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# MAHAWELI ENTERPRISE DEVELOPMENT

## MED/EIED PROJECT

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### PROMOTION OF INVESTMENT IN THE MAHAWELI REGION OF SRI LANKA

A report of a short-term assignment  
by  
Tom Healy

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INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE, INC.

WITH :

ERNST & YOUNG CONSULTANTS (Sri Lanka)  
DEVELOPMENT ALTERNATIVES, INC.  
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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.

PROMOTION OF INVESTMENT IN  
THE MAHAWELI REGION OF  
SRI LANKA

A Report By Tom Healy

ON BEHALF OF THE  
INTERNATIONAL SCIENCE & TECHNOLOGY INSTITUTE

FOR THE EMPLOYMENT, INVESTMENT AND  
ENTERPRISE DEVELOPMENT DIVISION OF THE  
MAHAWELI AUTHORITY OF SRI LANKA

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This report was prepared by Mr Tom Healy on behalf of ISTI for the EIED of the MASL. The views and proposals expressed in the report are those of the consultant and do not necessarily represent the views of ISTI or USAID as the funding agency.

The consultant was greatly helped in his work by Mr Indra Phillips and Ms Jeanette Tissera of EIED and would like to thank them sincerely for this help.

## Contents

	PAGE
1. Background & Context	4
2. Objectives of this Report	7
3. Review of Strengths & Weaknesses of the Mahaweli as an Investment Proposition	8
4. Strategy & Methodology	13
5. Promotional Activities 1991/1992	25
6. Executive Summary	32
Annex: Schedule of main contacts	

## MED - Investment Promotion Strategy

### 1. Background & Context

1.1 The Mahaweli Development Project has now reached a point where large areas of irrigated land are available and large numbers of farmer/settlers have been located in these areas. The next step in this enormous project is to develop economic activity in the Mahaweli areas so that much higher levels of output and income are achieved. It is clear that this will require a market-led approach which will also ensure that increased Mahaweli production does not have an adverse affect on the rest of the Sri Lankan agricultural sector, in terms of its domestic market or existing export markets.

1.2 Since the new Mahaweli settlers are primary producer farmers, further economic development in the area can be achieved only by encouraging investors from outside the area, from Sri Lanka or abroad, to invest in processing of primary produce and in more advanced and profitable forms of primary production. This requires a

special development programme to attract these potential investors and to provide technical supports in crop development, production and marketing which will identify the most suitable directions for further development. This programme is the responsibility of the Employment Investment and Enterprise Development Division of the Mahaweli Authority of Sri Lanka, under its Mahaweli Enterprise Development Project (MED). The project which is the subject of this report is designed to advise the EIED on the most appropriate strategy for promoting the idea of investing in the Mahaweli Region, to domestic and overseas investors. In preparing this report the consultant sought and took into account the views of a broad range of private sector interests as well as those of the relevant authorities.

- 1.3 The EIED has already undertaken a programme of investment promotion. It has produced a range of materials - brochure, video and slide presentation - which outline the attractions of the Mahaweli region to potential investors. In relation to overseas investors it organised, in conjunction with ABN Bank, a promotion mission to the Netherlands and Scandinavian countries

in 1988. This was highly successful, resulting in two Dutch investments.

On the domestic side, the EIED has held three seminars in Colombo and eight in regional centres using trade associations and newspaper advertising as facilitators. These were successful in generating investment interest from the Colombo area but elicited limited results from the rest of the country.

At this stage the EIED wishes to design a broader campaign to attract investors.

