

MID-TERM EVALUATION OF THE  
MAHAWELI ENTERPRISE  
DEVELOPMENT PROJECT  
(NO. 383-0090)

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## DISCLAIMER

This report represents the findings and recommendations of the Evaluation Team. It does not represent the official views of the Government of Sri Lanka or the United States Agency for International Development.

## LIST OF ACRONYMS AND ABBREVIATIONS

AGENT	Agro Enterprise Project
BDC	Business Development Center
EIED	Employment, Investment and Enterprise Development
FBC	Field Business and Credit Advisor
GSL	Government of Sri Lanka
ISTI	International Science and Technology Institute
MARD	Mahaweli Agricultural Research and Development Project
MASL	Mahaweli Authority of Sri Lanka
MEA	Mahaweli Economic Agency
MECA	Mahaweli Engineering and Construction Agency
MCP	Mahaweli Commercialization Program
MED	Mahaweli Economic Development Project
MIS	Management Information System
MLE	Medium and Large Scale Enterprise
MLIMD	Ministry of Lands, Irrigation and Mahaweli Development
PACD	Project Activity Completion Date
PIL	Project Implementation Letter
PIP	Pre-Investment Program
PP	Project Paper
RPM	Regional Project Manager
SCS	Savings and Credit Society
SRD	S. R. Daines Group, Inc.
SSE	Small Scale Enterprise
T/A	Technical Assistance
TIPS	Technology Initiative for the Private Sector
TOR	Terms of Reference
USAID	United States Agency for International Development

## TABLE OF CONTENTS

	<u>Page</u>
ACKNOWLEDGEMENTS .....	i
LIST OF ACRONYMS AND ABBREVIATIONS .....	iii
TABLE OF CONTENTS .....	v
LIST OF ANNEXES .....	ix
EXECUTIVE SUMMARY .....	xi
A. Purpose and Procedure .....	xi
B. Findings and Conclusions .....	xii
C. Recommendations .....	xvi
I. INTRODUCTION .....	1
A. Project Background .....	1
B. Purpose of the Evaluation .....	1
C. Scope of Work and Specific Tasks .....	1
D. Team Composition and Methodology .....	2
II. THE MAHAWELI AUTHORITY OF SRI LANKA (MASL) .....	3
A. Overview .....	3
B. Administrative Structure .....	3
C. Employment Investment and Enterprise Development Division (EIED) .....	3
III. THE MAHAWELI ENTERPRISE DEVELOPMENT PROJECT .....	5
A. Project Purpose .....	5
B. Major Contractors and Sub-Contractors .....	5

C.	Major Project Components .....	5
D.	Technical Assistance Activities .....	7
IV.	PROJECT EVALUATION .....	9
A.	Probability of Achieving Project Goals in Specified Time Period .....	9
B.	Assessment of the Continued Relevancy and Appropriateness of Project Design .....	11
C.	Special Concerns/Questions/Issues .....	12
V.	SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....	15
A.	Project Design .....	15
1.	Findings and Conclusions .....	15
2.	Recommendations .....	17
B.	Technical Assistance .....	18
1.	Findings and Conclusions .....	18
2.	Recommendations .....	18
C.	Planning and Administration .....	20
1.	Findings and Conclusions .....	20
2.	Recommendations .....	20
D.	Policies, Procedures and Regulations .....	21
1.	Findings and Conclusions .....	21
2.	Recommendations .....	21
E.	Small-Scale Enterprises (SSE) .....	22
1.	Findings and Conclusions .....	22
2.	Recommendations .....	23

F.	Medium- and Large-Scale Enterprises (MLE) .....	24
	1. Findings and Conclusions .....	24
	2. Recommendations .....	26
G.	Training .....	28
	1. Findings and Conclusions .....	28
	2. Recommendations .....	29
H.	Consultancies .....	29
	1. Findings and Conclusions .....	29
	2. Recommendations .....	30
I.	Management Information System .....	30
	1. Findings and Conclusions .....	31
	2. Recommendations .....	31
J.	Women in Development .....	32
	1. Findings and Conclusions .....	32
	2. Recommendations .....	32
K.	Special Projects .....	32
	1. Findings and Conclusions .....	32
	2. Recommendations .....	33
L.	GSL/MASL/EIED Support .....	33
	1. Findings and Conclusions .....	33
	2. Recommendations .....	34
M.	USAID Support .....	35
	1. Findings and Conclusions .....	35
	2. Recommendations .....	35

## LIST OF ANNEXES

### Annex

- 1: Scope of Work
- 2: Selected Bibliography
- 3: Literature Review
- 4: Small Scale Enterprises Visited
- 5: Medium to Large Scale Enterprises Visited
- 6: Project Consultancies
- 7: Mahaweli Commercialization Program
- 8: Mahaweli Enterprise Development Project Organization
- 9: Sites Visited - Photographs
- 10: Comments - Government of Sri Lanka

## EXECUTIVE SUMMARY

### A. Purpose and Procedure

The midterm evaluation of the Mahaweli Enterprise Development Project in Sri Lanka (MED) was conducted October 28 to December 12, 1992, by a team composed of two persons. One team member was a senior professional with private sector experience in developing countries provided by Devres, Inc. of Bethesda, Maryland. The other team member was a professional with project development/financial analysis experience in several countries, provided by USAID/Sri Lanka.

The primary purpose of the MED project is:

- o To increase earned incomes in the Mahaweli settlement area sufficiently to bring the median household income up to the national level by accelerating the creation of permanent jobs in private enterprise at all levels, from microenterprises to large-scale ventures.

The subsidiary purpose is:

- o To strengthen the Government of Sri Lanka's commitment to market-oriented approaches to promote economic development in the Mahaweli.

The project is based on the premise that a range of private enterprises are viable in the Mahaweli, and that their growth is necessary to create a diversified regional economy linked to national and internal markets, to effect an economic transition of the Mahaweli population beyond subsistence, and to employ the second generation of settlers for whom existing lands are not sufficient.

The project was approved and authorized in March 1989 and has a Project Activity Completion Date (PACD) of March 31, 1995. The host country implementing agency for the project is the Employment, Investment and Enterprise Development Division (EIED) of the Mahaweli Authority of Sri Lanka (MASL). The project was to be funded by a contribution of \$9.0 million from the host country, and \$15 million from USAID. An additional investment of \$14.2 million from the private sector was anticipated. The total USAID obligation to date is \$9.6 million (40% of the total anticipated project cost of \$24 million), and the host country contribution is estimated to be \$2.9 million (12.1% of the total anticipated cost). Approximately \$990,000 (7% of projected investment level) has been invested by the private sector as of September 30, 1992. Using the Evaluation Team's estimates of jobs created and September 30, 1992 accrued expenditures, the approximate cost per job created is \$900.00.

The Evaluation Team was asked to assess the performance of the project to date, to recommend improvements to increase the impact of the project during the remaining life of the project, to identify features of the project that should be sustained after project completion and

recommend steps to increase the likelihood that sustainability will be achieved, to identify potential links between MED and other USAID/donor projects and recommend ways to enhance collaboration, and to present findings and conclusions to the GSL, USAID and project contractors in an interactive and collaborative manner aimed at forging consensus among all about the steps to be taken to increase project performance.

## B. Findings and Conclusions<sup>1</sup>

The major findings of the Evaluation Team are:

### o With respect to project progress against indicators and targets:

Progress against certain indicators is ahead of schedule, whereas other indicators are seriously behind schedule. Problem areas have been job creation in the MLE sector, commercial farms receiving land title or long-term lease, Cabinet approval of investment applications, completed Pre-Investment Programs, and SSEs receiving transferrable leases or titles. Most of these problems hinge upon the GSL's reluctance to release Mahaweli properties for private ownership. Predictably, project elements most hindered by this reluctance have been in the major investment/MLE component.

### o With respect to jobs created by the private sector:

According to the MED Management Information System (MIS), the project was serving 800-900 small scale enterprises (SSE) with 1,912 employees, as of December 1992. The average employment per enterprise was 2.86 persons. MED quarterly reports indicated 965 additional SSE jobs were created as a result of project activities from April 1991 to September 30, 1992. Each of the three operational medium and large scale enterprises directly employs about 250 persons and utilizes the output of 1,000 to 2,500 outgrowers.

### o With respect to project management:

Both USAID/Sri Lanka and GSL have in place a well articulated system for the administration and financial management of MED. However, since June 1992, with the assignment of a new Director for EIED, the pace of implementation has accelerated. Both USAID/Sri Lanka and GSL have found the administration of MED to be especially demanding, because of the complexity of the project and the multiplicity of contractors and sub-contractors. In addition, the weakness in the country's communications system often led to slow and difficult communication between the Colombo office and the field, further complicating the already complex management structure of the project. This has improved.

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<sup>1</sup> Refer to Annex 10 for GSL comments.

o With respect to involvement of the private sector:

Initially, the private sector (particularly agro-industry) actively pursued the establishment of enterprises in the Mahaweli area. However, since little action by EIED was forthcoming, agro-industry completely lost interest or greatly reduced its efforts to get involved. With the management change at EIED in June 1992, there has been a renewed effort to recapture their interest. Some success has already been realized with investment by six agro-enterprises, three of which are already operational. These three enterprises have the use of land and facilities, but no legal title, and now directly employ about 575 persons. In 1992, they purchased the output of about 3,500 outgrowers. Three of the seven country-wide gherkin processors were using product from Mahaweli farmers in 1992 and they now employ 520 persons and utilize 3,100 out-growers. The facility of one of the three processors is outside the Mahaweli Authority.

In April 1991, activities were begun to encourage the establishment of new small scale enterprises and to assist the survival and growth of existing ones. By June 1992, eight Business Development Centers (BDC) had been established in strategic locations in five systems of the Mahaweli Area (MA), providing needed communication, routine business services and financial counseling. This activity provided 5,500 business consultancies to about 1,000 prospective entrepreneurs (clients) resulting in approximately 669 enterprises providing an estimated 965 additional jobs. In field visits made by the Evaluation Team, the sample of 46 enterprises (Annex 4) selected by EIED showed an average employment of 3.3 employees per enterprise and an average "cash flow" profit of more than Rs 2,500 per month on an investment of Rs 20,000 to 50,000.

o With respect to technical support for project implementation:

To implement this project, a qualified and experienced technical support team of expatriate and local personnel was assembled by the two contractors and the five sub-contractors. EIED appointed a counterpart team in the field with the establishment of the Business Development Centers in strategic locations throughout the Mahaweli region. Counterparts to the ISTI Colombo team have been designated by the EIED Director. Unscheduled changes in project personnel have slowed successful project implementation to some extent. Changes in personnel, which occurred early in project implementation, have had little long-term impact on achievement of project targets. However, recent changes discussed below may have a serious impact on the direction of one project component.

A computerized management information system was not fully installed until January 1992, and there is still an accumulated backlog of input data to be processed. At this point, it is difficult to utilize the computer's ability to make

summaries of data by a variety of classifications. For example, although data is reported to be in the system, a listing of the small enterprises owned by women and the number of their employees could not be made available quickly, nor is the data base yet programmed to allow easy tracking of the progress of a specific enterprise.

The evaluation of the technical assistance provided to the small business component (SSE) has been made somewhat complex with the recent decision to terminate the long term advisor for that component. The technical guidance and momentum provided by this advisor will be difficult to replace promptly. The recruitment process, together with time required for the new advisor to become acquainted with this complex project will require at least 6 to 9 months. This is an impractical lag, given that the project is due to terminate in March of 1995. The abrupt termination of the SSE advisor could possibly retard the ability of this component to meet its share of the project's employment goals. However, the Field Business Advisors have been well selected and trained and can probably continue to implement a version of this component relatively effectively without too much additional supervision. Therefore, it is recommended that the vacant SSE Technical Advisor position not be filled.

- o With respect to the prospects for sustaining jobs created and a market-oriented economy after the project ends:

To date, more attention needs to be paid to the issue of keeping permanent jobs in place and maintaining the momentum of a market-oriented economy once the project period has ended. As the MIS in its current state is not adequate, it will be difficult to evaluate either the job expansion rates or the rate of failure of small enterprises by type or location. Therefore, unless the MIS is substantially modified and/or improved, not enough information will be available at the project's end to evaluate the sustainability of the SSE.

In the medium- and large-scale enterprise component, greater priority must be first given to implementation of approved enterprises than to sustainability. Only if such enterprises have become operational can attention be focused on developing estimates of sustainable jobs and on the organization of affiliated interests into cohesive support groups.

The project has made some progress in stimulating and supporting a market-oriented economy in the Mahaweli. However, unless progress is made on commercializing Mahaweli assets and on land tenure issues, it is doubtful that these gains can be sustained in the long run.

There are five major issues, identified in the following paragraph, which are seriously impeding the development of agro-industry in the Mahaweli. Until progress is made on resolving

these issues, full development of the Mahaweli for commercial farming will be constrained. The GSL can clearly demonstrate practical commitment to a market-oriented agri-business sector by resolving these policy issues in a timely manner.

o With respect to issues/constraints on project success:

The five major, long-standing policy concerns/issues and constraints which affect enterprise development and job creation in the Mahaweli area are:

- Land tenure, including grants and titles for small holders and owner operators and commercial leases for enterprises;
- Water management, i.e. a reliable, year-round supply of irrigation water;
- Infrastructure -- adequate communications, electricity and roads;
- Rapid access to newer and better varieties of seeds for export vegetables; and
- Refrigeration facilities for shipping perishable products and more competitive air cargo costs for agro product exporters.

Each of the above factors has been or is about to be studied, and recommendations should be forthcoming. Action taken or currently in progress is detailed in IV-C. In all cases, however, a more aggressive stance by GSL in addressing these concerns will help to achieve the project's target of accelerated employment and demonstrate the potential for the success of MED.

o With respect to project design, components, activities and other factors:

In Chapter V, a number of findings and conclusions are presented on certain aspects of the project. Since these are factors which only serve to "fine tune" the project's performance once the high priority recommendations are accepted and aggressively implemented, they are not restated here.

o With respect to USAID/GSL/Private Sector support:

USAID has obligated \$9.6 million to the MED project. As of 11/19/92 about \$8.0 of this \$9.6 million had been earmarked. Since June 1992, the GSL has substantially improved its support of the MED project and the current Director of EIED has worked diligently at creating a solid "team effort". Support to date by the private sector as demonstrated by investments made in the Mahaweli has been much below project targets. Total new investment by large enterprises is estimated at \$990,000, well below the LOP target of \$14.2 million.

### C. Recommendations

On the basis of the findings, the Evaluation Team has selected and prioritized the following key recommendations:

- o The highest priority should be given to removing the critical constraints to land tenure and water management detailed in chapter IV-C. If the currently approved six agro-industries are not assured of clear and long-term access to their land and if they are not assured of adequate and timely water delivery on a continuing basis, there can be no expectation that they can become operational for the 1993 crop season or that they can continue to operate after March 31, 1995.

