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# MAHAWELI ENTERPRISE DEVELOPMENT

## MED/EIED PROJECT

(USAID/Sri Lanka Project No. 383 - 0090)  
(Contract No. C-00-0031-00)

### OBSERVATIONS ON AGRIBUSINESS DEVELOPMENT AND PRE-INVESTMENT PROGRAMS

A report of a short-term assignment  
by  
Earl Guise

December, 1990

Report 6/1990



INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

WITH :

ERNST & YOUNG CONSULTANTS (Sri Lanka)  
DEVELOPMENT ALTERNATIVES, INC.  
HIGH VALUE HORTICULTURE, PLC.  
SPARKS COMMODITIES, INC.  
AGROSKILLS, LTD

CONSULTANTS TO THE MAHAWELI AUTHORITY OF SRI LANKA

## **The Mahaweli Enterprise Development Project**

The Government of Sri Lanka as well as the international donor community has given high priority over the last several decades to the development of the resources of the Mahaweli river basin. The Accelerated Mahaweli Development Program was launched in 1978. The first phase of this program, the construction of major capital infrastructure, is complete. The second phase, developing the land for settlement and forming an agricultural production base, is well under way. The third phase, just beginning, seeks to build on the agricultural base to create a diverse and dynamic regional economy, improving employment and income prospects for settlers and their families. It is in this phase that the private sector has to play a leading role in enterprise development.

The Mahaweli Enterprise Development Project (MED) is a five year USAID-supported initiative of the Mahaweli Authority of Sri Lanka (MASL) to foster private enterprise development in the Mahaweli areas. MED assists small, medium and large-scale investors to develop new ventures in the Mahaweli and expand existing ones. This is to be accomplished by a three-pronged approach: 1) investment promotion, technical assistance and marketing support to medium and large-scale investors; 2) advisory services, training and improved access to credit for small-scale enterprises; 3) policy assistance to improve access to resources, such as land and water, and the legal and institutional framework for enterprise development in the Mahaweli settlement areas.

The Employment, Investment and Enterprise Development Division of the MASL is the MED implementing agency. The main technical consultancy is provided by a consortium led by the International Science and Technology Institute (ISTI), a private consulting firm based in Washington DC. Other firms in the consortium are Development Alternatives, Sparks Commodities, High Value Horticulture and two Sri Lankan firms, Agroskills and Ernst and Young. This significant array of organizations and expertise is ready to assist private sector firms in the Mahaweli areas.

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PRE-INVESTMENT PROGRAMS**

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**December, 1990**

**on behalf of the  
INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.**

**for the  
EMPLOYMENT, INVESTMENT AND  
ENTERPRISE DEVELOPMENT DIVISION OF THE  
MAHAWELI AUTHORITY OF SRI LANKA**

## Preface

The author spent one week in Sri Lanka reviewing commercial farm operations and the activities being carried out in developing the Pre-investment Program of MED. This report notes the author's main observations and recommendations.

## INTRODUCTION AND BACKGROUND

The Mahaweli Authority project established years ago in Sri Lanka was designed to generate electricity and supply irrigation water for development of Agriculture down stream from the water dams. The early stages of agricultural development consisted of allotting acreage to small size paddyfarmers. While this phase of development provided employment and opportunities for families who located in the area, the authority realized that high efficiency return was not being secured from the investment. Therefore, recently, a decision was made to diversify the Authority Area to include high value agriculture crops. It is expected this program will provide expanded employment opportunities, raise the living standards of farmers located in the area, and return a more realistic efficiency from the initial investment.

With the initial development of the land areas of Section B, a vast amount of the prime, level land in the valleys or plain areas was put into paddy production of rice. The present diversification program consists of allotting medium to large size land plots to private investors for development. Many of these sites are located on the edges or slightly elevated slopes adjoining the vast plains or valleys.

One must realize that when embarking upon this type of program to knock down jungle and begin agricultural plantings many problems do surface.

Wisely, the government of Sri Lanka realizing these problems joined forces with USAID to establish a technical assistance and management program to assist the farmers of the area to overcome a portion of these obstacles. Presently, teams of experts are in place, and functioning in an effort to work on solutions to the problems that confront such a developmental program. The teams consist of experts who are assisting in small, medium and large scale enterprise development, market-oriented agricultural research, post-harvest handling methods and systems, processing methods and systems, marketing and transportation systems and methods, financing, and government formalities.