- 1.4 The EIED resources which will be available for investment promotion campaigns are quite limited. The Division's staff is small with a wide range of existing responsibilities. The financial resources are also limited, with about US\$150,000 available during each year. The resources situation clearly dictates that the investment promotion strategy which will be adopted by the EIED will have to be focused on its key priorities and it will not be able to afford broad-brush and expensive techniques such as advertising or participation at trade fairs abroad. Advertising is a technique that gets best results when the message is simple and repeated, in the same or various formats,

in the context of a continuing campaign relating to a particular target audience. It generates a very limited response if used on a once-off basis with a complex message. Trade fairs are primarily conceived as show-cases for products or services. It would be very expensive to participate in food-related trade fairs to promote an investment opportunity to food processors or producers, given that those organisations will be represented at fairs mainly by their sales and marketing rather than sourcing or production staff. In any event it is highly unlikely that a campaign with an annual budget of \$150,000 could justify advertising campaigns or fair participations. However trade fairs could be used as a source of market information and initial points of contact by having a representative visit them.

## 2. Objectives of this Project

The objectives of this project are to:

- (a) design and propose a strategy and methodology for promoting appropriate overseas and domestic investment in the Mahaweli areas, for a two year campaign,

(b) recommend the types of techniques, materials and services needed to support this strategy, and

(c) recommend the positioning that should be sought by the Mahaweli Authority in relation to potential investors and other Government agencies, for this campaign, and make proposals on how to achieve it.

3. Review of Strengths and Weaknesses of the Mahaweli as an Investment Proposition

3.1 In order to develop a proposed promotion strategy it is necessary to analyse the investment opportunity in terms of its strengths and weaknesses. As might be expected of an undertaking so enormous and complex as the Mahaweli project there is a wide number of factors that must be taken into account, and each of them can have elements that are constraints as well as attractions. In summary investors seem to agree that, on balance, the attractions of the Mahaweli region are based on the availability of land, water, labour and infrastructure, where each is competitive in terms of price and quality with other comparable producers. The main weaknesses relate to the structure of taxation incentives,

the terms of available finance and the possibly conflicting policies pursued by some of the authorities. Lying behind all of these considerations is the complexity of the investment proposition, given the wide range of factors involved and the social and economic objectives of the authorities for the Mahaweli area.

3.2 It may be self-evident to state but the availability of land and water is a major and unique attraction of the Mahaweli compared to other competitor countries in the region and within Sri Lanka itself. However it must be recognised that some existing investors complain that the supply of water is not dependable during periods of peak demand by settlers for paddy uses. This is an important factor since it must be assumed that potential investors will seek the views and experiences of existing operators in the region. It may be necessary therefore for the authorities to consider if it is possible to give assurances about the ability of investors to use the canals as sources for their supply systems. While some investors argue that the plots of land available are not large enough, it seems to this consultant that the authorities are already as flexible in this regard as can be

expected, given their need to ensure a balanced scale of development in the region.

3.3 The roles of labour and out-growers are so closely connected that they should be considered together. It is clear that Sri Lanka labour rates and productivity are highly competitive compared to other relevant countries in the region. However some investors have problems getting labour during the settlers' harvest seasons. It will also be difficult to persuade some investors that they should rely on out-growers for their supply of raw produce. These problems can best be addressed by help and advice from the authorities at the early stages of an investment project since it is clear that certain investors have overcome the difficulties involved. When potential investors, especially foreign, are brought to visit the Mahaweli the authorities must ensure that they are introduced to investors who have overcome the problems of seasonality of labour supply and have developed effective working relationships with out-growers. While this point may seem obvious, it must be stressed that the demonstration effect of successful existing operations cannot be overestimated as a final persuasion factor for investors.

3.4 If the above factors - land, water, labour and out-grower supply - can be combined carefully and effectively, it is clear that the Mahaweli offers a highly competitive cost structure as a food production and processing base. This is highlighted in the SRD studies by S.R. Daines and J.R. Pawar and can be further demonstrated by the ongoing research work being done for the EIED. Combined with the almost continuous production season it is clear that the Mahaweli offers a very powerful investment proposition.