To eliminate the constraint of land tenure, binding sale or lease documents must be furnished to investors. This not only will provide them with the confidence to make significant investments but may also be used as collateral in support of their loan applications to commercial banks. It is suggested that such documentation should be issued to the approved investors by mid-February 1993. It is understood that the authority to implement this specific documentation procedure described in the well-conceived and prepared program paper of October 1992, entitled "The Mahaweli Commercialization Program" (MCP) (Annex 7) is proceeding through the GSL policy approval channels. The MCP represents the most important activity needed to make the MED project an outstanding success for both parties to the Project Agreement.

Action on these policy changes is necessary for project success. If the Mahaweli Authority is unable to achieve changes suggested above, and actual implementation of agro industries has not taken place for the 1993 crop season, it is recommended that USAID should consider phasing out assistance to the MED project by September 1993. It will otherwise be impossible for the project to achieve its purpose within the remaining LOP. It is further suggested that USAID and GSL set a target date of June 30, 1993 to review if implementation of agro-industrial concerns has been successful.

- o The next priority is the establishment of five non-agro enterprises (excluding garment factories) in the Mahaweli area by September 1993. Several non-agro enterprises are near a decision point and therefore, this target should be achievable and not onerous to MASL. It is hoped that these enterprises could make use of MASL facilities already in place that are not being currently utilized on a continuing basis. In several Systems, the Evaluation Team observed guest houses and other buildings which had only occasional use, which could be modified for the use of tourism or other non-agro enterprises. Moving some of these under-utilized resources to the private sector, as proposed in the Mahaweli Commercialization Program, has the potential of creating a number of permanent

jobs and will signal the increased commitment of MASL to a more open market orientation. Again, all these facilities are included in the MCP plan but expeditious implementation of the plan is now needed.

- o Efforts should be made to modify and adapt the MIS data base to provide for an accurate and current method of monitoring individual enterprises and selected classifications of enterprise such as: enterprises begun/enterprises failed; job projections; income projections; the number and subject of counseling requests; and other data that would better monitor the success of MED. More than one individual should have the ability to access the information.
- o Increased public relations efforts should be a priority in an effort to "sell" the advantages of the Mahaweli to private sector investors. Extreme caution should be exercised so that MIS information is accurate and complete, and business promotional material is both applicable and reliable.
- o In addition to these key recommendations, a number of recommendations of lesser importance are presented in Chapter V.

Private sector investment opportunities are many in a developing country and attracting investments in agro-industry usually has a "time specific" element because of natural and normal weather seasons. Thus, many of the recommendations of this Evaluation Report have included dates by which problems must be resolved.

It is the opinion of the Evaluation Team that the MED project can achieve its targeted goals by the scheduled completion date only if steps are taken to implement the policies that incorporate the key elements of these recommendations. USAID funding appears to be more than adequate to complete the project.

The project has made progress, particularly since June 1992, and is close to becoming successful in terms of employment, earned income and a dynamic market oriented environment. The level of project performance to date, however, does not seem sufficient to justify extension beyond March 1995. Thus, as the MED project's assistance completion date is in 1995, a later evaluation of the project should examine whether an extension is viable or desirable, or whether the more successful elements of the project could be continued after the PACD by incorporating them into other USAID private sector projects, such as AGENT or TIPS.

## I. INTRODUCTION

### A. Project Background

The Mahaweli Enterprise Development (MED) project represents a \$15.0 million effort by USAID to accelerate the creation of permanent private sector employment in small, medium and large enterprises in the Mahaweli area of Sri Lanka. A secondary purpose of MED is the strengthening of the Sri Lankan government's (GSL) commitment to a market oriented approach in the development of the Mahaweli. Initiated in March 1989, the project is scheduled to conclude March 1995.

In June 1989 the responsibility for the implementation of this project was assigned to the Employment and Enterprise Development Division (EIED) of the Ministry of Lands, Irrigation and Mahaweli Development (MLIMD). Within the next twelve months, a resident team of expatriate advisors and Sri Lankans was on site (ISTI). Short term technical assistance has been provided since October 1990. The mid-term evaluation of MED was undertaken from mid-October to mid-December 1992, approximately as scheduled in the project paper (PP).

### B. Purpose of the Evaluation

The purpose of the evaluation is to enable USAID and GSL to: (1) determine progress made in achieving the project goal and purpose; (2) determine the appropriateness of the project design; and (3) recommend adjustments, modifications and other changes which might be appropriate to achieve project objectives.

### C. Scope of Work and Specific Tasks

The five principal areas covered by the scope of work are:

- o Assessment of the performance of the project up to December 1992;
- o Recommendation of improvements to increase the project's impact during the remaining life of the project;
- o Identification of project features that should be encouraged to assure the sustainability of achievements after project completion;
- o Identification of potential links between MED and other USAID/donor projects and the recommendation of ways to enhance collaboration; and
- o Presentation of findings and conclusions to GSL, USAID and project contractors in an interactive and collaborative manner, aimed at forging a consensus on actions necessary to increase project performance.

The specific tasks assigned to the evaluation included the presentation of recommendations on the following concerns/questions. Recommendations are made with a view to increasing the pace and impact of implementation, fostering broader and deeper GSL commitment to project objectives and reducing the management workload for USAID. These concerns/questions are:

- o Adjustments to the direction of current or planned activities;
- o Changes in targets and/or new activities required;
- o Adjustments needed in technical support for the project;
- o Policy or regulatory changes needed to achieve or exceed original expectations;  
and
- o Improvements in administrative arrangements for project implementation, management structure, and the "position" of the project with respect to GSL decision-makers.

D. Team Composition and Methodology

The Devres evaluation team consisted of one agro-industry specialist from the United States. A project development/financial analysis specialist on contract to USAID/Sri Lanka also participated as an evaluator. Work in Sri Lanka began October 28 and was completed December 12, 1992.

The team visited the premises of 46 entrepreneurs in four areas of the Mahaweli project and the facilities of seven medium to large enterprises. The team held private meetings with representatives of six out of the 10 agro-industries which have attempted to establish large enterprises with small farmer inputs in the Mahaweli region. Also interviewed was a small sample of representatives of Sri-Lankan agro-industries who have not sought MED assistance. Several discussions were held with the MED project technical teams, the EIED Director, selected technicians of the MARD team, and USAID. Reviews were made of MED reports and selected files and other selected documents from MED project files, as well as of USAID/Sri Lanka contracts and financial reports.

## II. THE MAHAWELI AUTHORITY OF SRI LANKA (MASL)

### A. Overview

The Mahaweli Authority of Sri Lanka has the management and operational responsibility for the largest water and power development effort undertaken by the GSL and the international donor community. Harnessing the Mahaweli river with a series of dams, reservoirs and canals has made it possible to produce about 540 megawatts of electricity per year and has created the potential to irrigate about 250,000 acres of productive land, now supporting a population base of about 500,000 people.

The investment of over Rs 50 billion over a period of 20 years has created an asset which is currently valued at about Rs 400 billion. Of the 110,000 families in the Mahaweli region, some 80,000 families have received 176,000 acres (80,000 hectares) of irrigable land. An estimated 20 to 30 percent of investment costs are assigned to irrigation, the balance to the generation of electrical power. Excluding costs for capital improvements, the annual recurrent expenditures for operating and maintenance run slightly over Rs 1.1 billion.

### B. Administrative Structure

The Mahaweli Authority of Sri Lanka (MASL) currently employs about 9,100 people in all activities. It is administered by a Director General and a Secretary General under the leadership and direction of the Minister of Land, Irrigation and Mahaweli Development.

The Authority is divided into two main agencies -- the Mahaweli Economic Agency (MEA) and the Mahaweli Engineering and Construction Agency (MECA) -- and several special divisions. The two agencies are responsible for the operation and maintenance of the resources of MASL and account for more than 90 percent of the Authority's personnel. The other special activities of the MASL include the Mahaweli Security Organization, the Internal Audit Division, the Planning and Monitoring Unit, Mahaweli Livestock Enterprise Ltd., the Digana Village and Club, and the Employment Investment and Enterprise Development Division.

### C. Employment Investment and Enterprise Development Division (EIED)

With a limited staff of 75 people, EIED has the responsibility for commercializing the resources of the authority. The tasks of this division include:

- o Investment information and promotion;
- o Market development of industry and tourism;
- o Infrastructural promotion; and
- o Administration of the division.

### III. THE MAHAWELI ENTERPRISE DEVELOPMENT PROJECT (MED)

#### A. Project Purpose

The primary purpose of the project is to accelerate the creation of 10,000 permanent private sector jobs in the Mahaweli area. One thousand of these jobs were expected to be in small enterprises employing less than 25 people. A secondary purpose of the project is to encourage a more market orientated approach in the development of Mahaweli policies and programs.

#### B. Major Contractors and Sub-Contractors

Contracts to implement the USAID/Sri Lanka contributions to MED were let to S.R. Daines (SRD) and to the International Science and Technology Institute (ISTI).

The SRD contract, as amended, for \$1.185 million calls for the delivery of market information services on selected fruits and vegetables which could be exported from Sri Lanka. The contract calls for: 15 export market intelligence profiles, 15 export potential briefs, 15 promotional seminars; 15 agronomic viability reports; eight geographic market reports; 12 market newsletters; and 40 database updates. All of these reports should be submitted by May 1993.

The ISTI contract, as amended, for \$8.2 million calls for the provision of a 22 person technical assistance team to support the staff of the implementing agency over a five year period, ending March 1995. Included in the contract is the provision for short term consultants, as needed. The technical consultancy is provided by a consortium led by ISTI, consisting of: Development Alternatives, Inc.; Sparks Commodities, Inc.; High Value Horticulture, PLC.; and two Sri Lankan firms, Agroskills, Ltd. and Ernst and Young Consultants.

#### C. Major Project Components

The project is divided into 11 funding elements, the major element being technical assistance (currently earmarked as \$5,975,000), to be provided by ISTI, SRD and other sub-contractors. The four major project components are as follows:

- o The **Special Studies** component is to submit periodic written reviews concerning the policies, regulations and procedures which affect enterprise development in the Mahaweli area. The purpose of such studies is to articulate clear guidelines for distribution to potential investors, and to propose simplified procedures or improved policies to the appropriate authorities.
- o The **Small Scale Enterprise Development (SSE)** component is to assist existing and newly created small enterprises (with less than 25 employees) to operate more

efficiently, through training in small enterprise management techniques and facilitating their access to credit facilities. Business advisory services are to be provided at strategic locations in the Mahaweli zone along with the customary service needs of small enterprises, such as photocopy, facsimile, telephone, and translation. Groups of 10 to 15 entrepreneurs are to be encouraged to form Savings and Credit Societies (SCS) in order that they might save and borrow as a group (society).

- o **Medium and Large Scale Enterprise (MLE)** component to promote and to assist "pioneering firms" to establish enterprises with more than 25 employees in the Mahaweli area. Except for the garment industry, no sector is to be excluded, but emphasis is to be placed on those industries involved in the production and marketing of high value horticultural products for foreign markets. Potential private investors are to be provided assistance in the preparation of pre-investment programs (PIPs), funded external to the ISTI contract but managed by ISTI. Special encouragement is to be given to those investor groups comprised of combinations of larger enterprises with small farmers or outgrowers.
- o The **Special Projects** component had no predetermined responsibilities. Using economic and other criteria, special projects are selected, initiated and funded by the project with the intent of supporting SSE and MLE development and encouraging and strengthening an increased market orientation of the Mahaweli enterprises.

Project funding (currently totalling \$9.6 million) is divided among the following elements:

- o Technical Assistance (\$5,975,000);
- o Training (\$375,000);
- o Pre-Investment Program (\$150,000);
- o Investment Promotion (\$900,000);
- o Equipment (\$450,000);
- o Grants to Associations (\$250,000);
- o Special Projects (\$750,000);
- o Surveys (\$300,000);

- o Planning (\$100,000);
- o Evaluation and Audit (\$150,000); and,
- o Contingency (\$200,000).

D. Technical Assistance Activities

The original ISTI contract calls for the services of 22 long term technical advisors, (1,082 person months) and 155 person months of short term advisors, who are specialists in a variety of areas to be identified and addressed during the life of the project. It is estimated that expatriates on the long term team will supply 230 person months and that short-term expatriate specialists will supply 95 person months. The original ISTI team consisted of the following:

No.

	POSITION	MONTHS
1	Chief of Party	60
1	MLE Advisor	55
1	SSE Advisor	55
1	Credit Consultant	12
1	Credit Advisor	60
6	Field Business Advisors (5 Years)	300
6	Field Business Advisors (4 Years)	288
4	Field Credit Advisors (4 Years)	192
1	Administrative Assistant	60
22	Total	1,082

In September 1992, the ISTI contract was modified to change the composition of project staffing. The long-term expatriate team was changed by adding a Business Development Advisor for 24 person months and changing the MLE advisor's job description to an Agribusiness Advisor for 30.2 person months. The Sri Lankan project staffing on the technical assistance team was modified to include an additional 12 months to the Credit Consultant position, recruitment of four additional Field Business Advisors (357 person months), and eight Field Office Aides (an additional 304 person months). The ISTI staff now includes 31 positions with a total of 1,270.2 person months. The number of long-term expatriate person months was decreased from 230 to 191.

The SRD contract calls for short-term technical advisors. The composition of the SRD team is as follows:

NO.	POSITION	MONTHS
1	Agricultural Marketing Expert	25
1	Economist	10
1	Agronomist	10
1	Computer Specialist	25
3	Specialty Marketing Consultants	60
7	Total	130

The SRD contract has been modified to change the schedule of deliverable documents but the level of effort remains the same as in the original contract.

## IV. PROJECT EVALUATION

### A. Probability of Achieving Project Goals in Specified Time Period

At the time of the mid term evaluation, about 60 percent of the contract period had been utilized to achieve an estimated 965 SSE jobs and 4,525 MLE jobs, including outgrowers. These estimates of jobs created represent 96 percent of the SSE target and 50 percent of the MLE target for the project. The table below summarizes project progress against the targets and indicators established in the project paper. It is difficult to quantify progress against some of the targets because actual objective goals were not established in the Project Paper. However, it can be clearly seen that progress against certain targets has been better than against others. There may be some difficulty in achieving some of the targets established in the Project paper by the PACD unless significant progress is made in the areas of commercialization of Mahaweli assets and land tenure.

