2. Coordinate short-term consultants, Agro Enterprise Development Grants, training, and procurement related to agro-processing and development of new markets;
3. Advise Sri Lankan firms and individuals on agricultural markets and on preparation of marketing plans for agro-enterprises;
4. Prepare market analyses for specific products, as requested, including preparing Bumpers Amendment analyses for any products for export prior to provision of Project assistance for such enterprises;
5. Develop sources of market intelligence to support planning by Sri Lankan investors;
6. Identify and prepare feasibility reports on new processing technologies appropriate for Sri Lanka;
7. Assist with promoting an awareness of the availability of technical support for agro-enterprises from the Agro Enterprise Development Group;
8. Identify and obtain information on technical aspects of agricultural produce marketing and processing for an informal information center; and
10. Assist Sri Lankan firms with implementation of AED grants, specifically with trials and research on agro-processing and post-harvest handling.

B.l.c. Agricultural Production Specialist:

The Agricultural Production Specialist should have experience with crop agricultural research and with commercial horticultural production. An advanced degree, preferably a Ph.D in crop agriculture would be desirable, but commercial production experience is essential. Commercial high-value crop farm management experience and work with outgrowers would also be useful. He/she will:

1. Undertake all activities as listed for the Marketing and Agro-Processing Specialist in B.l.d. above, except in relation to production technology in place of marketing and agro-processing technology;

2. Within the first six months, locate an institution to train commercial farm managers and assist with development of an appropriate curriculum; and

3. Develop two or more pilot outgrower or contract grower programs to better link small farm producers to processors or exporters, assess replicability, and promote use of this model with other agro-enterprise firms as appropriate.

B.1.d. Agro-Enterprise Financing Specialist

The Agro-Enterprise Financing Specialist should have prior experience with lending to and investing in agro-enterprises. The Specialist should have experience with management of a financial institution and with portfolio management, with evaluating viability of agro enterprise instrument proposals and business plans, with development of financial instruments and with structuring financing for investments. Training skills would also be useful. He/she will:

1. Assist the apex agency for the Agro-Enterprise Investment Fund with strategic planning for the fund and recommend operating procedures and policies for management of the fund;

2. Help develop and carry-out a program for promotion of the Agro-Enterprise Investment Fund;

3. Recommend policies and procedures for appraisal of Agro-Enterprise equity and credit investment proposals and train staff of participating financial institutions in the appraisal techniques;

4. Assist the apex agency and participating institutions to develop innovative financial investments, such as equity investments and longer term loans;

5. Assist with structuring of loan and equity financial packages for agro-enterprise investment with entrepreneurs and participating financial institutions; and

6. Identify other training needs for staff of participating financial institutions and coordinate implementation of such training.

B.1.e. Chief-of-Party

The Recipient should designate one specialist as Chief-of-party. This may be the Agro-Business Specialist, but may be whichever specialist has the required administrative and management skills. The following duties and responsibilities may be shared among team members, but must be led and ensured by the Chief-of-Party.

1. Prepare annual work plans and quarterly reports and A.I.D.-required special reports;

2. Administer the overseas training program;
3. Plan and manage the short-term consultant assignments;
4. Manage the commodity procurement activities;
5. Manage the Agro-Enterprise Development Grant Program; and
6. Ensure completion of environmental analyses and A.I.D. approval prior to initiation of AED grant activities;
7. Maintain close working relationships with USAID, GSL agencies, the Agro-Enterprise Project Advisory Board and agro-enterprise firms.
8. Provide suggestions for sustainability/future expansions of the project or improvements.

B.2. Short-Term Technical Assistance:

Short-term consultant services will be required in a wide range of possible specialized fields. The Recipient will provide consultant services in response to requests from private firms and with approval of USAID. Requesting Sri Lankan firms may be asked to share costs of consultants' in-country expenses, but offerors are advised to budget for all costs.