3.5 The tax holiday incentives available to Mahaweli investors is not particularly suited to the needs of projects that require medium to long-term finance for initial and working capital. For a tax concession to be effective in attracting investment it must offer a fixed regime of tax treatment for a period that is equivalent to the pay-back of long-term loan capital. In this context a zero-tax concession for five years (which may or may not be extended later) is not nearly as attractive as, say, a 10% concession fixed for fifteen years. This is the reason that the investors interviewed by this consultant regarded the existing tax incentives as a bonus rather than a persuasive element of the initial investment

calculation. It is strongly recommended that a scheme be developed that will give investors a relevant concession (not necessarily zero-tax) which will remain fixed during a period relevant to the initial financing of projects. A 10% maximum tax for fifteen years would seem a good balance and it is doubtful if this would cost more in potential lost revenue than the existing scheme.

3.6 The roles and policies of various Government authorities seem to cause problems for some investors. While the EIED is widely viewed as supportive and positive some other agencies are not seen in the same light. Some investors have been refused permission to import new strains of plants even though there are provisions for quarantine after import. There is a general feeling that the supply of certain utilities is unduly slow and that the agencies involved give no particular priority to Mahaweli investors. This is undoubtedly a problem being addressed by the EIED but there is a general negative perception among existing investors which could be passed on to potential investors who visit the area.

3.7 The Mahaweli investor faces a complex formula in relation to the amount of land available,

access to water, relationships with out-growers and the availability of infrastructure and services. This obviously derives from the pioneering nature of the Mahaweli and its social and economic needs. However it must be recognised that this complexity means that the Mahaweli will be attractive to certain limited types of investors. It will also be clear of course that for the right type of investor, who carefully plans relationships with out-growers, labour, etc, the Mahaweli can be a highly successful proposition.

#### 4. Strategy & Methodology

4.1 It follows from the review of strengths and weaknesses of the Mahaweli investment proposition, outlined in Section 3 above, that the promotion strategy to attract investors should have a highly focused approach to identify, and then put specific proposals to, investors who seem best suited to develop the opportunities of the Mahaweli region and also to contribute to its social and economic development. It is also clear, from the point of view of resources, that the EIED would, in any event, have had to avoid expensive strategies. The strategy to be outlined in this section is designed to

- (a) be highly focused in terms of the investors to be approached,
- (b) be achieved with the minimum of EIED expenditure of resources, largely by using the services of third parties, and
- (c) maximise the use of existing and planned technical assistance and research work.

In short it will aim to match the specific needs of the Mahaweli region with the specific needs of companies overseas and in Sri Lanka.

4.2 The first step in this process should be to develop a range of investment propositions based on the opportunities and needs of the Mahaweli region. By combining the technical production and productivity information and the export market information available under the MARD and MED projects, it is possible to design an investment proposition based on producing a certain fruit, vegetable or other product, and selling it in a certain market. The proposition should be based on servicing a market which is new to Sri Lanka and will not

damage existing Sri Lankan markets, at home or abroad. These markets should be deep so that the supply of new produce from Sri Lanka will not be sufficiently significant to trigger any competitive responses from other suppliers.

This will be the most time-consuming stage of the process since the EIED would have to build up a data bank on computer about the Mahaweli production capability for each relevant product, and the markets available for each of those products, especially overseas. It should be designed to allow a proposition be developed, for example, for a German importer of certain fruits, which would describe the Mahaweli's capabilities and relative production costs for those fruits and the Mahaweli's strengths in terms of seasonality, etc, in relation to the existing supply situation in the German market. Each proposition would be accompanied by a standard set of information on Sri Lanka, the Mahaweli, labour costs, taxation, etc. This material would be produced in promotional aid form as will be outlined later.

Once this data bank had been developed it would allow investment propositions be prepared on any useful permutations of markets and

products. As further information emerges from the studies and tests being carried out under the MARD and MED projects this would obviously be used to expand the data bank.

A typical investment proposition would contain information specific to a product variety and also general information. The product information would, depending on the variety, include all factors relevant to its performance in the Mahaweli in terms of quantity, quality and seasonality. These would cover details of soil, day and night temperatures and maximum differences. Also important would be economic factors including average yields per season(s) per acre (and hectare if aimed at continental European markets), production costs including labour, transport facilities and costs FOB in Colombo and transport arrangements and costs to the market. There should be information, as far as possible, on the types of out-grower arrangements possible in terms of supply of materials and buy-back contracts. If the research has produced information on achievement of technical standards this would be very important. It is also important to remember that this information is not meant to be a feasibility study for any one investor but should be designed to supply the key raw data

that will enable the potential investor, who will be an expert in this particular variety, to form an initial view on whether it is likely to be of sufficient interest to undertake a full feasibility study for his company. In the case of each variety the MARD and MED consultants will know what particular information is required for this initial decision.