### PROJECT PROGRESS TOWARDS END OF PROJECT TARGETS

INDICATORS/TARGETS	ACHIEVED (9/30/92)	COMMENTS
<b>A. <u>End of Project Status</u></b>		
1. Net increase of 1,250 SSE jobs and 9,200 MLE jobs in Mahaweli.	916 SSEs* 1,011 MLE 3,500 Outgrowers *Est. 965 jobs	Progress on MLE job creation behind schedule.
2. Strengthened GSL commitment to market-oriented approaches to Mahaweli Development.		Sustainability of progress on this depends on resolution of land tenure and implementation of MCP.
<b>B. <u>Project Outputs</u></b>		
1. Policies, regulations and procedures conducive to enterprise growth in the Mahaweli.	Some agreement on leases, titles etc. in principle	Procedures on leases and commercialization limiting growth.
2. Streamlines procedures and clearer criteria for transactions between private enterprise and GSL.	Changes incorporated into official literature	Approvals still held up at Cabinet level and land tenure not resolved.
3. An increased market orientation to EIED programs and implementation procedures.	Policies changed and implemented	Adequate progress.
4. Clear guidelines on policies, regulations, and procedures for investment in the Mahaweli available to investors.	Guidelines not clear and not widely disseminated	Some brochures available and advertising addresses procedures. More needs to be done.

INDICATORS/TARGETS		ACHIEVED (9/30/92)	COMMENTS
5.	An information clearing house capability established in EIED.	Brochures are available but clear information is limited; see comment	Some information available through EIED e.g. SRD database.
6.	At least 10 PIPs conducted for approximately 40 MLE firms or individuals.	10	6 PIPs active and approved.
7.	An on-going public relations program informing prospective entrepreneurs about opportunities in the Mahaweli.	Brochures published	EIED PR program could be improved by generating success stories.
8.	750 plots of land transferred to SSEs	0	Plan for transfer developed but no transfers effected.
9.	Field-based business advisory services available to all Mahaweli SSEs	8	8 Business Development Centers set up in last 6 months.
10.	Approximately 15 technical courses completed.	18	This training has been misdirected toward vocational training and no longer responds to project goals.
11.	At least 750 aspiring entrepreneurs trained in EDTs.	949	Target exceeded but there have been some problems with the quality of training and its appropriateness.
12.	Adequate financial resources mobilized via group savings and credit mechanisms.	15	15 Savings and Credit Societies established. No data yet on sustainability as the program is too new.
13.	Administrative business center services provided and available at cost to SSEs. 1992 target 6,000 consultancies.	8 locations 5,582 consultancies	BDCs providing fax, photocopying and other services free. Fee schedule yet to be implemented.
14.	Special Projects completed (3 planned for 1992).	1	One special project has been started to date.

Source: Project Paper and Project Implementation Report dated 9/30/92.

Assuming the continued aggressive implementation of revised policies and procedures that has been evidenced in recent months and that the six approved and currently active PIPs are fully implemented for the 1993 crop season, it is the opinion of the evaluation team that the MED target of 10,000 permanent jobs will be reached and possibly exceeded by the project's completion date of March 31, 1995. Some qualification as to the term "permanent" may be needed, since there will be a number of enterprises that will not require a year-round labor force because of the seasonal nature of their product and, obviously, some businesses may fail. USAID has used a method of calculation to try to estimate realistically the job creation impact of the project. Part-time employment is assumed to be at least 25% of a full-time equivalent. For full-time jobs, USAID discounts by 50% the data reported by ISTI/EIED to try and capture the long-term effects of the project. That is, in order not to overestimate project impact on jobs, jobs reported as being created by the project are reduced by 50% to take into account jobs lost to business failures or other factors.

B. Assessment of the Continued Relevancy and Appropriateness of Project Design

The project designs calls for:

- o Providing expertise for developing information on potential commercial resources in the Mahaweli area to be given to potential investors;
- o Supplying prospective investors with information about export market opportunities and requirements for products which can be produced on Mahaweli lands;
- o Securing specialized expertise to assist potential investors in the development of technical data required for the preparation of feasibility studies and bankable business plans;
- o Preparing and conducting public relation efforts to increase the awareness of the available resources for commercialization in the Mahaweli area. This effort includes public seminars, participation in trade fairs, informational tours, and the publication of advertisements, brochures, and news releases;
- o Providing business advisory service to SSEs at strategic locations throughout the Mahaweli area. These services include entrepreneur training for aspiring business persons, business planning expertise for existing enterprises, encouragement and formation of groups for obtaining credit from local banks, and providing access to business services such as telephone, facsimile, typing, photocopy, and translation; and
- o Granting of funds for activities which support the objectives of private enterprise development and the creation of permanent jobs. Emphasis is to be placed on those projects that should most benefit the Mahaweli community.

The project design addresses the needs of the Mahaweli authority and the private sector. Although well conceived, it might have been somewhat too ambitious and encompassing for all targets to be met within the specified time frame. However, a goal not quite reachable will stimulate far more effort than one too easily obtained.

C. Special Concerns/Questions/Issues

The project has prepared papers, has papers in process and has been working to address the five major, long standing, policy concerns/issues affecting enterprise development in the Mahaweli area. These concerns/issues are:

- o Land tenure, including grants and titles for small holders and owner operators and commercial leases for enterprises;
- o Water management, i.e. a reliable, year-round supply of irrigation water;
- o Infrastructure -- adequate communications, electricity and roads;
- o Rapid access to newer and better varieties of seeds for export vegetables; and,
- o Refrigeration facilities for shipping perishable products and more competitive air cargo costs for agro product exporters.

Since the establishment of the Mahaweli irrigation program, the policies on land tenure have been a constant source of controversy and frustration. Numerous policy papers have been prepared by many parties, including governmental agencies, international donors, and project staffs such as MED. The Mahaweli Commercialization Program Paper of October 1992 is a detailed action plan for the privatization or near-privatization of many assets, including lands, in the Mahaweli area. It is a well-conceived and articulated plan that incorporates the findings of these many efforts and is awaiting approval by the Mahaweli Board before presentation to the Minister of Lands, Irrigation and Mahaweli Development and the Cabinet. This program provides procedures for the sale or lease of land to enterprises and investors, but, if historical experience is any guide, implementation may be hampered by the very slow pace of the bureaucracy. EIED is making a strong effort to speed up the process, but until land transfer becomes a "time specified routine", this will continue to be a major constraint to the development of new enterprises, the subsequent creation of new jobs in the Mahaweli area and a commitment to a market oriented environment for agro and other industry in the Mahaweli in the long run. Aggressive implementation of the Commercialization Program is needed.

Water management policies are now being reviewed by a consulting team under MED. System C of the Mahaweli had been designed to supply water for paddy production only during the Maha and Yala seasons, with canals to be shut down for maintenance in the approximately 60 intervening days. The introduction of high value crops to complement paddy production has made year-long continuous water delivery a necessity. The consulting team is expected to

provide recommendations for the revision of the current water management plan so that water can be made available to meet these new crop needs.

Infrastructure improvements needed for enterprise development in the Mahaweli area involve other ministries as well as MLIMD/MASL. Although MED and EIED/MASL have made concerted efforts to interface with other ministries, the general constraints of the country's capital budget and the differing priorities of the other ministries have hampered any significant progress. This issue is almost certain to remain a "case by case" problem to be addressed by any and every potential investor. However, a possible solution could be to allow private investors to develop certain infrastructure projects and run them for profit.

Rapid access to vegetable and fruit seeds of the latest varieties of high value export crops is critical for competition in the export market. Recently, MADR adopted modernized procedures for the determination of seed purity as to variety and revised plant quarantine procedures which require phyto-sanitary certificates from the foreign supplier. These new procedures will be very effective for seeds for traditional crops and for root stocks of trees and vines which are not especially "time specific" as to when they are introduced into crop schedules. It is essential, however, that these new procedures be combined with a "fast track system". No more than seven days should be required to check and certify the latest varieties of high value seeds for export production, provided that they arrive with acceptable plant quarantine certificates. Similar procedures in Turkey and Thailand have been extremely effective in increasing exports and employment. The stringent fresh market requirements for both quality and food store shelf life keep vegetable seed producers constantly searching for and developing better varieties and higher producing seeds. Many of these new varieties are multiplied and processed just before the beginning of the next planting season. If Sri Lankan agro-industry is to be a competitor in the world market for fresh vegetables, it must also have access to these seeds in a timely manner.

The newly established cold chain enterprise in System B and the expected completion of a similar facility in Uda Walawe by June 1993 will provide the capability of cooling, packing and shipping perishable products from the farm to Colombo. Private investors, assisted by MED and MARD, have only just begun to address the problem of retaining the product quality of perishable agricultural products shipped from Colombo to the export markets. Terms of Reference have been approved for a short term specialist on perishable air and sea freight, and one is now being sought. The results of this study must be aggressively implemented. Currently, about 200 tons of perishable agro products are shipped annually by air freight to the Maldives and to Bahrain. Reportedly, Air Lanka's air freight rate to Europe for perishable fruits and vegetables is Rs 90-95 per kilo, about twice the rate charged by airlines in other countries for shipping similar distances to the same European markets. During conversations with the Evaluation Team, exporters complained that Air Lanka gave space preference to garment shipments, often off-loading perishable agricultural products just before departure time in order to make space for garments. Unless agro-enterprises are able to deliver fruits and vegetables in quality condition and in reliable quantities, and unless they can ship their product at rates that will let them be competitive, pursuing the European market as a potential source of revenue will be unsuccessful, and all effort should be concentrated on developing only the short haul markets.

There are good examples of other less developed countries which have successfully accessed U.S. and European markets as a result of aggressive policies on perishable air freight. Colombia, Costa Rica, Chile and Kenya have adapted an open skies policy for perishable cargo. In Colombia, no airplane of any airline is permitted to leave Bogota or Cali for Miami with any unused cargo space, if a cargo of fresh-cut flowers is available at the airport. The aircraft must be filled with fresh-cut flowers at the last minute. The Colombia-U.S. trade in flowers now amounts to over \$300 million per year. The Colombian flower growers association has found it profitable to maintain cold stores at each Colombian airport and to operate two wholesale flower distributorships in Miami in order to exercise control over product quality to the consumer. Kenya's regulations are similar to those of Colombia on flights between Nairobi and European cities but the trade includes more fruits and vegetables than cut flowers. This trade reportedly is in excess of \$100 million per annum. Again, the exporters association maintains airport refrigeration and its own partial interest in a customs clearance agent in Europe, who processes their goods upon arrival. A similar commitment is required in Sri Lanka. The MED project has an opportunity now to take the lead in this area. Both MASL and USAID should fully support this effort.

## V. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS<sup>2</sup>

### A. Project Design

#### 1. Findings and conclusions

- o The MED design remains essentially valid and its four components are appropriate for MED assistance to EIED/MASL.
- o Until June 1, 1992, implementation of the project was extremely slow. Although there has been much recent progress, the project is behind schedule in meeting its objectives, especially in the establishment of MLEs (see the table on the next page showing progress against key project indicators and targets). Problem areas highlighted in the table are job creation in the MLE sector, commercial farms receiving land title or long-term lease, approved investment applications (because a major portion have not been approved at the Cabinet level), completed Pre-Investment Programs, establishment of Credit Associations and SSEs receiving transferrable leases or titles. These problems hinge upon the GSL's reluctance to release Mahaweli properties for private ownership. Predictably, project elements most hindered by this reluctance have been in the major investment/MLE component. However, as stated previously (see IV.A), the goals established in the design for the MLE component are still achievable before the PACD, as long as needed policy changes are implemented in a timely manner.
- o All of the conditions and covenants of the grant agreement between the GSL and USAID have been essentially met with one critical exception; the development and implementation of secure land tenure arrangements for private enterprises. This should be addressed by successful implementation of the Mahaweli Commercialization Program.
- o A plan for officially releasing 750 plots of land to small enterprises was prepared by MASL, accepted by USAID, but has not yet been implemented. However, small enterprises have continued to occupy plots under the annual permit procedure. The Mahaweli Commercialization Program represents an important additional step on land tenure for private enterprises and includes a policy on small plots of land. Implementation of the Commercialization Program should resolve the pending issue of the 750 plots.

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<sup>2</sup> Refer to Annex 10 for GSL comments.

## PROJECT TARGETS AND PERFORMANCE

<b>PURPOSE LEVEL INDICATOR</b>	<b>BASELINE</b>	<b>LOP TARGET</b>	<b>TOTAL TO DATE</b>	<b>PERCENT ACHIEVED</b>
1. A net increase of 1,250 jobs in Mahaweli SSEs by 1995, directly attributable to project activity.	0	1,250	916	73
2. A net increase of 9,200 jobs in Mahaweli MLEs by 1995.	0	9,200	1,011	11
3. Value of GSL facilities transferred to private control.	0	none	\$474,636	N/A
4. Percentage of commercial (non-settler) farms that have been allocated land title or long term lease.	0	80%	1/36	3%
5. Value of approved investment applications by private MLEs.	0	\$16 million	\$8,557,500 <sup>3</sup>	53%
<b>OUTPUT TARGETS/ PERFORMANCE</b>	<b>BASELINE</b>	<b>LOP TARGET</b>	<b>TOTAL TO DATE</b>	<b>PERCENT ACHIEVED</b>
1. Pre-Investment Programs completed.	0	40	10	25%
2. Settlers trained in basic business skills and management practices.	0	750	949	127%
3. Business Centers established and servicing SSEs.	0	8	8	100%
4. Credit Associations formed and borrowing from bank.	0	65	15	23%
5. Transferrable leases or titles provided to SSEs.	0	750+	0	0%
6. Existing SSEs receiving field business advisory services.	0	900	4,220 <sup>4</sup>	469%

Source: USAID Project Implementation Report 9/30/92

<sup>3</sup> This amount refers to investment applications approved by the project and by the MASL Board. This number does not reflect actual approvals at the Cabinet level.

<sup>4</sup> The Evaluation Team believes this figure shows consultancies and does not reflect the number of actual existing SSEs (enterprises) being assisted. (See Chapter V.D)

- o Progress has been made on improving water resource availability and utilization in nearly all the Systems of the Mahaweli and a further study is in progress to improve the availability of water on a year round basis in System C. This would allow farmers to grow high value export crops between the two paddy seasons.
- o Adequate land is physically available but enterprises have had limited access to it to date.
- o Technical assistance for production, processing, preservation and transport of high valued crops is available to small and large enterprises and has proven to be effective from information obtained from users during the field visits of the Evaluation Team.

## 2. Recommendations

- o Lack of secure, long-term land tenure arrangements is a continuing and overriding constraint affecting successful implementation of the project. Until the issue is resolved through approval and action on sales or leases through the MCP, there is little chance for project success. USAID and EIED must continue to work together to ensure resolution of this critical issue.
- o MASL and USAID should recommend, promote and obtain the approval of Cabinet for the Mahaweli Commercialization Program for private enterprise and the plan for the distribution of the 750 plots of land should be implemented, as agreed.
- o Assuming that USAID project funding remains unchanged, it is recommended that MED continue with the same four components. However, as discussed in Section B below, the SSE component should be further examined by USAID and EIED with a view to phased privatization of the BDCs. A short-term consultant could be funded by the project to prepare a privatization plan for the BDCs, detailing possible income generating activities and likelihood of success. Furthermore, greater emphasis must be placed on the development of medium and large scale enterprises in an effort to accelerate job growth in the Mahaweli area and achieve a sustainable flow of investment.
- o Should future funding for the project become constrained, it is the opinion of the Evaluation Team that there are some changes, which could be made without substantial loss of project effectiveness. These changes are summarized below and discussed in detail in the sections of this Chapter shown after each item:
  - Discontinue the training element immediately (See Chapter V.G);
  - Amend the SRD contract to concentrate remaining funds on the presentation of marketing seminars rather than the provision of market information services (See Chapter V.B);

- Discontinue the small scale enterprise component by September 1993 (See Chapter V.E); and
- Phase out the medium and large scale enterprise component by September 1993 if Cabinet approval of the MCP is not forthcoming and if five new MLE investments do not have secure title or lease to lands. (See Chapter V.F).