The Recipient should be prepared to provide approximately 15 person months of expatriate and 12 person months of Sri Lankan specialized assistance each year over six years. Assistance will generally be for highly qualified specialists and for experienced persons from private industry. Provision should be made to source certain assistance from third countries outside the U.S. and Sri Lanka in order to access expertise in production and processes not found in those countries. Services will range from one to two weeks consultancies to address specific problems to 6-8 month assignments to help initiate new production or processing activities. The Recipient should arrange to propose three candidates for each consultancy assignment, preferably individuals from separate sub-contractors. The client firm and A.I.D. will review proposed candidates and select consultants in consultation with the resident technical assistance team.

Short-term consultancies are programmed to continue over six years. These continue after the departure of the Agro-Business Specialist after year five, as it is expected that consultants will be needed to assist new enterprises and follow through on activities started during the initial phase of the Project. Possible fields for short-term consulting assignments include:

- cocoa production using high population densities
- commercial fruit drying processes
- fine bean production
- asparagus production

- tropical apple production
- coffee processing
- fresh fruit packing house operation
- banana production
- integrated pest management for specific crops
- sprinkler irrigation system design
- disease control in speciality onions
- organic cultivation certification of fresh produces
- cheese production
- dairy goat production
- quail production
- disease control in shrimp farms
- coir processing
- medicinal herb production
- duck breeding
- spice processing
- avocado production
- tomato sauce production
- mango cultivation
- jojoba processing
- mushroom canning
- meat smoking
- environmental impact assessment
- soy milk plant design, etc., etc.

As specific requirements are not yet determined, proposers should not identify individuals for short-term assignments. Rather proposers should provide evidence of ability to and procedures to recruit short-term consultants.

B.2. Training:

The Recipient will be responsible for arranging overseas training for Sri Lankans. The training programs will be arranged with approval of USAID and will be for private firms and individuals to support existing or proposed agro-enterprise investments. The Recipient will advertise the availability of overseas training and request competitive applications from private enterprises. The Recipient will review proposals and select individuals for funding, based on criteria including the commitment of the applicant to the agro-enterprise, the potential benefits of the training, and the degree of innovation. The Recipient will arrange for the training and fund the costs to be borne by the Agro-Enterprise Project. Entrepreneurs will bear partial costs of the training, usually for salaries and per diems. The Recipient should budget \$400,000 for providing 60 such training programs.

The Recipient will be responsible for locating relevant training opportunities, arranging the tours and training, obtaining required placements, completing required documentation, including un-funded PIO/Ps, and paying costs of training. The Recipient will ensure that all relevant A.I.D. regulations are followed in the Project-funded training.

The Recipient will coordinate closely with the USAID/Sri Lanka Training Office and must prepare Annual Training Plans for training activities under the Cooperative Agreement. Participants must pass medical examinations and English tests prior to departure for formal training courses. The Recipient will arrange a system of follow-up for all Project trainees.

The training is expected to be of a very applied study tour-type training, generally involving visits to production and processing facilities. It may also include trips to identify or develop markets, to locate sources of planting stock, breeding stock or equipment, or to visit laboratories, trade fairs, or research centers. Some such travel funding may be for GSL staff working on co-financed research or development activities sponsored by private sector firms or individuals.

An illustrative list of overseas training activities to be arranged by the Recipient is as follows:

- visit to tomato paste factory in Philippines
- visit to fruit drying operation in U.S.A.
- visit to banana germplasm center in Central America
- visit to a papaya canning plant in Central America
- visit to produce wholesalers in Europe
- visit to cheese processing plant in U.S.
- visit to processing equipment trade fair in U.S.
- visit to tropical fish food plant in U.S.
- visit to virus research lab in U.S.

The Recipient will also arrange in-country training to support agro-enterprise development. The largest number of trainees will be in specific skill development programs related to specific agro-enterprise investment proposals. These may include extension agent training, specific production technologies, processing procedures, accounting, business plan development, etc. The Recipient should budget \$200,000 for approximately 1000 trainees in such programs.

The Recipient will arrange open in-country training in a few areas identified as being specific constraints to agro-enterprise development. In such cases, the Cooperative Agreement Recipient will define training, possibly with the assistance of short-term consultants. Such training will be open to Sri Lanka entrepreneurs on the basis of space availability and willingness to share some of the training costs.