The general information should describe, in broad terms, the economy and geography of Sri Lanka and how the Mahaweli region fits into this. It should cover the availability and leasing terms of land, availability of water, taxation treatment and the costs structure for labour and transport. In broad terms this should cover the types of information already prepared for promotional materials by the EIED and GCEC.

- 4.3 Working with the range of realistic investment propositions which are available, it will be possible to develop profiles of the types of investors which would be suitable to approach in each country and product area. The investor profile would have two main requirements. These are that any investor must already have a proven market for the product in question and

secondly that an investment by him in the Mahaweli region would not damage the domestic or export markets for any other Sri Lankan producers. In the case of most European markets this latter point would not pose a problem since Sri Lanka has no significant market in any of those countries in products relevant to the Mahaweli. Ideally the potential investor should be in a growing market for the products in question which would increase his interest in the supply side, on the scale available in the Mahaweli. It must be emphasised that this search for investors will mean identifying a much narrower group than those which are targets for the MED Marketing project. The companies targetted under the latter would be potential customers but most would not necessarily be interested in investing in that production. The two projects will have very similar targets but their objectives are different.

4.4 Now that investment propositions, and investor profiles to match them, have been developed the next step is to find a way of identifying companies which would seem to meet all these criteria and might be interested in an investment proposal. It is not realistic for the EIED to attempt to identify these directly.

Furthermore, given their existing ranges of contacts and method of promotion, it is unlikely that the Export Development Board or the GCEC would be able to offer assistance in such a focused exercise. However there are other organisations in a much better position to identify companies which both meet the criteria and have the resources and interest in expanding or integrating backwards into production. The essence of this proposal is that such organisations be used by the EIED to identify such potential investors, in Sri Lanka and other countries, through their business networks. In the case of potential domestic investors the organisations to use would be the main local banks and finance organisations, and they should be asked also to identify potential partners for overseas investors. For overseas investors the EIED should work through the local branches of foreign banks, the two international accounting firms with local associates, MED and MARD consultants with their own contact networks, and the main local banks with strong international connections. In each case it must be remembered that it will be in those organisations' own interests to help in this campaign since any new investor is very likely to become a potential local client of the network which initially identified him.

This consultant has, with the prior approval of EIED management, outlined this idea to a selection of major overseas bank branches in Colombo and their reaction was very positive. It is clear that if the EIED chooses to adopt this formula it will receive strong cooperation and support from these bodies, largely because it will involve the sort of professional and focused proposition that they can sponsor within their international networks as opposed to the more general requests they regularly get from development agencies throughout the world.

4.5 While the technique outlined above would not of itself involve the GCEC, it would obviously be essential to have GCEC support for it. It is suggested that when a number of potential investors have been identified who require detailed consultations in their own countries before visiting Sri Lanka, these meetings should be organised in the form of a joint GCEC/EIED mission to those countries. This would ensure that the GCEC would be involved at an early stage of negotiation and could confirm the types of incentives and approvals that would apply in each case.

4.6 The promotional materials to be used in the formula outlined above will obviously have to

take a form suited to it but, however, they can be designed in such a way that they can also be used in a more general way, in seminars and in response to queries, both domestic and overseas. It is suggested that the new materials should be in printed form only. The EIED already has a video and slide presentation which are suitable for the more general or group use that might require them.

The printed material will have to carry general information about the Mahaweli and Sri Lanka, but it will also have to carry, for targetted investors, detailed production and market information relevant to the individual products of interest to those particular investors. It is clear that the materials will have to be flexible and capable of use in different combinations. The best formula for this is to produce a high quality folder, on which would be printed pictorial and textual information of a general nature, with the ability to insert individual sheets with the relevant production and market information for whatever products(s) the potential investor is interested in. The design and colour themes for the folder should be carried through into the inserts.