## B. Technical Assistance

### 1. Findings and conclusions

- o The long term expatriate advisory team (ISTI) of MED arrived in country during June 1990. ISTI has used nearly all the contracted level of effort available for short-term expatriate consultants. However, a significant level of effort for local long and short term consultants is still unused. The SRD contract calls for the provision of four or five person months by expatriate advisors for each year of the four year contract period, not necessarily within the country. Since October 1, 1990, the SRD team has completed a significant proportion of their allotted short-term level of effort. However, from information available through SRD billings and reports, it is not possible to specify exactly how much of the contracted Level of Effort has been used.
- o Each contract team has contributed to MED/EIED as expected under the project design. The delayed appointment of EIED counterparts lessened their initial effectiveness. Effectiveness of technical assistance was also initially limited by unscheduled changes in personnel on the Technical Assistance Team. However, long-term effects of the change in the Agribusiness Advisor have not been great. The unscheduled termination of the SSE advisor position may have more serious long-term effects, as is discussed in more detail in Section V.E below.
- o Market information and reports have been presented in chart form by SRD. Charts have been too complicated to be readily understood or easily used. More enthusiastic response has been given to the seminars, but attendance has mostly consisted of governmental or project personnel.
- o During the course of the mid-term evaluation, EIED requested that the expatriate long-term small enterprise specialist of the ISTI team be removed by December 31, 1992. EIED further requested that the contractor immediately replace this specialist with an unchanged TOR, possibly with a Sri Lankan professional.

### 2. Recommendations

- o It is not recommended that the long-term small scale enterprise specialist be replaced with either an expatriate or a Sri Lankan, since it would require from six to nine months to secure a replacement and have him/her operating effectively. Given that only 15 months remain to PACD, it would be more cost effective to

eliminate the position. The administrative and day-to-day duties of this position should be redistributed to the long-term credit advisor and Colombo office personnel. Additional technical guidance and training, if required, can be furnished through short-term consultancies. Plans to utilize more Sri Lankan short-term technicians should be encouraged. Also, the four additional planned BDCs should be opened once qualified personnel are available and the required office services are in place.

- o Should other vacancies occur before September 1993 in other positions of the long term expatriate team, USAID should critically review the need for a replacement.
- o The stipulation should be made that at least 50 percent of the participants at any further SRD-run marketing seminars be from the private sector.

## C. Planning and Administration

### 1. Findings and Conclusions

- o The initial work plan and the two subsequent annual work plans appear to have provided an orderly procedure for carrying out the project purpose.
- o The administration of MED has been particularly complex because of the use of two prime contractors and five sub-contractors. An unclear "chain of command" has led to some confusion within MED. Field personnel are given instructions by ISTI, EIED and the MASL regional project managers (RPM), and they are often uncertain as to who has the ultimate authority. (See Annex 8-2 for current organizational chart.)
- o It appeared to the Evaluation Team that communication between the field staff and the Colombo headquarters has been unsatisfactory. Partly due to constraints necessitated by limited communication facilities, most communication to and from the field has had to be relayed through the Kandy office. The difficulties of communication have helped to heighten the sense of isolation of the field staff from the administrative staff in Colombo. Recently, telephones were installed in six of the eight Business Development Centers (BDC), and it is hoped that they will help alleviate this problem.
- o Strengthening the administration of the project will help deal with these issues. Annex 8 also suggests a revised project management structure. (See Annex 8-3.)

### 2. Recommendations

- o Increased effort should be made on the part of the ISTI office in Colombo to assure all field personnel that they are an integral and vital part of the MED team. The MED/ISTI group should aggressively implement the policies of the new Director of EIED in promoting the "one team" concept for all project staff (EIED and ISTI). Improved telephone facilities should be utilized for regular, two-way

communication on problems, concerns and successes. Field personnel should have a single point where they are able to receive instructions without an intermediary, or to be able to question the validity or priority of those instructions given to them from so many diverse levels.

- o The management structure of the project should be simplified to clarify project administration, improve communications and provide more impact on employment and commercialization. The SRD contract should be allowed to terminate, the Kandy Office closed, all USAID funding intended for EIED operations channeled through the ISTI contract using the Citibank mechanism, and administration of the PIPs and grants elements (with the exception of the actual making of the grant) of the project delegated to ISTI. Furthermore, project management should make all efforts to eliminate the conflicting direction of the FBCs at the local level. The FBCs should only take direction from the Colombo office and the influence of the RPMs and EIED staff on the project funded FBCs should be reduced. If the SSE component is terminated and/or the BDCs privatized, the organization of the project will be further simplified.

#### D. Policies, Procedures and Regulations

##### 1. Findings and conclusions

- o ISTI consultants have made analyses and submitted several reports and papers concerning the policies, procedures and regulations of GSL and MASL as related to MED. The quality of these reports has been high and they have been generally well accepted.
- o EIED contribution to these reports or papers has been to review and to make critiques. After a consensus has been reached with the ISTI consultants, the documents have been endorsed by EIED and passed upward to the appropriate governmental agency for approval.
- o With the appointment in June 1992 of the current EIED director, the effectiveness of the planning and implementation process has greatly improved.

##### 2. Recommendations

- o It is recommended that primary attention be focused on the implementation of policies already approved and the securing of approval of those reports still in process. Particular emphasis should be focused on implementation of those policies which have to do with land tenure.
- o Two additional types of policy papers are recommended:
  - A "propaganda type" of paper should be prepared in an effort to "sell" the Mahaweli program to GSL and the media, similar to the "200 Garment Factories--100,000 Employees" promotion of the GSL. Such a paper,

possibly titled "15 Agro Industries--50,000 Employees and Outgrowers in the Mahaweli" should be based on project experience to date, projecting the estimated employment and income benefits that could be derived from the industrial utilization of the output of the irrigated land resource of the Mahaweli.

- A review of the economic impact of the new minimum wage policy of GSL on farm costs and the industrial development of the Mahaweli. The impact of this policy on the reported labor shortage in System B should be closely examined.

## E. Small Scale Enterprises (SSE)

### 1. Findings and Conclusions

- o The establishment by MED/EIED of eight Business Development Centers (BDC) and 27 Savings and Credit Societies (SCS) throughout all systems of the Mahaweli authority has had a definite positive impact on the provision of business management guidance to existing SSEs and assistance in the creation of new SSEs in the Mahaweli.
- o Field business and credit advisors (FBC) and EIED consultants in the BDC offices have actively promoted and conducted seminars in the formation of small business enterprises, in management activities, and in small business record keeping. According to the MIS, an estimated 800 to 900 enterprises have been counseled on a variety of SSE problems.
- o 27 SCSs have been formed, 15 of which have completed registration under the Societies Act and are operating at the village level. Three hundred fifteen members have each contributed Rs 1,000 and have opened personal bank accounts. The disbursement of approved grants by MASL to the SCSs and the release by banks of approved loan monies has been extremely slow because the approved SCSs are slow to make application for funds after approval is received.
- o A sample of 46 SSEs were visited during the field investigation by the Evaluation Team. The mix of ownership and total jobs created by these SSEs is shown in Annex 4. The Evaluation team was impressed by the youth of the entrepreneurs, that there was a fair proportion of women entrepreneurs, and that many of these enterprises were located in very small and/or remote villages. Profitability of these small enterprises was uniformly high by village standards, the owner-operator netting an average monthly income of over Rs 2,500 from an investment of between Rs 20,000 and Rs 50,000.
- o According to MED/EIED quarterly reports, the record of SSE jobs created by calendar quarters through September 1992 is shown in the following data.

## SSE JOBS CREATED

Period	Self-Employed	Micro-Enterprise	Total
Jan-Mar 1991			
Apr-Jun 1991	6	3	9
Jul-Sep 1991	27	31	58
Oct-Dec 1991	103	61	164
Jan-Mar 1992	153	97	250
Apr-Jun 1992	70	165	235
Jul-Sep 1992	127	122	249
TOTAL 1991-Sep 1992	486	479	965

Source: MED/EIED Quarterly reports

### 2. Recommendations

- o MASL and the banks should implement a "time specific" procedure under the SSE program to reduce the time between grant and loan approval and the submission of the application by the approved small business group. This period should be limited to approximately 10 working days.
- o More emphasis should be placed on ensuring the sustainability of the SSEs and SCSs when MED support is no longer available. There is no magic formula and one can never guarantee unqualified success, but all avenues should be explored and every small success exploited.

As an example of ways to continue and expand benefits put in place by MED, it is suggested that there might be a planned privatization of the BDCs. A buy out of BDC assets over a period of three years could be offered to employees, possibly combined with a sponsoring participation of approximately 20 percent by a Colombo based consulting firm. Grants could be offered by USAID to cover selected expenses for the first two years. This would ensure the continued provision of needed business service facilities in rural areas as well as providing a few jobs in each area.

A key element in establishing an effective buy-out program is the development of income for the BDC with which it can continue to operate. Although a fee schedule has been approved for use of the facilities of telephone, fax and photocopying, it has not been implemented. Such a fee schedule to cover at least

part of the costs should be in place within 90 days, or BDC privatization will be difficult. Furthermore, a detailed analysis of a potential fee structure for other services, such as assistance on credit applications should be performed.

F. Medium and Large Scale Enterprises (MLE)

1. Findings and conclusions

- o Around 27 PIPs have been screened to date by MED/EIED, of which ten have received MED approval. Four of the ten led to investment and are operational, one was canceled by the investor, and the remaining five are in various stages of completion, including waiting for action on land availability. One resulted in the introduction of a new export crop, silverskin onions. Another resulted in the introduction of new growing and processing technology for gherkins and an increase in outgrowers from 300 to 2,800. One resulted in a cold chain investment in Uda Walawe. In another, the company has doubled its fruit tree investment to cover 100 acres. The other two resulted in investment proposals for a large fruit project in System C and a large asparagus project in Uda Walawe; Cabinet approved these two proposals in November. In summary, of the eight PIPs, six have led or will lead to investment and of these, four are on their land and operating. The two PIPs without investment to date are, in the first case, awaiting agreement on which parcels of land suitable for fruit trees can be made available; and in the second case, awaiting construction and maintenance of an access road of several kilometers. Two PIP proposals were canceled because the companies decided the investment was not justified. Five of the investments are Sri Lankan and one is foreign (the Dutch company, Heron, in Uda Walawe).
  
- o Project approval of PIPs has depended on a self-selection process. The project requires that firms interested in PIPs prepare business plans, including risk analysis, and other basic business analytical procedures. If a firm will not, or cannot complete these requirements, it is implied that they are not adequate PIP candidates. Firms, which are capable and willing to work with project personnel on business planning, marketing, access to land, etc., have developed PIPs. In some cases, firms have not been able or willing to follow the steps necessary to qualify for project assistance and have dropped out. Therefore, to date, the approving authorities have not subjected the business plans of PIPs to the rigorous risk analysis and evaluation normally associated with a complete feasibility study or business plan. MED and the USAID project managers have believed this analysis to be principally the investors' responsibility. The various investor ratios or the rate of return for best/worst case scenarios were not shown. At present, no systematic matrix procedure exists to prioritize PIP applications on the relative value of the opportunities. If the PIP program accelerates, which is very possible if the land tenure and air freight issues are resolved, the current procedure would no longer be adequate.

- o Most of the approved PIPs have been for agro industries involved with export crops, using the large enterprise/small outgrowers concept. Until the last 90 days, applications for non-agro enterprise PIPs have been limited. Emphasis on agro industry PIPs is to be expected, due to the extensive irrigated land resources of the Mahaweli which are capable of producing large amounts of paddy and exportable crops.
- o The key constraints to greater MLE interest and activity were discussed in Section IV-C.
- o The MED technical assistance offered to MLE's has been well received by those representative PIP applicants who were interviewed by the Evaluation Team in confidential meetings. On the other hand, the acceptance of T/A by commercial farms active in the project area has varied. Although a few farms have responded favorably to the T/A, the response by others has been influenced by miscellaneous constraints which rendered the offered T/A of little direct commercial value.
- o The three operational MLE's established under the PIPs program employ about 650 workers in their factories and pilot farms, and they purchase the products of about 3,000 outgrowers. Depending on their efforts in following the instructions of the factory extension technicians, outgrowers can earn annual revenues of Rs 50,000 to Rs 90,000 on one quarter acre plot. Women comprise about 90 percent of the factory workers and can earn approximately Rs 80 per day (more in the high seasons, with overtime) for about 30 weeks of the year.
- o In System B, USAID is striving to find a way to combine benefits of the MED and MARD projects in order to promote the relationship between the commercial farms and a marketing outlet. The only outlet for growers of export crops is TESS Agro, Ltd. TESS is a pack house that seeks to become a service company which receives fees for packing fresh agro products for export. Through MARD, USAID provided a grant to purchase equipment for the pack house, so USAID plays an important role in clarifying the responsibilities and smoothing out working relationships between the staffs of the two projects. Once the relationship has been clarified, this should ensure the success of TESS and thereby improve the prosperity of the entire System B area. TESS is limited by the lack of a dependable, quality supply from small farmers of the area. As seen by the Evaluation Team, the respective responsibilities of MED and MARD are:
  - MED has the responsibility for marketing technical assistance for the 12 commercial farms in System B, but has no funds outside the PIPs to make grants to them. Commercial farmers see no financial incentive to work with MED. Small farmers in System B are not served by MED.
  - MARD has experienced field extension personnel to provide technical assistance to small farmers and a marketing advisor to provide assistance on identifying export markets and crops. A fund is available for matching

funds grants to farmer organizations, businesses, innovative start-ups and commercial farms.

- o The SRD market information service has provided and continues to provide considerable data on the market prices of selected fresh agro-products from different countries in several important consuming markets. The Evaluation Team understands these weekly prices to be the price received by the importer upon resale and not the landed cost to the importer.
- o Interviews with agro-industry indicated the need for CIF port of entry prices of perishable products by country of origin in order for them to determine their potential FOB selling price. Also, frequently mentioned were the need for reliable and regular intelligence on the buyer's ability to pay upon receipt of documents and shipments.