Four areas are identified for such open training: training in agro-enterprise finance, which will receive special emphasis and target staff of participating financial institutions, but may be open to other participants also; farm manager training for medium to large farms; post-harvest handling; and agriculture produce marketing. Training in these may range from one to two week programs to one to two year certificate programs in certain cases. However, the Recipient will also assess the need to increase university level training in horticulture and agro-business and may provide appropriate support needed to increase university level training in these fields. The Recipient should budget \$400,000 for these open training courses.

In total, the Recipient will train approximately 60 persons in overseas study tours and specialized training programs; 400 persons in 20 open in-country training courses; and 1,000 persons in specific skill development programs related to specific investments.

As the above list of training programs is illustrative, the proposer is not requested to provide details on any specific training. However, the proposer should provide evidence of capability to arrange specialized training programs and propose procedures for doing so.

B.3 Procurement

The Recipient will be responsible for procuring and arranging delivery of imported commodities required for the Agro-Enterprises Project. This includes approximately \$400,000 of vehicles and office equipment for use by Recipient's specialists and consultants. The approximate schedule and budget for the procurement is as follows:

<u>Commodity</u>	<u>Year</u>	<u>Estimated Budget (\$US)</u>
Vehicle, Sedans (3)	1992	30,000
Vehicles, 4WD Jeep (2)	1992	30,000
Computer Equipment	1992	100,000
Misc Office Equipment	1992	20,000
Vehicles, Sedans (2)	1995	20,000
Vehicles, 4WD Jeep (2)	1994	35,000
Office Supplies & Materials	1992-8	<u>25,000</u>
Total		<u>260,000</u> =====

The Recipient may proceed with procurement of initial vehicles and computer equipment upon signing the CA. The authorized source/origin for Project procurement is Geographic Code 000 plus Sri Lanka. Local cost financing is authorized. Waivers will be required for procurement from Code 941 (Selected Free World) or 935 source/origin.

In addition to the above, the Recipient will be responsible for procurement of approximately \$440,000 worth of other imported equipment and materials for support of the Agro-Enterprise Project. Such procurement will in most cases be done in response to requests from private agro-enterprise firms and with approval of USAID. Procurement will be to support technology transfer activities of the Recipient, including production and processing research and trials, technical documentation support to agro-enterprises; and support for GSL research and programs. Materials and equipment is expected to include items as per the following illustrative list:

<u>Commodity</u>	<u>Estimated Budget</u>
Reference Materials	\$ 70,000
Planting materials	\$ 70,000
Livestock Breeding Stock	\$ 25,000
Processing Equipment	\$100,000
Laboratory Equipment	\$ 75,000
Field Equipment	<u>\$100,000</u>
Total	\$440,000
	=====

It is expected that commodities will be purchased in small lots over the life of the contract. In general, equipment will likely be consigned to private firms and individuals who will be responsible for receipt and clearing through customs. The Recipient will be responsible for clearing planting materials and breeding stock and complying with government quarantine regulations.

B.4. Agro-Enterprise Development Grants

The Recipient will administer a \$3.5 million Agro-Enterprise Development Grant Program. Under this program, the Recipient is expected to make approximately 125 grants to private firms and individuals to co-finance development of new agro-enterprise.

The grants will support private and government initiatives which: test new production, post-harvest handling, and processing technologies; conduct market tests for new products or new markets; expand outgrower/contract grower schemes; demonstrate innovative environmentally safe approaches in agro-enterprise; and provide policy direction for the sector. The availability of grants will be advertised and grantees selected on a competitive basis with criteria including the grantee's commitment to the enterprise, the degree of innovation involved and potential benefits from the grant.

Grants may be for a wide range of possible activities. Illustrative types of activities would be similar to those shown for short-term consulting assignments. AED grants will frequently be used in conjunction with technical assistance training, and equipment procurement and should frequently lead to further investments by enterprises.