It is worth noting that the GCEC has very recently produced a new promotional pack which follows a similar formula to that suggested for this case. The EIED should consider, with GCEC approval, adopting the colour and design themes used by the GCEC. This would allow each organisation to use relevant parts of the other's promotional material where this would be useful. The quality of the GCEC material, and design theme used, would be quite appropriate for the EIED in the type of campaign proposed in this report. If this approach is not used, the EIED material should, from a design perspective, present a serious, restrained, quality image that befits an investment proposal.

- 4.7 The most appropriate form of public relations to be used overseas in this publicity in specialised trade magazines for the agri-business sector as well as, in a more general sense, editorial publicity in the leading business and financial media. To do this in a planned and professional way will require the services of overseas public relations agencies, either by using one in each main target market or using one of the large agencies that has a world-wide network. These agencies will require annual fees of the order of US\$30,000

to US\$50,000 per main market. In view of the limited resources available it is doubtful if such campaigns could be justified. The strategy suggested in this report does not require the support of a publicity campaign, although it would obviously be helpful in creating a general advance awareness among target investors.

As indicated earlier in this report, advertising and trade fairs participation could not be justified on a cost basis and also are not necessary supports for the proposed strategy.

- 4.8 In relation to the domestic market it would be desirable to support the network campaign by editorial publicity that emphasises the unique nature of the Mahaweli opportunities and the specialised and professional support available from the EIED. Advertising would not be necessary (except to promote specific events such as seminars) unless the editorial campaign is not succeeding in getting particular important points across.

As there are no developed public relations agencies as such in Sri Lanka, any domestic editorial publicity campaign will have to be

mounted by the EIED itself. If it is decided to pursue such a campaign it will be necessary to allocate a press officer to it, since ensuring that the full and varied messages about the Mahaweli are properly communicated to all relevant audiences in Sri Lanka would be a very time-intensive exercise, requiring a regular flow of press releases, articles and speech inputs, circulated to all the leading printed and broadcast media.

4.9 The EIED is also interested in attracting general manufacturing industry to the Mahaweli area. It is suggested that in the case of overseas investors it would be confusing if the EIED mounted a general promotion campaign in parallel to that of the GCEC. However it is clear that the GCEC promotes the concept of investing in Sri Lanka generally and the Export Processing Zones in particular. It is suggested that the EIED should, with GCEC agreement, produce a fact sheet about the attractions of the Mahaweli, which would fit into the GCEC promotional pack as a standard insert, adopting the design theme used in it. For domestic promotion aimed at general manufacturing industry, the EIED should use its existing brochure, perhaps supported with a

fact sheet similar to that to be used in the GCEC pack.

4.10 The development of tourism facilities in the Mahaweli region is also an objective of the EIED. It is likely that the potential investors for this type of specialised facilities are the existing tourism groups already operating in the country. The best way to handle these is to approach them individually, at a senior level, on the basis of the opportunities identified in the Coe Report of November 1990. The number of these potential investors is so limited that a general promotional campaign would be inappropriate and unnecessary.

## 5. Promotional Activities 1991/1992

### 5.1 Overseas Agribusiness Investors

5.1.1 In line with the strategy proposed in Section 4, the EIED should adopt a work-plan to develop investment proposition packages for the products that have already been addressed by the MARD and MED Marketing Projects. As further products are dealt with they should also be transformed into such packages. The initial packages

should probably take no longer than one or two months to prepare. Investor Profiles should be easily and quickly prepared at the same time given that the needs of MASL and the market focus from MED Marketing are already defined. These profiles should not be very detailed since their function is simply to help the networking counterparties decide on what types of companies will be appropriate to approach.

5.1.2 The promotional pack to carry the individual product information packages should be designed and printed. The packages should be produced in line with the overall design theme. These must be available in large numbers before approaching the proposed networking parties. About a month should be allowed for design and printing.