## 2. Recommendation

- o The primary target for the MLE component should be the full implementation of the nine PIP enterprises and resolution of any attendant land tenure issues for the 1993 crop season. If this target date cannot be met, it is recommended that MLE technical assistance be withdrawn by September 1993. If the first nine enterprises cannot be completed in this period, it is unrealistic to expect to establish sustainable enterprises in the time remaining to the project.
- o Some procedure should be initiated for evaluating and prioritizing the merits of incoming PIPs, if the rate of applications increases in the future. It is recommended that a matrix procedure be utilized whereby certain criteria would be assigned arbitrary values (or weights). Comparison and ranking of PIPs by their weighted total would permit a more fair and subjective evaluation and should accelerate the selection process. No more than 15 criteria should be used but should include such things as: profitability potential; estimated percentage of export market quality to total production; number of jobs directly created; number of outgrowers to be utilized; expected average revenue for outgrowers; potential average profit for outgrowers; market potential in short haul export markets; costs of obtaining a market share in export market; sustainability of market share in the export market; packaging requirements and costs; and shipping costs. The recommended matrix procedure has been used by governments in a number of countries to evaluate the potential contribution of various agro-industries to overall economic development. The criteria used are selected by the country and their analysts participate in the subjective rating process. Some of the countries where the matrix has been employed are Algeria, Libya, Egypt, Kenya, Swaziland, Oman, the United Arab Emirates and Saudi Arabia. The Thai and Filipino governments have successfully used their matrix to evaluate new innovative agro-technology business opportunities.

- o No PIP application should be encouraged by EIED for an enterprise expecting to export perishable air cargo to distant markets until such time as air freight rates become competitive e.g. the GSL adopts and implements an "open air policy" for shipment of perishable agro products. Increased efforts should be made to encourage reductions in landing fees and service charges now levied on cargo carriers at the international airport, so that Sri Lankan exporters can be competitive in distant markets with exporters from Australia, Kenya, Turkey, Israel and Morocco. The Evaluation Team understands that the air cargo issue is under study, with a view to rapid resolution.
- o An increased effort should be made to attract non-agro enterprises, particularly tourism. The MED project tourism plan should be actively promoted. In the field trips made by the Evaluation Team, a number of unused MASL buildings were observed that might be utilized by potential non-agro enterprises, as proposed in the Commercialization Program. There are already several guest houses in the Mahaweli area, and these could be utilized more fully. The proximity to scenic splendor, to wild life preserves and to historical sites should be actively promoted.
- o Any business plan submitted for approval should incorporate a risk analysis and an evaluation of best/worst case scenario. Computer software for risk analysis is available in Colombo, but care should be exercised in the selection of the time period and the residual valuation for the analysis. It is recommended that no less than 10 years nor more than 30 years be used for risk analysis. Overvaluing the residual assets should be discouraged.
- o The project should investigate the possibility of establishing a service to provide information on the credit worthiness of import buyers in the country of destination. Further, the project should refine the information gathered under the SRD contract to make it more useful to exporters. This information should be published more frequently and disseminated more widely to increase exporters access to relevant market and price data.
- o USAID must make every effort to clarify the relative roles of the MARD and the MED projects in System B. The conflict which currently exists will not further the implementation of either project. One possible solution would be to have MARD concentrate on the production process and MED on the marketing and export process. This would capitalize on MARD's efforts to diversify crops in System B and would also enable MED to concentrate efforts on export development and promoting larger farming enterprises, where job creation impact is likely to be greater. However, this reorganization could create conflict because MARD employs an Export Marketing consultant and MED has an Agribusiness expert working on extension to commercial farmers. Another possibility is to have MED withdraw completely from MLE work in system B and leave MARD to act in this area. This may not be acceptable to EIED. USAID should meet with MARD staff and EIED to resolve this apparent conflict as soon as possible.

## G. Training

### 1. Findings and Conclusions

- o Under the training component, the goal of trainees for 1992 was established at 1,300. By the end of the third quarter, 984 individuals had been trained. Of the \$375,000 obligated for the component under the project, \$112,682 had been expended (about 30% of the total obligation).
- o Most of the training seen by the Evaluation Team under the project has been of a vocational nature and not business oriented. The project seems recently in some areas to be sidetracked into providing vocational training in areas such as basic carpentry, welding, sewing and building trades.
- o In the project design, it was intended that training would be designed on an ad hoc basis to meet specific needs of groups of entrepreneurs, such as in basic accounting and tax requirements or in technical areas of their businesses. The Field Business Consultants have been very successful in training entrepreneurs in basic bookkeeping but it may be more difficult for them to design training in the areas which were originally envisioned in the project design. Some of this type of training has occurred but it has recently been subsumed by the vocational training. The needs that were originally targeted in the design are not being met in a systematic way.
- o In December 1991, a short-term consultancy funded by MED evaluated the impact of the Entrepreneur Development Programs funded to date under the project. The conclusion of the study indicated that, while project funded entrepreneur development programs were more successful than previous Mahaweli programs, the EIED/MED success rate was low. At the time of that review, data indicated that the training programs resulted in a start up rate of 30%, with each enterprise generating approximately 1.1 jobs at an estimated cost of Rs 8,238 per job. Since then, there has been little entrepreneurial development training.

### 2. Recommendations

- o While EIED and the Evaluation team have differing views in this area, the team believes that project implementation and achievement of project targets in other components would not suffer if the training component of the project were terminated (savings of monitoring and management time and approximately \$92,000), especially as the targets set in the Training component have already been exceeded. The vocational training observed in Uda Walawe does not meet project specifications. If training is continued, then, to be most effective, it should be limited and well-targeted. Possible options include Enterprise Development Training of a well-screened group of qualified persons or to newly organized SSEs or Basic Management and Bookkeeping, such as the Evaluation Team observed

in the field, particularly in Uda Walawe. After a short period, for example six months, the Training component should be reevaluated by USAID to ensure that project goals are being effectively met by the revised program.

## H. Consultancies

### 1. Findings and conclusions

- o As of September 30, 1992, there have been 42 consultancies for MED. They have covered such subjects as land policy, program development, asset inventories and reviews, enterprise assistance, project monitoring, and export market strategy.
- o All consultancies contracted for by the project have provided the services contracted for and have followed the scopes of work that they were given.
- o Seminars conducted by SRD consultants on marketing specific export products have been poorly attended by the private sector. The seminars, however, were generally well attended and have proven highly useful to representatives of the government sector.
- o The ideas, methods and materials provided by some consultants have not achieved the expected results in promoting local and foreign investment in the Mahaweli, basically because of the other overriding constraints, such as land tenure.

### 2. Recommendations

- o EIED personnel should be more actively involved with the short term consultant during his visit. EIED personnel assigned as counterparts should be given credit for their contributions.
- o In future consultancies, more emphasis should be placed on estimates of the employment which could result from their assignments. These estimates would provide some basis for prioritizing efforts to implement recommendations made by the consultant.
- o There is no magical formula to insure success in investment promotion. It is recommended that MED/EIED consider the development of case histories of various sizes and types of enterprises experiencing some success in the Mahaweli. With some public recognition, the owners of these enterprises might be encouraged to become the project's most effective link to media outlets.

## I. Management Information System

The MIS system is PC based and written in FoxPro, a PC database software package. The system is being operated by an ISTI employee. He was assisted in the design by a short-term consultant who prepared the basic layout of the system. The ISTI employee's background is in agriculture, with some additional computer training.

## 1. Findings and Conclusions

- o The Management Information System (MIS) of the MED project is now operational. The system existed before the MED project started implementation and was adapted to fulfill the data collection needs of the project by a short term consultant from ISTI. A considerable backlog of data apparently has not been entered (the data base is about 30% completed). This is partly because of a lack of data entry personnel at the headquarters level but also because data has not yet been received from the field offices. The MIS implementation was delayed until January 1992 and therefore data for input into the system had not been solicited from the Field Business Centers. These Centers are now in the position of supplying back data on previous activities. To compensate for the slowness of data collection and entry, the computer operator and other project personnel have estimated project progress by applying ratios across the board. Thus, data reported on jobs created, for example, may or may not reflect the true impact of the project.
- o The MIS does not provide for data verification and cross-checking. The system has no mechanism to check for duplicate names and enterprises. This makes differentiation between, for example, consultancies and actual enterprises impossible. It is impossible, as the system is now designed, to relate jobs created to individual enterprises.
- o Based on a quick review of the statistics from each BDC, it seems likely that there is some confusion as to the exact nature of the data being collected and perhaps the understanding of the definitions of the data categories is not clear.
- o The MIS system is not user-friendly. It requires the services of a programmer to extract data which is not reported on a regular basis. The Evaluation Team conducted a test to extract data on three fields from the system (women-owned, size of business and number of employees) but the programmer was unable to obtain the information with any degree of certainty. Furthermore, the standard preprogrammed reports generated are not well designed (concentrating on inputs and not impact) so that their use to management is very limited.

## 2. Recommendations

- o The MIS should be reviewed by a qualified statistician and/or database programmer to determine the accuracy of data and the efficiency of the system. The system design should be revised to differentiate between consultancies and enterprises and to relate jobs created to project interventions and businesses.
- o Reports generated by the system should be redesigned to respond to management needs and to track actual job creation to project interventions. Efforts should be made to provide a more user-friendly way to extract data for special queries.

- o The current operator must be encouraged to train a back-up person to assist him, at least part-time, and to provide backup in case of absence. At the moment, if he is absent, retrieving data from the system will be very difficult.

J. Women In Development

1. Findings and Conclusions

- o The project is assisting women entrepreneurs to some degree. The MIS reports that about 150 women owned enterprises have been assisted. Actual numbers of employees of these enterprises and size of enterprise were not possible to verify. However, during field work, five women-owned enterprises were visited. These enterprises all were in the micro category (less than five employees) and were in many different sectors, including fabrication of concrete building materials, tailoring and baking. Generally, these business were doing well and the entrepreneurs had benefitted from MED interventions, such as facilitating credit, entrepreneurial training or training in basic bookkeeping.

2. Recommendation

- o The project should continue to target women entrepreneurs. This has been relatively successful so far. Management must decide if the current results are adequate to meet mission goals. If not, a possible target system could be instituted, for example, 30% (or any other number) of consultancies must be for women entrepreneurs.

K. Special Projects

1. Findings and conclusions

- o One grant was made by the Special Project Component to a private enterprise for the purchase of tangible assets necessary for operation. The grant was for the establishment of a cold chain in the Uda Walawe System of the Mahaweli. A cold chain is defined as a fresh fruit and vegetable processing facility with refrigerated storage and transport. The enterprise in Uda Walawe received a grant of \$342,000 from MED for cold chain equipment, \$195,000 of which was to be purchased from the U.S. Several other companies have expressed interest in establishing cold chains in other systems and are seeking financial assistance.

2. Recommendations

- o Negotiations for any remaining Special Projects to be funded by the MED project should begin as soon as possible. This would assure maximum impact and also that the activities to be funded will be completed by the PACD.
- o There is need for a privately owned cold chain in other Systems of the MASL. If local investors should decide to establish such an enterprise in either of these

two Systems, it is recommended that grants of approximately \$100,000 be made to each group for the purchase of refrigeration units. All other capital costs of the enterprise would be the responsibility of the investor.

- o It is recommended that grants for ice making equipment be considered for the existing or approved cold chains and for others, should they be established. These grants of up to \$20,000 would be for the purchase of equipment from the U.S. to enable enterprises to make either block or cubed ice. A portion of the ice output could be used for seasonal packing house operations, but the year around availability of ice in consumer size packages would also provide much community and social benefit to the local population.

L. GSL/MASL/EIED Support

1. Findings and Conclusions

- o The MED project was assigned to the EIED of the MASL at its inception in June 1989. Since then, EIED support for the project has varied. The current Director of EIED, who took his position in June 1992 has shown himself to be dynamic and committed to promoting the project. However, host country support of the project's goals has not been consistent. Certain elements of the project have not progressed as rapidly as envisioned in the project design because of a lack of GSL support or because the GSL has not acted on project recommendations. For example, the issue of land tenure and access to land has remained unresolved since the inception of the project. This lack of progress has limited and will continue to hinder the investment by MLEs in the Mahaweli and will thus limit the potential job creation of the project and the sustainability of project achievements. Furthermore, the slow movement of the GSL on the commercialization of certain Mahaweli assets, such as commercially viable farms, has meant that this component has not progressed.

2. Recommendations

- o A new Condition Precedent should be included in any new project agreement amendments to set targets for implementing revised land tenure policies and commercialization. If this is not done, continued implementation of the project and impact on job creation will be limited. A suggested condition precedent might be:
  - The GSL will provide written verifiable evidence in form and substance satisfactory to A.I.D. that, by March 31, 1993 the following has been accomplished:
  - At least 5 long-term leases on land in the Mahaweli formally issued to major investors. These leases must authorize possession of land and any existing buildings and must be implemented by local authorities. The leases must be written in such a form that they are legally binding on the

MASL and acceptable to banking institutions as collateral for any firm seeking financing. A procedure to monitor transfer of all titles and leases should be established that will encourage investment but protect national security interests.

- At least 45 titles to Mahaweli assets covered by the Commercialization program (the proposed target for 1992) have been issued under the agreed upon bidding and award procedures and the purchasers given written permission to begin operations.
- Obtain approval of the proposed MCP by the MASL Board and the Cabinet by July 1993.

If the GSL is not able to achieve the actions required by the above target dates, A.I.D. should consider taking action to scale down the project with a target of termination of assistance by September, 1993.

## M. USAID Support

### 1. Findings and Conclusions

- o USAID has obligated \$9.6 million to MED, of which \$5.975 million has been committed for technical assistance. Only 55% of the non-technical assistance funds have been spent, committed or earmarked.
- o The available funds remaining to the project are sufficient to cover the program recommended in this evaluation. The Evaluation Team also believes that the present amount of funds obligated (\$9.6 million) level is adequate in the near term. Depending on the amount of progress made before September 30, 1993, a determination on funding an extension could be considered. At this time in the life of the project, however, the Evaluation Team does not believe an extension can be justified.
- o USAID has designated one FSN to manage the project full-time. He is supervised by a USDH employee, who manages this project, as well as the MARD and AGENT projects. The management of the project was placed organizationally in the Private Sector Division from start-up in 1989 until September 1992, when it transferred to the Agriculture and Natural Resources Division. The transfer was made based on the analysis that the areas of the project where the most impact was anticipated was in the agri-business sector and the MLEs. As a result of this and unexpected staffing changes in the Private Sector Division, the mission decided to transfer the project somewhat earlier than had been planned.

2. Recommendations

- o Maintain the current level of USAID staffing to manage the project. Given the developing relationship with MARD and the implementation of AGENT, the relocation of the project to the ANR Division is rational and will ensure closer collaboration and synergy among the projects.
  