The average size grant is estimated at \$20,000. However, it is expected that at least 4-6 grants will be funded at the \$100,000 level.

Grants will be co-financed with entrepreneurs in most cases, though the Recipient may provide full funding in exceptional cases with the prior approval of USAID/Sri Lanka. USAID/Sri Lanka approval will also be required for all grants over \$25,000.

It is expected that up to 25 grants may go to GSL technical departments and universities to work on projects for private firms and individuals.

The Recipient will prepare or require preparation of final reports on all AED grants and will complete progress reports on others as appropriate.

C. Expected End-of-Project Outputs

The Recipient's implementation program is expected to lead to the following list of outputs by the end of the Cooperative Agreement period. The Recipient will establish interim targets in annual workplans and may, with USAID concurrence, revise these as appropriate based on implementation experience and any changes in the Project environments.

<u>Output</u>	<u>Target</u>
Agro Enterprise Project Advisory Board	1
Reports on revised appraisal procedures for Agro-Enterprises	2
Reports on new financing instruments	2
Financial institution staff trained	100
Consultations on individual agro-enterprises	3,120
Special technical consultant reports on agro- enterprises	100
Agro-enterprise staff trained	1,360
Agro-enterprise Development Grants and related trials:	
- Production Trials	100
- Post-Harvest Handling Trials	20
- Processing Trials	25
- Marketing Trials	20
- Outgrower/Contract Grower Initiatives	20
Policy and feasibility studies	12
Annual Workplans	6
Quarterly Reports	24
Annual and Final Reports	6
 <u>Project Results</u>	
Financial institutions with new financing instruments for agro-enterprises	5
Investments packages completed	250
Investments approved total costs	\$12 million
New markets developed for agricultural products	25
New technologies introduced and adopted	100
New enterprises established	100

D. Administrative and Logistic Arrangements

D.1. Postings and Logistics

The Recipient will base the technical assistance team in Colombo. The Recipient will be responsible for providing housing and office facilities for team members, except for the Agro-Enterprise Financing Specialist who will be based at the apex financial institution.

Long-term advisors and consultants will be expected to travel frequently to field sites. Consultant assignments will likely involve postings at field locations. Sri Lankan private firms may in some cases pay part or all in-country costs. However, as this cannot be confirmed and client companies may cover other, related costs, the Cooperative Agreement should budget to cover all costs.

The Recipient will be responsible for provision of the full range of logistics and support for its employees. This will include secretarial and translation services, transportation, ~~other support and administrative staff.~~ The Recipient should provide adequate Sri Lankan management and accounting staff to handle all financing and logistics to minimize administrative demands in the work load of long-term advisors.

Operation and maintenance of vehicles used by the Recipient's technical assistance will be responsibility of the Recipient. Use of official vehicles for personal use will not be permitted.

D.2. Project Coordination and Management

The Recipient's Chief-of-Party will be responsible for coordinating Project inputs and activities. USAID/Sri Lanka approval will be required for all consultants, overseas training and travel, equipment procurement, and AED grants over \$25,000 in value. The USAID/Sri Lanka Project Officer for the Project will be the primary source of A.I.D. technical direction.

Within the first four months of the Project, the Recipient will establish an Agro-Enterprise Project Advisory Board to help guide Project implementation activities. Membership will be as described in the Project Paper. The Advisory Board will meet at least monthly to review Project activities and progress and advise the Recipient on implementation and policy issues.

The Recipient will prepare annual workplans by calendar year to organize Project activities. These will be prepared in draft for review with USAID and the Advisory Board prior to finalization and approval by USAID. These should be completed in November prior to the start of the workplan period.

D.3. Cooperative Agreement Management:

The Recipient will be responsible for completing the following documents and reports:

a) Project Work Plans: Within four months of signing the Cooperative Agreement the Recipient will prepare and obtain Advisory Board and USAID approval of a Life of Project Work Plan in general conformity to the Agro-Enterprise Project Paper. In addition the Recipient will prepare more detailed plans for scheduling activities in Annual Work Plans for each subsequent calendar year.

b) Monthly Activity Summaries: The Recipient will prepare and submit to A.I.D., the GSL National Planning Division's Agricultural Section and the Agro Enterprise Project Advisory Board monthly summaries of grants and assistance made and proposed to local entrepreneurs. These will include only listings of clients/potential clients and support being given or contemplated.