## OBSERVATIONS AND ANALYSIS

I am very fortunate that my trip to Section B coincided with the semi-annual inspections, of approximately twenty five production sites conducted by MASL officials. In addition to EIED officials, staff from MEA, MARD and MED were also present. We also interfaced with Mr Ken Aoyama (ISTI) who was investigating joint venture product production possibilities.

The biggest surprise was the slow pace that many farmers have in developing their land holdings. It is believed this will change as the technical assistance begins to function and as several of the more progressive farmers begin to produce marketable product. The respectable results to date of small farmers with the Gherkin program does not seem to be a big enough spark to ignite a fire under many of the medium to large scale landholders. It appears as if absentee owner management, financing or willingness to invest and technical assistance are playing key roles in getting things moving.

I observed that there are fertility and serious drainage problems in Section B. There is also a serious problem with management of irrigation water availability during critical times of the year to maintain high value agriculture crops. The cleaning of canals results in water being unavailable for two times of the year for four to six week periods governed by rice harvest cycles. This shutdown of the water system makes timing difficult to produce the high value crops to harvest when many market windows are available.

Government formalities seem to be extremely complicated and tend to frighten investors and land owners. With a more streamlined system response from landowners could become more positive. It is also believed that more frequent contact should be maintained with landowners by government representatives.

There is a lack of a demonstration area where different high value crops could be cultivated in a proper fashion. An area of this type would serve as training centres for government officials, serve as a demonstration area for field days to present new potential crops to landowners as well as revealing good technics to follow with any crop planted, and to explain and show possibilities to potential joint venture investors.

The only viable type of production to show to anyone at the present time is that of Gherkins. While this project is in a successful formation stage, much needs to be done to refine technologies related to raw product production, post harvest handling, processing, storage, and marketing to boom this product to a hundred million dollar deal. After a careful review of the Gherkin program in Sri Lanka with Mr Sheran Abeyesundera of "ACE Pickles", this project is ready for a joint venture partner to establish full-fledged processing facilities which would allow the

exportation of a processed product ready to be set on the grocery store shelf. This type of operation would return to the country, value added benefits, serve as a source of new employment, and stimulate the local economy by boosting income from direct and indirect related support industries.

Hands on observations were made of plantings consisting of grapes, chillies, soyabeans, pineapples, papayas, mangoes, sweetcorn, chayote spinach, asparagus, corn, blackgram, cowpea, okra, cashew, citrus and various spices.

To date land has been given to various farmers for development. Several parcels have been completely cleared and are in the phase of planting while other have been partially cleared with plantings in the initial phase. A few land owners have cleared the parcels and have not made any effort to plant the cleared land.

Unless one has ever experienced this type of agricultural development, it would be natural to assume that the whole program is in a state of mass confusion. To a certain degree there is confusion and uncertainty. Extreme pressures are being exerted by local government officials for a quick and large breakthrough. Therefore, EIED officials are frustrated, MARD people are feeling the pressure, local farmers [Landowners] have many uncertainties, and the MED team is being asked for many solutions. However, with all the different sections of TA now in place, it is my opinion that results will begin to appear.

The hands on inspection of System B farms indicates:

- The Gherkins operations have a good general base and have resulted in various exports. Program has a good base to boom the industry in Sri Lanka.
- The MARD group TA to small farms has helped to build a good beginning base among Gherkin outgrowers.
- There is a sound program and proper basis being established to begin a commercial operation of Cocktail Onions [Silver Skin] which will expand and compliment the Gherkins program.
- During conversations with MARD officials efforts are being made to open the Singapore market to fresh and processed products from Sri Lanka.

Note: This is a very large market with keen competition. Therefore products moving out of Sri Lanka must have high quality, be properly packed, and adequately cooled.

- Good basic work related to variety studies and general cultural practices related to various fruits and vegetables are in progress.

## II OBSERVATIONS AND SPECIAL TREATMENT

- a). As medium to large parcels of jungle are being cleared and brought under cultivation, problems of drainage, fertility and water table levels need special attention.
  - b). Additional hands on planning is required with new land owners for development plans and execution of crop production.
  - c). Organise and supply TA people to assist farmers with execution of farm development plans.
  - d). Maintain and increase present ties and interchange of information among MEA/EIED/MARD/MED officials.
  - e). Individual periodic land owner reviews of financial problems that may hinder or stop production programs could be considered.
  - f). Review basic findings of MARD team's work related to basic market oriented Agricultural Research in order that results can be incorporated into the TA program for medium and large scale commercial farmers.
  - g). MEA/EIED/MARD/MED teams should meet at least monthly for a general exchange of technical information which can help to push the program in System B.
  - h). Request inputs from MED marketing component (Daines) for post harvest handling of products produced in System B.
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## II Cold Chain SRD Project

As explained by Mr Ed Houlston of SRD, the proposed facilities for post harvest pre cooling of fruits and vegetables should adequately precool all fruits and several different types of vegetables.