- o Management should focus on the sustainability issues of the project. A plan should be developed to show how privatization of the BDCs could be achieved. Further, some analysis should be conducted to show how many of the jobs created under the project will continue after project termination. If possible, some estimate should be made of how much growth will continue in the businesses helped by the project.

ANNEX 1

SCOPE OF WORK

Terms of Reference

I. Background:

The Mahaweli Enterprise Development (MED) project is a \$15 million effort, started in March 1989 and scheduled to end in March 1995, to accelerate the creation of permanent private sector employment in small, medium and large enterprises in the Mahaweli areas of Sri Lanka. A secondary purpose of the project is to strengthen Government of Sri Lanka commitment to market-oriented approaches to Mahaweli development.

Results of the project to date have been mixed. While some components of the project have proceeded well, others have not. Overall, the amount of private investment and the number of jobs created in the Mahaweli have been below expected levels. Implementation, for most of the project's life, has been hampered by the lack of full consensus within the GSL on the pace and procedures for moving toward a market-oriented economy in the Mahaweli region. The project has also been impeded by unusually complicated administrative arrangements for implementation.

Prospects for results have increased dramatically in 1992 but much work remains to be done before the project can be considered on track to achieve its original targets. An evaluation is desired to assist to direct project efforts toward increased and sustainable impact. The evaluation coincides with several important events. First, a new and dynamic Director has been appointed to head the Employment, Investment and Enterprise Development Division (EIED) of the Mahaweli Authority - the principal implementing agency. Second, responsibility for the project within USAID/Sri Lanka will change on September 1, 1992 from the Office of Private Sector Development to the Office of Agriculture and Natural Resources. Finally, the Mahaweli Authority itself is to be reorganized. While plans for reorganization are not yet complete, it is clear that the new MASL will be smaller. It is also clear that the definition and the placement within the new organization of the private sector development functions now performed by EIED will be key to the future of private sector development in the Mahaweli in the years to come.

## II. Scope of Work:

The services of an individual are sought to conduct an evaluation of the MED project. The evaluator will perform five principal tasks:

1. Assess the performance of the project to date. This will include:
  - o achievements compared to planned targets;<sup>1</sup>
  - o adherence to project Conditions and Covenants;
  - o administrative arrangements for project implementation;
  - o technical support for project implementation;
  - o specific constraints to achievement of project objectives; and
  - o the prospects for achieving or exceeding original targets under current arrangements.
2. Recommend improvements to increase the impact of the project during the remaining life of the project. This will include:
  - o adjustments to the direction or thrust of current or planned activities;
  - o changes in targets and/or new activities required;
  - o adjustments needed in technical support for the project;
  - o policy or regulatory changes needed to achieve or exceed original expectations; and
  - o improvements in administrative arrangements for project implementation, management structure, and the "position" of the project with respect to GSL decisionmakers. Recommendations will be made with a view to increasing the pace and impact of implementation, fostering broader and deeper GSL commitment to project objectives, and reducing the management workload for USAID.
3. Identify features of the project that should be sustained after project completion and recommend steps to increase the likelihood that sustainability will be achieved.
4. Identify potential links between MED and other USAID/donor projects and recommend ways to enhance collaboration;
5. Present findings and conclusions to the GSL, USAID and project contractors in an interactive and collaborative manner aimed at forging consensus among all about the steps to be taken to increase project performance.

The evaluator's findings and recommendations will be written in the form of an evaluation report. Based on the report, the evaluator will also prepare a first draft of the Project Evaluation Summary (PES) required by A.I.D./Washington.

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<sup>1</sup> this shall include achievements with respect to Women in Development concerns

### III. Schedule:

The evaluation is planned to begin on or about October 15, 1992 and be completed within eight weeks. The evaluator will present a workplan and schedule by the end of the first week for completion of the assignment. However, an illustrative outline of a plan and schedule is provided below:

#### Week 1:

- o review project documents
- o meet all key parties involved in implementation
- o participate in combined contractor/EIED briefings on project activities
- o present schedule and workplan

#### Weeks 2 and 3:

- o travel to each Mahaweli system to visit Field Business Centers, selected commercial farms and small businesses
- o discuss problems and opportunities with actual and potential investors
- o review project performance as indicated by Management Information System

#### Weeks 4 and 5:

- o draft evaluation report, reviewing key issues with interested parties as report progresses (a workshop may be useful to discuss interim findings)
- o conduct follow up travel and interviews as needed

#### Week 6:

- o present draft report to GSL, contractors and USAID

#### Weeks 7 and 8:

- o finalize report, incorporating responses and suggestions as required
- o facilitate achievement of consensus on final recommendations, through individual or group meetings (or a workshop) as needed

### IV. Qualifications:

The evaluator will be a senior professional with the experience, maturity and tact to successfully deal with sensitive development and institutional issues in a foreign environment. He/she should have considerable experience in private sector development in developing countries, with at least some exposure to the issues involved in implementing privatization, investment promotion, agribusiness and small enterprise development. In order to be able to recommend "implementable" administrative changes to the project, the evaluator will have had prior experience in the administration and/or implementation of A.I.D. projects.

**ANNEX 2**

**SELECTED BIBLIOGRAPHY**

ANNEX 2

Selected Bibliography

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ANNEX 3

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4/2

ANNEX 4

SMALL SCALE ENTERPRISES VISITED

## ANNEX 4

JOBS CREATED BY SMALL ENTERPRISES VISITED BY EVALUATION TEAM  
4 NOVEMBER TO 23 NOVEMBER 1992

Business Type	number of jobs on day of visit	ownership		classification			owner not present
		male	female	sole (1)	micro (1-4)	small (5-25)	
<u>Uda Walawe</u>							
auto parts	5	x	-	-	-	x	-
bicycle repair	2	x	-	-	x	-	-
bee hive mfg	3	x	-	-	x	-	-
metal chair mfg	2	x	-	-	x	-	-
small agro equip	5	x	-	-	-	x	x
concrete beams	?	-	x	?	?	?	x
tailor-men & boys	3	x	-	-	x	-	-
mat mfg	2	-	x	-	x	-	-
bakery	3	x	-	-	x	-	-
baby toys	1	-	x	x	-	-	-
bicycle repair	1	x	-	x	-	-	-
furniture mfg	1	x	-	x	-	-	-
retail outlet	1	x	-	x	-	-	-
metal works	?	?	?	?	?	?	x
motorcycle repair	3	x	-	-	x	-	-
bakery	3	x	-	-	x	-	-
tailor-women	5	-	x	-	-	x	-
bakery	4	x	-	-	x	-	-
metal works	2	x	-	-	x	-	-
blacksmith	2	x	-	-	x	-	-
jaggery	2	x	-	-	x	-	-
sandals	?	?	?	?	?	?	x
<u>System C</u>							
poultry feed	2	x	-	-	x	-	x
bakery	3	x	-	-	x	-	-
kerosene lamps mfg	5	x	-	-	-	x	-
furniture mfg	8	x	-	-	-	x	-
bee hive mfg	1	x	-	x	-	-	-
wood carving	?	?	?	?	?	?	x
sandals	1	x	-	x	-	-	-
noodle factory	11	x	-	-	-	x	-
radio repair	1	x	-	x	-	-	-
general store	1	x	-	x	-	-	-
candy shop	8	x	-	-	-	x	-
egg production	1	x	-	x	-	-	-

(continued next page)

44

Jobs Created by Small Enterprises-continued

<u>Business Type</u>	number of jobs on day of visit	ownership		classification			owner not present
		male	female	sole (1)	micro (1-4)	small (5-25)	
<u>Kotmale</u>							
egg production	2	x	-	-	x	-	-
bakery	4	x	-	-	x	-	-
sandals-both sexes	8	x	-	-	-	x	-
blacksmith	2	x	-	-	-	-	x
tailor-women's	1	-	x	x	-	-	-
<u>System H</u>							
glass display							
case mfg	4	x	-	-	x	-	-
metalshop	4	x	-	-	x	-	-
tailor	4	-	x	-	x	-	-
candy mfg	8	x	-	-	-	x	-
costume							
jewelry mfg	1	x	-	x	-	-	-
bakery	7	x	-	-	-	x	-
ornamental fish	2	x	-	-	x	-	-
metalshop	8	x	-	-	-	x	-
broiler meat	1	x	-	x	-	-	-
cement block mfg	3	x	-	-	x	-	-
<b>TOTAL</b>							
49 companies	154	40	6	12	22	10	6

System B enterprises were not included because the evaluation team visit was cancelled because of an incoming cyclone.

Average employees per entrepreneur  $154/46 = 3.3$

45

Type	No. of Client Enterprises	Total Employment	Total 1992 full-time jobs created	Total 1992 part-time jobs created
Self-employments	242	255	76	17
Micro-enterprises	380	1159	190	96
Small-scale enterprises	47	498	227	52
Total	669	1912	493	165

Source: MED-MIS.-December 1992

Employment per Enterprise: 2.86

46

ANNEX 5

MEDIUM TO LARGE SCALE ENTERPRISES VISITED

ANNEX 5

MEDIUM AND LARGE SCALE ENTERPRISES VISITED

4 November to 23 November, 1992

1992 Activities

Future Estimates\*\*

Name of Company	Jobs created	Out-growers	Jobs to bereated	Out-growers
Keells			300	2,000
Hayleys/Sunfrost*	250	400	100	1,000
Forbes & Walker* Gherkins	275	2,500	100	--
Richard Pieris Ltd*	50	--	200	2,000
Vanathawilluwa*	150	350	300	--
Aitken Spence*	200	250	75	2,000
CTC Agro-Products*	50	***	300	2,000
Heron Agro- Products	--	--	150	100
Forbes & Walker* Farms	50	--	150	--
TOTALS	1,025	3,500	1,675	9,100

\* Places visited or companies interviewed. Pure Beverages Co. Ltd was also interviewed and CIC Commercial Farm in System H was also visited.

\*\* Estimates made by MED Evaluation Team

\*\*\* Excludes 1,500 CTC outgrowers producing maize and soybeans for Thryposha (milk substitute) and tobacco in 1992.

Job Definitions and Equivalents:

Full-time - > 180 days per year

Part-time - 90 to 180 days = 50% of full-time job

- < 90 days = 25% of full time job

48

ANNEX 6

PROJECT CONSULTANCIES

MED/EIED 1990 REPORT

MED (ISTD) CONSULTANTS SHORT TERM TECHNICAL ASSISTANCE JULY - DECEMBER, 1990			
Program area	Topic	Name	Dates
SSE	Legal aspects of SSE credit program	Mr. G.J. Alagaratnam	Oct 30 - Nov 30
SSE and MLE	Local demand for export products preserved in brine and vinegar (incl. gherkins, baby okra, baby corn, silver skin onions, mushrooms, eggplant and capsicum)	Lanka Market Research Bureau, Inc.	Oct 30 - Dec 15
MLE	Investment promotion	Tom Healy	Nov 17 - Dec 5
MLE and SSE	Tourism development	Ed Coe	Nov 1 - Nov 24
MLE	Pre-investment program development	Bob Lee	Sept 16 - Oct 5 Oct 27 - Nov 24
MLE	PIP reviews	Earl Guise	Dec 8 - Dec 15
MLE	Outgrower investments	Ken Aoyama	Dec 3 - Dec 13

50

MED/EIED 1991 REPORT

MED SHORT TERM TECHNICAL ASSISTANCE JANUARY - DECEMBER, 1991			
Program area	Topic	Name	Dates
MLE	Pre-investment programme development	Bob Lee	Jan - Feb
SSE	Baseline survey data entry	Agroskills	Feb - July
SSE	Legal aspects of credit program	G.J.T. Alagaratnam	Feb - Mar, June - September
MLE	Writing of Mahaweli investor guidebook	H.B. Hemapriya	March
MLE	Silverskin onion production	Del Wisdom	March - April
MLE	Brining, fermentation and packaging of gherkins	Wolfgang Pach	April - July, August - October
MLE	MASL farm development by private sector as commercial farms	Thomas Hart	April - June
MLE	Integrated fruit development	Michael Smedley, Ben Hatfield and W. Somchit	April - July
MLE	Banana production and marketing	Ed Hurlston (SRD) and S.R. Daines (SRD)	April - June
MLE/SSE	Tourism development	Teams, Ltd.	April - June
SSE/MLE	Medicinal and herbal crops, products and markets	Denzil Phillips	May, July
SSE	Handicraft exports	Tilak Samarawickrema	May
MLE	Land bank allotments	Thomas Cruze	May - June
MLE/SSE	Land policy	L.M. Samarasinghe	June
MLE	Land audit	T.J. Jayawardene	June - September
MLE	Investor guidebook text	Tom Healy	June
MLE	Investor guidebook production	Pauline Cochrane	June, September
MLE	Silverskin onion production	Walt Neuberg	June - July
MLE	Pre-investment program development	Gordon Bailey	September - October
SSE-EDTP	Entrepreneur development programmes	Hina Shah	October - November
SSE-EDTP	Entrepreneur development programmes	Susan Exo	October - November
MIS	Monitoring assignment	Richard Huntington	October - November
MLE	Essential oils PIP	Tom Davies	November - December
MLE	Agribusiness financing	D. De Santis	October - November

MED/EIED 3rd Quarter Report 1992, 4th Quarter Plan, 1992

MED SHORT TERM TECHNICAL ASSISTANCE JANUARY - SEPTEMBER, 1992			
Program area	Topic	Name	Dates
MLE	Tomato PIP	Peter Florance	January - March
MLE	Essential oils PIP	Tom Davies	February - March
MLE	Cold Chain	Fredrick E. Henry	February - March
MLE/SSE	Management information system	Dias Gunasinghe	January - March
MLE/SSE	Development of MLE-SSE export product linkages	David Holbourne	June - August
MLE	Preparation of commercial farm business plans	Cedric de Vaz	June - August
MLE/SSE	Study on extraction of snake venom	Anslem de Silva/S. Balasuriya	August
MLE	Dried fruit	Dr. Kamal U. Hyder	August - September
MLE/SSE	Enterprise and employment census and enterprise opinion survey	L.N. Perera	August - September
MLE/SSE	Enterprise and employment census and enterprise opinion survey	Teams	August - September