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c) Quarterly Progress Reports: The Recipient's specialist team will prepare quarterly progress reports for submission to USAID and the APG. Such reports should document progress and accomplishments and relate achievements to targets for each activity. It should highlight problems and assess progress with each Project activity.

d) Consultant Reports: The Recipient will submit a brief report on each consultancy assignment, each training program, and each AED grant. Such reports should not be so detailed as to reveal the business plans or strategic plans of any cooperating Sri Lankan private firms or individual.

e) Other Reports: The Recipient will submit other special reports, as may from time to time, be agreed upon by USAID, and the Recipient. Such reports may include, but not be limited to sectoral studies on potential for and constraints to agro-enterprise development.

D.4 A.I.D. Substantial Involvement

USAID/Sri Lanka will have substantial involvement in the implementation of the Agro-Enterprises Project in areas including, but not limited to, the following:

- a) USAID/Sri Lanka approval will be required for all consultants under the Cooperative Agreement;
- b) USAID/Sri Lanka approval will be required for all international travel funded under the project;
- c) USAID/Sri Lanka will contribute to formulation of work plans and will require approval right for all work plans;
- d) USAID/Sri Lanka may from time to time provide technical directions to the implementing organization for consideration in carrying out the program;
- e) USAID/Sri Lanka will make periodic site visits with staff of the implementing organization to review progress on project activities;
- f) USAID/Sri Lanka will approve procurement of equipment to assist agro-enterprise clients and will approve agro-enterprise development grants of over \$25,000;
- g) USAID/Sri Lanka will be represented at all meetings of the Agro-Enterprises Project Advisory Board.
- h) USAID/Sri Lanka will require special reports from time to time to meet special A.I.D. information needs.

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BUDGET ESTIMATE (\$000)

<u>Category</u>		<u>First Increment</u>	<u>Total</u>
Salaries:			
Expatriate		368	1,705
Local (support staff)		113	630
Fringe Benefits:			
Expatriate		147	628
Local (support staff)		34	190
Home Office Salaries:		25	135
Housing, Furniture & Utilities:		174	440
Travel:			
International	40	136	719
Consultants	65		
In-Country	31		
Allowances:			
Education	58	117	398
HHE - Shipment	36		
HHE - Storage	8		
UAB	15		
Commodities (Procurement):		300	700
Training:		100	1,000
Other Direct Costs		50	230
Overhead		466	2,154
Grants		<u>200</u>	<u>3,500</u>
	Total:	<u>2,230</u>	<u>12,429</u>

MONITORING PLAN

The Project monitoring plan consists of indicators and targets for purpose level impacts from project activities and output level accomplishment of project activities. Source for information on all indicators will be the Cooperative Agreement Recipient's reports and project documentation, which can be independently confirmed by special studies, evaluation and USAID inspection and monitoring of Project activities.

This plan will be modified by the implementing organization to reflect negotiations between A.I.D. and participating financial institutions.

A. Project Purpose-Level Indicators - Project purpose level indicators are selected to reflect the project impacts on generating employment and revitalizing development of agro-enterprises.

<u>Indicator</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Total</u>
No. of Agri-Enterprises Established or Expanded with Project Assistance	20	40	60	80	80	70	350
No. of Jobs Created in Project Assisted Agro-Enterprises							
* On-farm	600	1,200	1,800	2,400	2,400	1,700	9,700
* off-farm	200	400	600	800	800	425	3,225
New Production/Processing Technologies Adopted with Project Assistance	-	10	20	20	20	30	100
New Products Marketed with Project Assistance	-	2	5	5	5	3	20

B. Output Level Indicators - Output level indicators reflect the progress on completing Project activities in collaboration with client enterprises and financial institutions.