5.1.3 Meetings should be held with the top personnel in each of the relevant overseas banks international accounting firms and other potential network organisations in order to present these packages to them and formally seek their support. Given the various product combinations that will eventually be used by them, and the massive scale of most of their world networks, it is likely that up to 1,000

packages would be needed by some of them with some hundreds in other cases.

5.1.4 After getting the support of these organisations and supplying them with materials, it will be necessary to wait for some months until the requests and materials percolate through their networks and potential investors are contacted. It would be wise to indicate, during the initial meetings with these networking parties, that the EIED would hope to have review meetings on progress after about six months and quarterly after that. Obviously this does not mean that opportunities identified could not be fed back to the EIED as they occur. There will also be continuing contact with these organisations when the EIED has prepared new materials on further products, when the necessary work has been completed under the MARD and MED marketing projects.

5.1.5 When opportunities are identified which require visits abroad to pursue discussions, the EIED should combine groups of these meetings into the format of joint EIED/GCEC investment missions, in order to reduce costs and have officers of the two relevant organisations available for discussion and negotiation. While it is not possible to

predict the speed with which this networking process will work it is likely that missions will begin about six months after the briefing of the networking counterparties.

When such a mission takes place overseas it is essential to remember that it will require a quite different approach than general promotional missions of the normal GCEC type. These missions will involve detailed discussions on propositions in which the potential investor has already expressed an interest and has already studied production, supply and comparative costs information. Each meeting must be prepared for in detail with the co-operation of the bank or other party which established the original contact. The need for these overseas meetings will not arise of course in the case of companies which are willing to avoid delay by coming to Sri Lanka to view the Mahaweli and pursue discussions locally.

## 5.2 Domestic Agribusiness Investors

5.2.1 In the case of potential domestic investors the same process as in 5.1 above should be followed except that the networks of the main domestic banks and credit institutions should

be used. However the existing EIED strategy of holding general seminars should also be pursued in parallel, as this will also heighten investor and public awareness of the Mahaweli area. A particular element in this domestic promotion should be to identify companies with good production experience which could be useful local partners for overseas investors.

5.2.2 In terms of materials, the new promotional package should be used through the networks but the existing general EIED brochure should continue to be used for seminars.

### 5.3 General Manufacturing Industry

It has been suggested above that, in the case of overseas industry, the EIED should work through the GCEC and produce a specific fact sheet on the Mahaweli to be included in the new GCEC promotional pack. A similar fact sheet could be used domestically in parallel with the existing EIED brochure. A seminar programme for larger industrialists should be initiated immediately the fact sheet is available. This timing would be suitable since there will be a period of six months or so before the overseas agri-business programme begins to demand major detailed attention on foot of investor interest.

### 5.4 Tourism Development

As indicated above this will not require particular promotional activities since the best approach is to talk directly to the small number of existing major tourism investors, on foot of the proposals in the Coe Report.

## 5.5 Public Relations

5.5.1 It has been suggested earlier in this report that, due to the type of strategy being proposed and the scale of costs involved, the only public relations activity that should be pursued on any major scale should be editorial publicity in the domestic media.

5.5.2 This domestic campaign will require a press officer and should support the EIED domestic efforts in relation to agri-business and general manufacturing investment.

5.5.3 As the EIED will not be able to mount an organised campaign overseas with its available budget, it should deal with the overseas media by reacting positively to requests for information and interviews. However it must be worth discussing with the GCEC the value of an overall Sri Lanka publicity campaign overseas with a part contribution from EIED.

## 6. Executive Summary

### 6.1 Objectives of this Report

- To design and propose a strategy and methodology for promoting appropriate overseas and domestic investment in the Mahaweli areas, for a two years campaign.
  
- To recommend the most appropriate relationships between the EIED and other relevant agencies.