52

ANNEX 7

MAHAWELI COMMERCIALIZATION PROGRAM

10/29/92

## MAHAWELI COMMERCIALIZATION PROGRAM

1. The proposed Mahaweli Commercialization Program represents a concerted effort to address the constraints which have hindered the introduction of the Government's liberalization strategies in the Mahaweli. Carried out with a clear mandate, clear targets, clear procedures and a clear assignment of responsibilities, it will stimulate private investment in the Mahaweli and increase productivity of the Mahaweli's physical and human resources. Initial, conservative estimates of the proposed program indicate that it would result in Rs295 million in income through sales, an estimated Rs 26 million in annual lease payments to the MASL, Rs 2,070 million in private investment over the first five years and extensive employment creation. If a commercialization program of this nature is not implemented, Mahaweli resources, both human and physical, will not make their full contribution to national development, Mahaweli settlers will continue to be engaged almost exclusively in primary, low value agriculture and their incomes will fall in comparison with those of people in other parts of the country, and the MASL will continue to draw heavily from the national budget.
2. Background. Lands assigned to the Mahaweli Authority are governed by government policy and in almost all cases by the Crown Lands Ordinance. To date, the Mahaweli Authority has not sold or given out on long-term lease any lands. Lands assigned by the MASL to private individuals or firms have been alienated on the basis of annual permits. Settlers have been allotted land on the basis that their allotments may not be sub-divided, sold or leased. The MASL has allocated on annual permits allotments totaling 1,217 hectares to 70 commercial farmers. It directly operates 22 farms (intended for seed production, research, demonstration, and livestock program). It has thousands of buildings, some of which are unused, in disrepair and deteriorating, constructed as housing, storage, offices, rest houses, shops and workshops. The MASL uses its former construction camps (Kotmale, Digana, Randenigala) as office and residential complexes for MASL staff and in two cases has tried to operate commercial tourism resorts.
3. The MASL maintains ownership of Mahaweli lands to ensure efficient development of the lands and to prevent the land being used for the 'wrong' purpose (e.g., commercial lands being used for housing; agricultural lands allocated to non-settlers being used for the cultivation of rice). Also, the MASL maintains control "to protect" the settlers against becoming landless again, the accumulation of too much land by any one individual, the fragmentation of the land into uneconomically sized parcels, the ownership of the land passing to the 'wrong people'. In practice, the MASL's ownership and control have not led to efficient land development and the phenomena which were to be avoided are nonetheless occurring. Lands which were carefully allocated to selected settlers and others are, with the passage of time, variously abandoned, encroached upon, traded, leased, fragmented and otherwise disposed of through informal processes.
4. The lack of private land and an efficient land market in the Mahaweli is a severe constraint to private investment and entrepreneurship. In spite of considerable public sector investment in infrastructure and public sector promotion of private investment, there is no significant private agribusiness, industrial, tourism, housing or commercial development in the Mahaweli. Without security of land tenure, most investors are not able to raise significant amounts of long-term capital and private investment in the Mahaweli is of a temporary, limited nature. With lands allocated by officials rather than through a market based mechanism, small and large investors focus their attention on dealing with government officers rather than on developing efficient, productive activities. This bureaucracy based system of resource allocation, by constraining investment and business development, ultimately frustrates

official strategies to develop non-farm employment opportunities and diversify crop production to raise Mahaweli family incomes and living standards.

5. In recent years, in line with Government's broad program of liberalization, the perspective of the MASL on private investment and entrepreneurship has evolved. The introduction of private ownership and management is now regarded by many as critical to the development of the Mahaweli economy. In this context, during 1990-92, it was decided to:

- issue long term leases to commercial farms.
- sell commercial allotments through the issuing of special grants under the Crown Lands Ordinance (this developed from the earlier 1989 decision to issue long term transferrable leases for such allotments).
- sell portions of land used for tourism, industrial and housing development.
- sell unused buildings and their plots.
- lease or sell Mahaweli complexes to the private sector.
- lease on a long term basis Mahaweli farms to the private sector.

6. However, these decisions have not been fully carried out. While many steps have been taken (e.g., development of transferable lease and grant documents, compilation of lists and preparation of information materials on lands available for investors and MASL farms, compilation of lists of buildings, surveys and valuations of more than 400 commercial allotments, simplification of investment approval process, increased investment promotion), and many decisions are on the verge of implementation (e.g., selling a portion and giving a long term lease for a portion of the MASL Girandurokotte farm to Forbes; issue of long term lease to Informatics in C and to 26 commercial farmers in System B), few decisions has been fully implemented. The reasons are many, including the lack of a clear mandate, fragmented administrative responsibility for implementation, uncertainty as to the process and procedure for implementation, different views as to the rationale for commercialization, the inclusion of non-price criteria which are not strictly specified in the consideration of bids, intervention of interested political, bureaucratic and business parties in decisions affecting specific parcels of land, and resistance at times from MASL officials to the commercialization of MASL assets. Common symptoms of these problems have included delays in surveys and valuations, poor and incomplete advertizing, reversals of decisions and the successful reopening of cases by losing parties.

7. In a separate development which indicates the speed with which a program such as the proposed Mahaweli Commercialization Program could be implemented, under the 1992 program of H.E. the President to establish 200 new garment factories in rural areas employing at least 500 people each, 22 sites have been assigned to investors in Mahaweli areas. Decisions have been taken expeditiously with regard to lease rent amounts (Rs 5,000 per acre) and the possibility of outright sale of lots of 5 acres or less at the official appraised value. The MASL has sent letters to financial institutions with commitments to issue leases to the investors, thus resolving one bottleneck to their securing loan financing.

8. Brief overview of proposed Mahaweli commercialization program:

Rationale - Create the conditions for private investment and the development of a dynamic, diversified economy in the Mahaweli by transferring resources to the private sector.

Targets	-	<u>Value</u>	<u>Units</u>
		1992:	Rs 75 million
		1993:	45
		TOTALS:	Rs 661 million
			7304
			7349

Mandate - Program to be presented for Cabinet approval.

Legal basis - The Mahaweli Authority Act No. 23 of 1979 empowers the MASL to sell and lease land subject to the confirmation of the Hon. Minister and H.E. the President.

Assets to sell - Vacant buildings and commercial allotments will to be sold on the basis of highest price through a bidding procedure of sealed tenders.

- Occupied buildings and commercial allotments will be offered for sale as a first option to occupants upon payment of arrears of rents and charges and the appraised value.

- Lands for major industrial, tourism and housing investments and MASL construction camps and workshops will be sold through a procedure of sealed tenders to the winning offeror, taking price and other pertinent factors into consideration.

Assets to lease- MASL farms and large commercial farming allotments will be leased for a 49/50 year term with selection based on price and other pertinent factors. In the cases of Malwanegama, Dambawatana, Kalankutiya and Ratkinda farms, preference would be given to offers which provide for seed production.

- Agricultural allotments which have been previously allotted to an investor and developed will be auctioned to the highest bidder based on price.

- Industrial estates will be leased to operators for a 49/50 year term with price and other pertinent factors taken into account.

- Draught Animal and Dairy Development Program livestock farms will be offered for lease operation under a management contract.

Eligibility - Sri Lankan individuals, associations, cooperatives and companies and joint ventures.

50

- Procedures - Bidding would be through a procedure of sealed bids or open auction. Calls for tenders will state terms and conditions, selection criteria and timing. In appropriate cases in which pertinent factors in addition to price have been taken into account in selecting a winning offer, the MASL will enter into a binding contract with the selected investor. The contract would provide that in the event the investor fails within a stipulated period to make the investment proposed that a bond be forfeited and that the land would revert to the MASL.
- Information - Potential bidders would be provided with a docket of information containing: (i) application guidelines and form; (ii) basic information on the asset; (iii) specimen copy of the lease or grant format; (iv) specimen copy of binding contract. Additional information may also be provided to assist investors. Site visits would be encouraged and scheduled.
- Selection panel- Selection panels for tenders would be appointed by the Director General upon the recommendation by the Director, Employment, Investment and Enterprise Division (EIED) of the MASL.
- Selection criteria- In cases in which other factors in addition to price are to be taken into account, these would be: (i) direct employment and outgrowers and subcontractors, (ii) commitments to invest and (iii) the technical, financial and management capabilities of the offerors.
- Implementation- EIED will manage implementation. Overall supervision and monitoring will be by a committee established by the Board of the MASL under the direction of the Director General, MASL.
- Phases - Assets will be commercialized in several rounds. The initial phase will comprise those which present relatively few issues or problems. These would include vacant buildings, commercial allotments and commercial farm allotments on which the occupant is the original selectee and has made investments, most MASL farms, and investments which have already received Cabinet approval.
- Steps
- Preparatory stage
- Prepare lists of assets
  - Design program with targets and procedures including evaluation criteria
  - Attain approval of MASL Board
  - Attain approval of Hon. Minister
  - Attain approval of Cabinet
- Implementation stage
- Brief RPMs and staff up
  - Prepare background information on individual assets
  - Complete survey diagram

- Complete valuation as necessary
- Set reserve price as necessary
- Advertize
- Provide data and access to investors
- Close bidding
- Select
- Approve selection
- Receive payment
- Issue document
- Complete transaction, issue lease or grant, hand over asset

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### MAHAWELI COMMERCIALIZATION PROGRAM TARGETS

Asset	Total Units	Targets (value in million rupees)					
		1992		1993		Total	
		Units	Value	Units	Value	Units	Value Rs m
MASL farms	12	4	19	7	53	11	72
MASL farms - DA and DDP	11	0	0	10	309	10	309
Agricultural allotments - allocated	70	20	2	50	11	70	13
Agricultural allotments - unallocated	190	0	0	50	11	50	11
Small commercial sites - occupied	3497	0	0	3497	35	3497	35
Small commercial sites - unoccupied	3093	0	0	3093	31	3093	31
Sites for major industrial, tourism and housing investments	16	0	0	16	21	16	21
Occupied buildings	103	10	2	93	17	103	19
Vacant buildings	140	10	2	130	25	140	27
Major facilities - construction camps	3	1	50	2	100	3	150
Workshops	3	0	0	3	12	3	12
Lots in industrial estates - allocated lots	57	0	0	57	6	57	6
Lots in industrial estates - unallocated	296	0	0	296	30	296	30
<b>TOTAL</b>	<b>7,491</b>	<b>45</b>	<b>75</b>	<b>7,304</b>	<b>661.00</b>	<b>7,349</b>	<b>736.00</b>

MASL FARMS				
Farm	Location	Acreage	Value Rs.	Proposed action
Malwanegama	System H	154 acres (130 irrigated; 24 highland)	13,062,250	This farm was advertized and then readvertized specifying priority for seed production. A lease is to be issued.
Dambewatana	System H	10 acres (irrigated)	3,165,000	This farm was advertized and then readvertized specifying priority for seed production. A lease is to be issued.
Kachchigalaru	Uda Walawe	50 acres (15- 20 irrigated)	1,265,280	This farm was advertize and tenders evaluated. Lease is to be issued.
Gurugodella	Uda Walawe	25 acres (irrigable)	1,480, 921	This farm was advertized and tenders evaluated. Lease is to be issued.
Suriyawewa	Uda Walawe	9.5 acres	893,204	Farm study completed; to be advertized and leased.
Eraminiyawa (Kattakaduwa)	Uda Walawe	18.75 acres	997,089	Farm study completed; to be advertized and leased.
Ratkinda JICA Farm - Nawamedagama	System C	567.5 acres	39,238,836	Farm study completed; to be advertized and leased.
Agaloya	System C	100 acres (75 cultivable; 65 irrigated)	6,773,425	Farm study completed; to be advertized and leased.
Girandurukotte Commercial Farm	System C	50 acres	1,750,000	This farm was advertized and the tender won by Forbes Agricultural Services. A lease is to be issued.
Girandurukotte Demonstration Farm	System C	50 acres	1,750,000	Farm study completed; to be advertized and leased.
Attanakadawela	System H	10.5 acres	1,592,031	Farm study completed; to be advertized and leased.
Kalankuttiya	System H			Farm study completed; to be advertized and leased.
TOTAL			71,968,036	

Note: The value of irrigated land has been taken at Rs.50,000/- per acre. Non-irrigated highland has been valued at Rs.35,000/- per acre. Buildings have been valued at Rs.150/- per square foot. Houses have been valued at Rs.100/- per square foot.

MASL (DA&DDP) FARMS				
Farm	Location	Acreage	Value	Proposed action
Kalankuttiya	System H	Total 85 acres, planted 80		Carry out commercialization study. Form farms into a single corporation. Commercialize by leasing with a management contract which would be awarded on the basis of a competitive tender. New corporation would continue to provide services to Mahaweli settlers.
Girandurukotte	System C	Total 1075, pasture 700, rocky 200, indigenous grass 175		
Sorabora	System C	Total 800 acres, pasture 400, rocky 200, to be developed 200		
Mahagama	Uda Walawe	Total 70 acres, planted 60, to be planted 10		
Tunkama	Uda Waiawe	Total 70 acres, pasture 50, other crops 10 and 5 for buildings, 5 acres to be planted		
Daminna	System B	Total 135 acres, pasture 115,		
Siddhapura	System B	Total 1820 acres, pasture 1550, eucalyptus 50, marshy land 220		
Muthuwella	System B	Total 1200 acres, planted 650		
Kantalai	System A	Total 459 acres, pasture 350, indigenous pasture 100 acres		
Weli Oya	System L			
Niraviya	System H	Total 459 acres		
<b>TOTAL</b>			<b>308,650,000</b>	

Note: Weli Oya farm is not in operation.

Total value has been estimated on the basis of Rs50,000 per acre including animals, infrastructure, equipment and buildings, including mini-dairies.

MAHAWELI AGRICULTURAL ALLOTMENTS									
	IRRIGATED LAND			HIGHLAND			TOTAL		
	Units	Hectares	Value	Units	Hectares	Value	Units	Hectar	Valuc
<b>ALLOCATED:</b>									
B	35	453	5,436,000	2	18	180,000	37	471	5,616,000
C				25	478	4,780,000	25	478	4,780,000
H				3	40	400,000	3	40	400,000
UW				4	218	2,180,000	4	218	2,180,000
K				1	10	100,000	1	10	100,000
	35	453	5,436,000	35	764	7,640,000	70	1,217	13,076,000
<b>UNALLOCATED:</b>									
B	26	537	6,444,000	81	1,495	14,950,000	107	2,032	21,394,000
C				90	1,592	15,920,000	90	1,592	15,920,000
H				33	747	7,470,000	33	747	7,470,000
UW				48	900	9,000,000	48	900	9,000,000
K				11	84	840,000	11	84	840,000
	26	537	6,444,000	263	4,818	48,180,000	289	5,355	54,624,000
<b>TOTAL</b>									
	61	990	11,880,000	298	5,582	55,820,000	359	6,572	67,700,000
<p><b>PROPOSED ACTION:</b> Allotments which are being used effectively by the selectee are to be offered on long term lease. Unallocated allotments are to be advertized and offered on long term lease to investors who offer the highest lease rental and the most attractive investment proposal taking into consideration employment, commitments to invest and the financial, technical and management capabilities of the investor.</p>									

Notes: Highland has been valued at Rs10,000 per hectare.

Irrigated land has been valued at Rs12,000.

While the total number of units allocated is 77, the total number of investors is 50. This is because in two cases more than one highland allotment has been given to a single investor. These are: in System C, the 25 units have been allocated to 5 investors; in Uda Walawe, the 11 units have been allocated to 4 investors.

The extents are estimates as detailed surveys have not been completed for all allotments. In many instances, the land is currently blocked out in allotments of more than 20 hectares, which as a general rule is the upper limit on the extent of land which may be allocated to a single investor; in the case of these large blocks, the estimated number of allotments has been arrived at by dividing the total number of hectares by 20.