## III System B

- A. Establish a demonstration area where proper technics will be applied which result in high quality products. This area can also be used as a training center and also an exhibition area for joint venture investors.
- B. Investigate the possibility of establishing a program to clear, level, and install drain ditches as well as irrigation ditches on large tracks of land prior to making subdivisions and allocating to farmers. The cost of this operation should be passed on to the new land owner. It is suggested the landowner could receive a one year grace period with the cost amortized over a period of six years. Recuperation of costs in seven years.
- C. Increase monitoring of research results being collected by MARD Team. Summarize and apply results to medium and large scale operations in System B.
- D. MED/MARD Teams should hold monthly joint meetings with EIED/MED officials to give progress reports and exchange of information.
- E. Work on efforts to streamline bureaucratic procedures in EIED related to slowing of developmental process in System B.
- F. Landowners are in desperate need of TA. Establishing the team of field business consultants as rapidly as possible would be a definite plus to development.
- G. MASL officials should explore cleaning canals with low water levels which would enable farmers to have maintenance water during rice harvesting months.
- H. Investigate the possibility of establishing crocodile farms in lagoon areas.
- I. Establish orientation meetings for new land owners to discuss general problems and start up operations for a smoother and more efficient execution of their land development plan.

TRIP NOTES

**December, 7, 1990**

Departed Harrisburg PA [MDT] 3.30 pm

**December 8, 1990**

Arrived Paris, France 8.20 am  
Day room Hotel Sofitel

Departed Paris, France 5.45 pm

**December 9, 1990**

Arrived Colombo, Sri Lanka 10.20 am  
In Hotel at 12.15 pm

Note: All arrangements excellent without hitches enroute.

**December 10, 1990**

Departed Hotel at 4.15 am for visit to Mahaweli Project area for on site inspection of farming area. Accompanied on trip by Dr. Jim Finucane, COP of MED project and Mr. Indra Phillips, Manager of EIED. When we arrived at the headquarters of Site B, we were joined by personnel of MARD as well as other officials of the Mahaweli Authority Project.

Everything worked very well. We were able to accompany the project authority people [EIED] who were making a periodic progress inspection of the various medium to large size operators who have been granted land for development of high value NTE crop production.

During the course of the two day visit, we accompanied the MARD and EIED officials for inspection of approximately twenty five [25] different sites. At the completion of the farm inspection, we attended the final meeting of MARD and EIED officials who summarized the progress of each farm plus action course for the next six months for each individual farm.

This two day trip served as an excellent introduction and a first hand view of the basic facts and the force that make the MED project operate. The whole program is in a state of development which could be classified as extreme infancy of pre birth.

**December 11, 1990**

Returned to Colombo approximately 9.00 pm.

**December 12, 1990**

Worked in project office and attended meetings with EIED officials, USAID, Ken Ayoyama; discussed PIP's with Mr. Geoffrey Peters.

**December 13, 1990**

Discussed overall views of project with Mr. Talbot Penner, USAID, and met with Mr. A Abeyasinghe.

Worked on compiling information for report.

**December 14, 1990**

Writing of Report for fulfillment of ST assignment.

**December 15, 1990**

Completed Report

**December 16, 1990**

Departed 01.30 hours for return to U.S.

The people contacted are as follows:

Mr Indra Phillips and Mr Anton Fernando plus other officials and staff of EIED  
MED Team Members plus short term consultant Ken Ayoyama  
MARD Team Members  
Mr Ed Hurlston - SRD  
Mr Talbot Penner - USAID  
Mr Ariya Abeyasinghe - Ministry Lands Irrigation and Mahaweli Development  
Mr Sheran Abeyesundera - ACE Pickles  
Approximately twenty five farmers in Section B.

In general, I want to express my appreciation for the pretrip orientation by Dr Robert Lee of Sparks Commodities Inc. I also want to thank Dr James Finucane and Mr Geoffrey Peters of the MED Team and Mr Indra Philips of EIED for their excellent support and assistance in carrying out this assignment.

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