### 6.2 Review of Strengths and Weaknesses

#### 6.2.1 The Mahaweli project is immensely complex.

Now that the infrastructure is largely in place, the resources that have been created have to meet a range of needs that are social as much as economic. The range of interests involved make for a very complex proposition from the point of view of investors, with negative and positive implications. Investors agree that, on balance, the attractions of the Mahaweli are based on the availability of land, water and labour. The main weaknesses relate to the structure of taxation incentives and the roles of some of the Government authorities.

#### 6.2.2 The availability of land and water is a major and unique attraction. However some investors have had problems with the dependability of

water supply. It would be helpful if the authorities could give assurances in this regard.

6.2.3 The roles of labour and out-growers must be looked at together as the investor will see them as factors in his supply of produce. Investors claim that labour can be difficult to get at certain times and some would be wary about having to rely on out-growers who are not subject to their control. These concerns will need careful handling by the authorities.

6.2.4 Combining all the above factors carefully and effectively will give the investor a very competitive cost structure for most products.

6.2.5 The tax holiday incentives are not suitable for attracting investors. The five-year holiday is too short and extensions which cannot be guaranteed, with clearcut conditions, in advance, have little use as an initial incentive. An investor needs a clear picture of his tax liabilities during the period of his long-term financial liabilities. A tax rate of 10% for 15 years is much more attractive than a zero tax for five, even with a possible further five.

6.2.6 Some Government agencies seem inconsistent in their attitudes to investors and this is a major disincentive. The Ministry of Agriculture has refused permission in some cases to import new plant varieties and granted permission in other cases. The supply of utilities can be slow and erratic.

### 6.3 Strategy and Methodology

6.3.1 The promotion strategy must recognise that the Mahaweli situation will be attractive to certain types of investors only. Furthermore it will be limited by the low number of EIED staff and money resources available.

The strategy must therefore:

- (a) be highly focused in terms of the investors to be approached,
- (b) be achieved with a low level of EIED resources, largely by using the help of third parties as far as possible, and
- (c) aim to match the specific needs of the Mahaweli with the specific potential needs of investors.

6.3.2 The first step is to draw on the output from the MARD and MED Marketing projects to develop, for each product involved, a detailed investment proposition based on the production and market opportunities for that product. The markets chosen should be new and deep to avoid the dual risks of damaging existing markets for Sri Lanka products and triggering a competitive response from another producer because of erosion of his market share.

This information, when combined with general briefing material on Sri Lanka, the Mahaweli, labour rates and productivity, etc, would be produced in high quality and flexible printed form to become detailed investment propositions.

6.3.3 The other side of the coin is to define the type of investor desired. The most important requirement for an overseas investor must be to have an existing market position in the product(s) in question, and this must be in a deep market.

It must be emphasised that this search for investors will mean identifying a much narrower group than those which are targets for the MED marketing project. The companies targetted

under the latter would be potential customers for Mahaweli produce but most would not necessarily be interested in investing in that production. The two projects will have very similar targets but their objectives are different.

6.3.4 The combination of the investment proposition and the investor profile will produce a very focused promotional tool. The remaining step is to identify investors who might be interested in the proposition and would meet the requirements of the Mahaweli Region. To do this, third party networks which are in a position to identify the investors should be used. They are the local branches or major international banks, the two local associates of major international accounting firms and certain others. Deutsche Bank, ABN and Citibank have been tested with this idea and are very supportive. It is expected that all these relevant organisations would be anxious to co-operate in order to increase their own local business.

6.3.5 When these groups identify interested parties abroad, the EIED could ask the GCEC to join it in missions to meet them if they want to have

more detailed discussions before visiting Sri Lanka.

6.3.6 The promotional materials should be limited to a package with general information on Sri Lanka and Mahaweli, into which can be added information sheets on specific products for specific investors. The GCEC has recently adopted a similar approach and it might be worth exploring the possibility of co-ordinating promotional literature.

6.3.7 General promotional techniques such as advertising, editorial publicity and trade fair participation will not be needed for this approach and, in any event, would be too expensive in view of the available budget.

6.3.8 The network approach and promotion materials should also be used for the domestic market, using leading local banks and credit institutions. A particular focus of the domestic campaign should be to identify local businesses with production experience who might form joint ventures with overseas investors. The existing EIED seminar campaign should continue in parallel.