<u>Indicators</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Total</u>
<u>AEIF Investments</u> ¹	20	40	60	80	50	-	250
<u>AEIF Equity Investments</u> ¹	6	12	18	24	15	-	75
<u>AED Grant Activities</u>							
- Technology In- novation	4	4	4	4	4	-	20
- Outgrower Programs	-	2	2	4	2	-	10
- R&D/Prod/Proc	10	15	15	10	8	-	58
- Policy	-	5	10	10	-	-	25
- Environment Grants	2	5	5	-	-	-	12
<u>Client Consultations</u>	600	600	600	600	600	120	3,120

¹ Contingent upon approval of the World Bank Agricultural Sector Support Project.

WAIVERS

The Agro-Enterprises Project requires the approval of two waivers, as presented below. The first permits local cost financing by organizations receiving subgrants under the Project's Agro-Enterprise Development Grant component (for technology innovation, policy analysis, environmental safety, and agricultural marketing). The second permits A.I.D. to finance all costs associated with U.S. and third country training sponsored under the Project. The A.I.D. Director has the authority to approval both actions.

I. Justification for Local Cost Financing

The 1990 Buy America Initiative re-affirms A.I.D.'s commitment to maximizing procurement from the U.S. in order to support U.S. business, develop foreign markets for the U.S., and draw on American capabilities and technology to support the development process. The Agro-Enterprise Project will procure the bulk of needed goods and services (approximately 70 percent) from the U.S. However, local cost financing is authorized because of special needs of the project.

The Agro-Enterprise Project will fund a Cooperative Agreement with a U.S. organization for most aspects of implementation. Most technical assistance and a significant proportion of the training and procurement will be from U.S. source/origin. However, with the strategy of the Project being the development of private sector agro-enterprises, it is essential that these enterprises be able to utilize goods and services to which they have ready access for the future. As these enterprises will largely be small and medium scale operations, they will not have the expertise or time to make small scale procurements from the U.S. For this reason local cost procurement will be necessary, especially for the Agro-Enterprise Developments Grant component.

It is expected that most of the local cost financing would already be allowable under existing guidelines. However, many small procurements would still require waivers and to avoid the large volume of small waivers and frequent uncertainties as to whether waivers are required, local cost financing is provided for in the Project Authorization.

An estimated breakdown of project funding is presented below:

<u>Line Item</u>	<u>Budget (\$'000)</u>		
	<u>FX</u>	<u>LC</u>	<u>Total</u>
Technical Assistance	8,000	-	8,000
Training	400	600	1,000
Agro-Enterprise Development Grants	-	3,500	3,500
Procurement	500	200	700
Audit/Evaluation	260	40	300
Contingency	400	100	500
	<u>9,560</u>	<u>4,440</u>	<u>14,000</u>
	=====	=====	=====

Local cost financing is authorized to facilitate small scale procurements by the Cooperative Agreement recipient in support of development of 350 small to medium scale agro-enterprises. Local cost financing is necessary to ensure sustainability of activities undertaken by these firms.

II. Waiver of Host Country Financing for U.S. or Third Country Training

The A.I.D. Director's approval is required to waive the Handbook 10, Chapter 16A1 requirement that the cost of international travel for U.S. or third country travel sponsored by A.I.D. be paid by the cooperating government. Approval of the PP with this annex constitutes that approval.

Under the Agro-Enterprises Project, U.S. and third country training is planned for approximately 60 participants, all of whom will be working for or with private sector clients of the non-profit organization implementing the Project.

The private sector clients will be expected to provide partial funding for training costs. In some cases this may cover costs of international travel. However, most clients will be small to medium-sized firms with limited resources for financing such travel costs. Client firms may also experience difficulty with obtaining needed foreign exchange for travel costs and the GSL does not have the budget, procedures, or flexibility to be able to cover these costs for private sector participants. Failure to waive this requirement for host country financing of international travel would impede project implementation and severely restrict travel for training in the U.S.

Assumption of these travel costs by A.I.D. does not have adverse recurrent cost implications. The combined GSL and host country private sector contribution to the Project considerably exceeds the required 25 per cent share.

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