6.3.9 The promotion of general manufacturing industry in the Mahaweli should be left to the GCEC in the case of overseas investors and be handled by an EIED seminar campaign domestically. For overseas promotion a specific Mahaweli fact sheet should be produced to be used with the GCEC promotional pack.

6.3.10 The development of tourism facilities in the Mahaweli should be pursued directly with the leading tourism interests in Sri Lanka by reference to the opportunities identified in the Coe report.

#### 6.4 Promotional Activities 1991/1992

##### 6.4.1 Overseas Agri-business Investors

Investment propositions should be developed immediately for the product areas already researched under the MARD and MED Marketing projects. The promotional pack to carry them should be produced in parallel. Both of these exercises should not take longer than one to two months. Investor profiles should be produced, with help from MED Marketing, to guide the network parties to identify the types of companies to approach. These packages should be presented to the network parties. In

some cases they may need a thousand or so packs and, in others, a few hundred. As new products packages are available they should be passed on.

It will probably take up to six months to get numbers of responses from the network parties. At this point, joint EIED/GCEC missions could be planned to pursue detailed discussions with potential investors who need more information or persuasion before visiting Sri Lanka.

#### 6.4.2 Domestic Agri-business Investors

The same basic formula as for overseas should be used via local banks and credit institutions in search of local investors and partners for overseas investors. The timescale for these will be much shorter and the local network parties should be expected to generate contacts within a month after they have been supplied with the investment proposition packages. Meanwhile the EIED should continue its direct seminar campaign to maintain and develop awareness of the Mahaweli opportunities.

#### 6.4.3 General Manufacturing and Tourism

As proposed under the strategy section all that

is required here is a Mahaweli brochure to be distributed with GCEC literature abroad as well as some seminars and direct meetings at home respectively.

Annex: Schedule of Main Contacts

Mr Kenneth M. Aoyama, Chairman, AG West Group

Mr Walter N. Cooray, Executive Director, ALmar  
International (PVT) Ltd

Mr Shashi Dhanatunga, Marketing Analyst  
Mercantile Credit Ltd

Mr W.A.J. Anton Fernando, Director  
Employment Investment &  
Enterprise Development  
Division, Mahaweli  
Authority of Sri Lanka

Dr Jim Finucane, Chief of Party, ISTI

Mr Max D Goldensohn, Chief of Party  
Mahaweli Agriculture &  
Rural Development Project  
Mahaweli Downstream  
Support Project

Mr Henry Harmon, Marketing, Mahaweli  
Agriculture & Rural  
Development Project

Mr Jos M.J. Huisman, General Manager, ABN Bank

Mr. K.U. Kamalgoda, Director General, Sri Lanka  
Export Development Board

Ms Brashanti Kanagasabai, Director Promotions,  
Greater Colombo  
Economic Commission

Mr Upali Kulatunge, Assistant General Manager  
Deutsche Bank

Mr Robert E. Lee, Vice President, AgriBusiness  
Management Consulting  
Sparks Commodities Inc.

Mr. M.L. Mack, Director, Aitken Spence & Co Ltd

Mr Mohraman, Lanka Dutch Agro Development Co.

Mr Geoffrey Peters, Credit Consultant, Mahaweli  
Enterprise Development  
Project

Mr Talbot Penner, USAID

Mr Indra Phillips, Director Investment Services  
Division, EIED

Mr C. Travis A. Perera, Manager, Business  
Development, Mercantile  
Management Services  
(PVT) Ltd

Mr S. Rabindranath, Co-ordinator, Forbes  
Agricultural Services  
(PVT) Ltd Forbes Mahaweli  
Project

Mr Luxman Siriwardena, Director, Investment &  
Finance Division,  
Ministry of Industries

Mr Nimal Viswakula, Managing Director,  
Viswakula Sons (Kandy)  
Ltd

Mr Nihal S. Welikala, Vice President & County  
Corporate Officer  
Citibank