62'

MAHAWELI COMMERCIAL SITES				
Location	Lots	Acres	Value	Proposed action
<b>ALLOCATED SITES:</b>				
System B	291	15	Difficult to calculate	Allocated lots which are being used and occupied by the allottee are to be offered for sale to the occupant
System C	735	45.93	- do -	
System H	1345	115.3	- do -	
Uda Walawe	390	12.18	- do -	
Kotmale	92	2.15	691,000	
System G	144	5.1	Difficult to calculate	
sub-total	3497	195.66		
<b>UNALLOCATED SITES:</b>				
System B	695	43.5	Difficult to calculate	Lots are to be advertized and offered for sale to highest bidder.
System C	172	10.75	- do -	
System H	1876	117.25	- do -	
Uda Walawe	200	6.25	- do -	
Kotmale	41	0.6	450,000	
System G	109	7.51	Difficult to calculate	
sub-total	3093	185.86		
<b>TOTAL</b>				
	6590	381.52	65,900,000	

Note: The number of investors to which these lots have been allocated are as follows: System B = 192; System C = 237; System H = 768; Uda Walawe = 250; Kotmale = 74; System G = 144

Total value estimated on basis of one lot = 5 perches @ Rs 10,000.

**MAHAWELI TOURISM SITES**

System	Site Description	Value Rs.	Proposed action
Kotmale	Left bank of Kotmale Reservoir, the footpath along the dis-used stone quarry taking off the main road at the dam.	250,000	To be developed into a 50 roomed hotel.
Kotmale	Left bank of the Kotmale Reservoir at Tispane/Kirimatiyawa below the main road.	250,000	To be developed into a 50 roomed hotel.
Kotmale-Kadadora	2.6 km form the Gampola-Maswela main road overlooking the Kotmale Reservoir.	300,000	To be developed into a 50 roomed hotel.
C - Mahiyangana	Bordering the Mahaweli Ganga.	300,000	To be developed into a 50 roomed hotel in two stages.
C - Lihiniyagama	Situated about 7.5 km from Dehiattakandiya, overlooks the tank. The distance is about 3 km from the main road and is the present nursery of Mahaweli.	250,000	To be developed into a 50 roomed hotel in two stages with restaurant facilities.
C - Rathmalkandura	Right bank and overlooks the Rathmalkandura tank. A panoramic view of distant hills is a further attraction.	250,000	To be developed into a transit hotel with 50 rooms in two stages.
C - Bathgama	Left bank of Bathgama tank with a view of the tank and the bund.	250,000	To be developed into a transit hotel with 50 rooms in two stages.
C - Handapanvila	Overlooks the Handapanvila tanks which is a large waterbody rich in bird life. Villu is used by wild animals. Distant hills of Dimbulagala and Gunners Quoin make the view more picturesque. Site could be reached from either Maguldamana on Manampitiya-Dehiattakandiya main road or via Nuwaragala.	750,000	To be developed into 20 to 25 safari cottages.
B - Pimburaththewa	Adjacent to the circuit bungalow, overlooks the tank.	250,000	To be developed into a 50 roomed hotel.
B - Ruhunuketha	Adjacent to the existing circuit bungalow, overlooks the tank. 3km distance from the Polonnaruwa-Batticaloa main road.	250,000	To be developed into a 50 roomed hotel in two stages. Stage one with restaurant facilities with 10 to 15 rooms.

MAHAWELI TOURISM SITES			
System	Site Description	Value Rs.	Proposed action
B - Weheragala	Bordering the Aralaganwila, Dehiattakandiya main road. Overlooks the Weheragala storage reservoir and bund. The distance to Aralaganwila is 7.5 km.	15,000,000	To be developed into a Golf Course and a Hotel.
E - Handungamuwa	Bordering the Dunuvila tank on the Hettipola-Wasgomuwa road. Distance to the Wasgomuwa National Park is 4 km from the tank. The view from the site is picturesque with the water in the foreground against a backdrop of hills which include Knuckles range among others.	500,000	To be developed into a 50 roomed hotel.
I/H - Nachchaduwa	Overlooks the Nachchaduwa tank which about 3.5 km from the Anuradhapura-Kandy main road. Beside the water that surround the site view of distant hills of Mihintale and Ritigala add to the scenic beauty.	250,000	To be developed into a 50 roomed hotel.
I - Mihintale	Bordering the Mahakandarawa tank, on the Anuradhapura Trinco main road with a view of the Mihintale rock and the waters of Mahandarawa. Distance is about 5.5 km from the Mihintale junction.	1,500,000	Initially to be developed into a 50 roomed hotel.
Udawalawe - Udawalawe	At the extreme edge of the Wild Life Park bordering one side by the Tanamalwila road to the south and the waters of Uda Walawe Reservoir to the west.	500,000	To be developed into a 100 roomed hotel.
UdaWalawe - Udawalawe	Bordering the Walawe Reservoir along the C.P. de Silva Mawatha which runs Northwards from the Udawalawe Town.	500,000	To be developed into a 100 roomed hotel.
TOTAL		21,350,000.0 0	

Value = Rs.50,000 an acre

MAHAWELI BUILDINGS				
	Units	Square feet	Value Rs	Proposed action
<b>ALLOCATED BUILDINGS:</b>				
B	0			Buildings which have been allocated and which are occupied and being used by the allottee, are to be offered to the occupants for sale at the appraised value plus arrears of lease rents and any outstanding charges and fees. If the occupant does not desire to purchase, the building will be offered to the highest bidder through a tender procedure.
C	0			
H - Madatugama	17	27,200	4,080,000	
H - Meegalewa	9	9,338	1,400,700	
H - Galnewa	16	15,232	2,284,840	
H - Nochchiyagama	51	61,200	9,180,000	
H - Thambuttegama	9	10,054	1,508,100	
Uda Walawe	1	4,462	669,300	
Kotmale				
sub-total	103		19,122,940.00	
<b>UNALLOCATED BUILDINGS:</b>				
B	30	33,747	5,062,050	Unallocated buildings are to offered to the highest bidder through a tender procedure.
C	13	15,600	2,340,000	
H - Madatugama	17	28,800	4,320,000	
H - Meegalewa	9	4853	727,950	
H - Galnewa	15	25,338	3,800,700	
H - Nochchiyagama	31	34,800	5,220,000	
H - Thambuttegama	17	20,400	3,060,000	
Uda Walawe	8	17,980	2,697,000	
Kotmale				
sub-total	140		27,227,700.00	
<b>TOTAL</b>				
	243		46,350,640.00	

Estimated Value = Rs.150/- per sq.ft

MASL CONSTRUCTION CAMPS AND WORKSHOPS				
Asset	Location	Description	Value	Proposed action
Kotmale	Kotmale		50,000,000	This facility is to be advertized and awarded for sale, or lease if the investor prefers. Preference would be given to tourism or educational sector investors.
Digana	Digana		50,000,000	This facility was advertized. Decision reportedly made to transfer to Film Corporation for joint venture with Universal Studios. The start up of this venture is apparently unsure. To be readvertized and offered for sale, or lease if the investor prefers.
Randenigala	System C		50,000,000	
Tambuttegama Base Workshops	System H		4,000,000	These facilities are to be advertized and separately sold through a competitive tender on the condition that the investor continue to operate it as workshop for minimum two years.
ZD Workshop	System B		4,000,000	
Sandunpura Workshop	System C		4,000,000	
TOTAL			162,000,000	

Camps estimated on basis of equivalence to .50 room, 3 star hotel at Rs 1 million per room.

MAHAWELI INDUSTRIAL ESTATES				
Estate	Lots	Perches	Value	Proposed action
ALLOCATED LOTS:				
B - Welikanda				Allocated lots which are being used and occupied by the allottee are to be offered on long term lease. Option will be to lease entire estate to one manager operator.
C - Dehiattankandiya	13			
C - Girandurkotte	11			
H - Thambuttegama	23			
sub-total	57			
UNALLOCATED LOTS:				
B - Welikanda				Lots are to be advertized and offered on long term lease.
C - Dehiattankandiya	57			
C - Girandurkotte	91			
H - Thambuttegama	148			
sub-total	296			
TOTAL	353		35,300,000	Initial option to be pursued will be to lease entire estates to single investor/manager of the estate.

Value estimated on basis of 40 perches per lot, Rs 100,000 per lot.

ANNEX 8

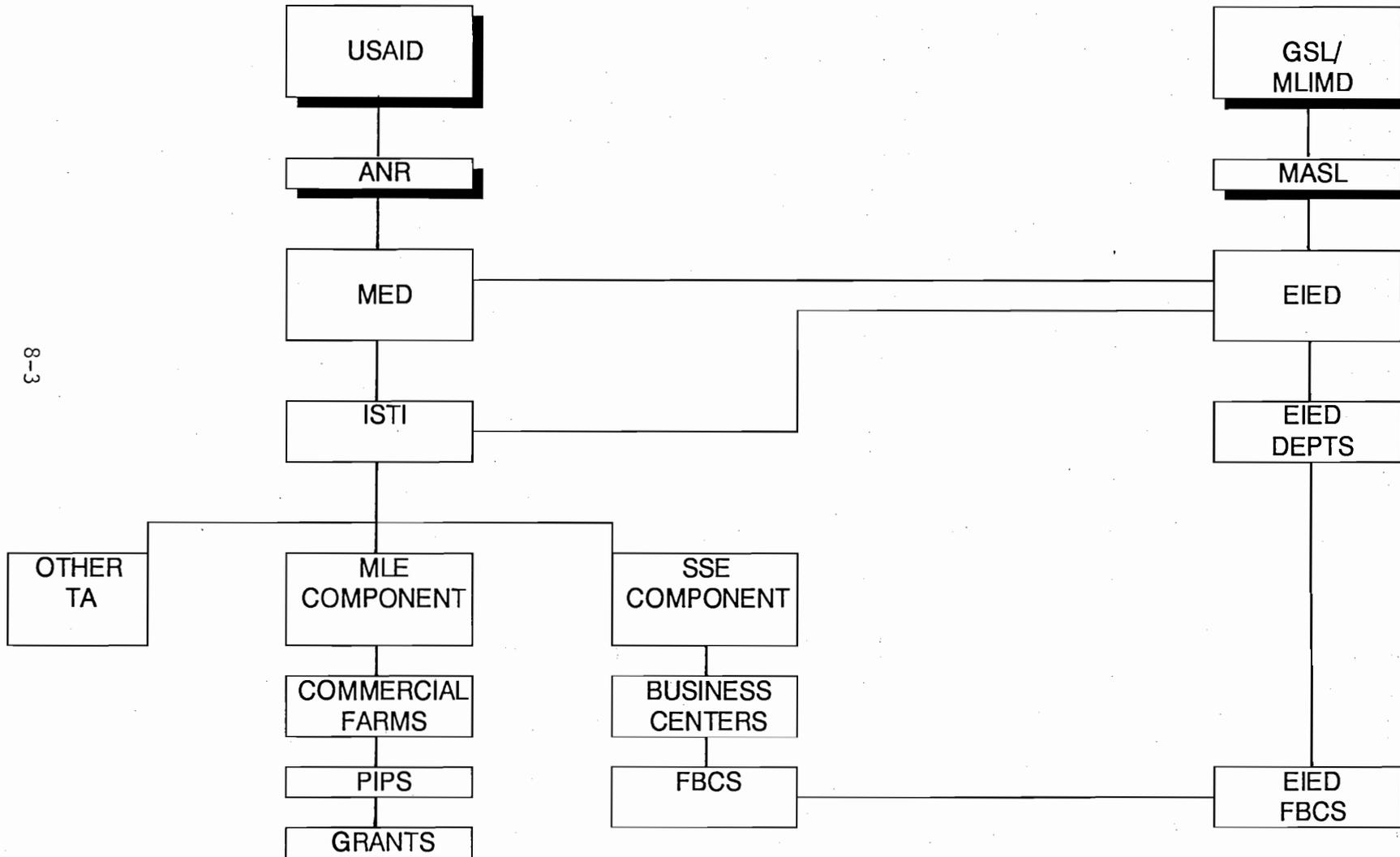
MAHAWELI ENTERPRISE DEVELOPMENT PROJECT

ORGANIZATION



MAHAWELI ENTERPRISE DEVELOPMENT PROJECT  
MID-TERM EVALUATION REPORT

Revised GSL/USAID Project Management Structure



8-3

11

ANNEX 9

PHOTOGRAPHS OF SITES VISITED

Gherkins : Uda Walawe : Aitken Spence (Ace Processing)



13

Gherkins : Uda Walawe : Aitken Spence (Ace Processing)



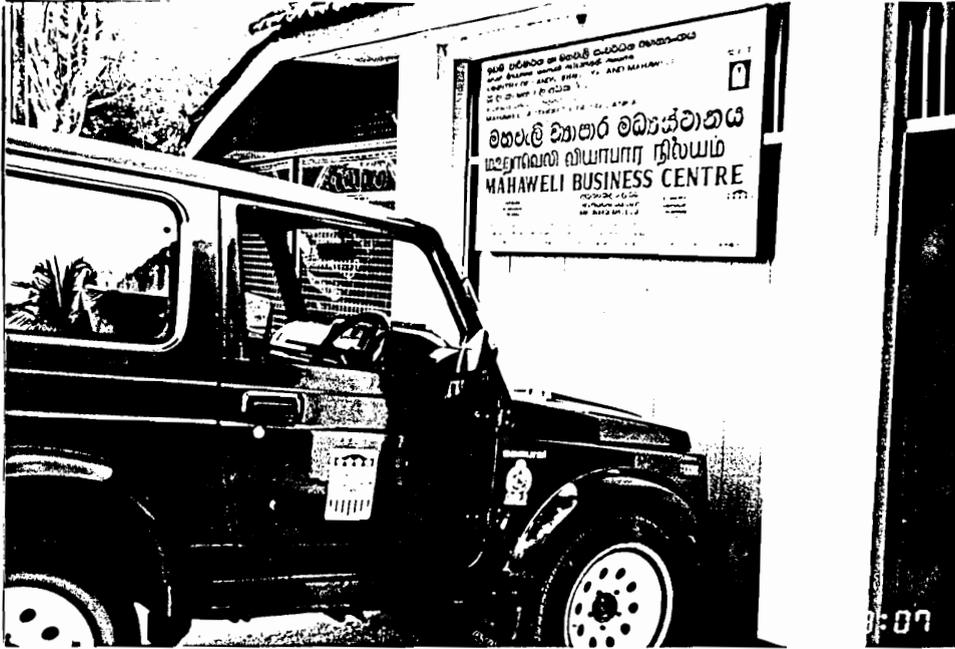
74

Gherkins : Uda Walawe : Aitken Spence (Ace Processing)



15

Uda Walawe : SSEs



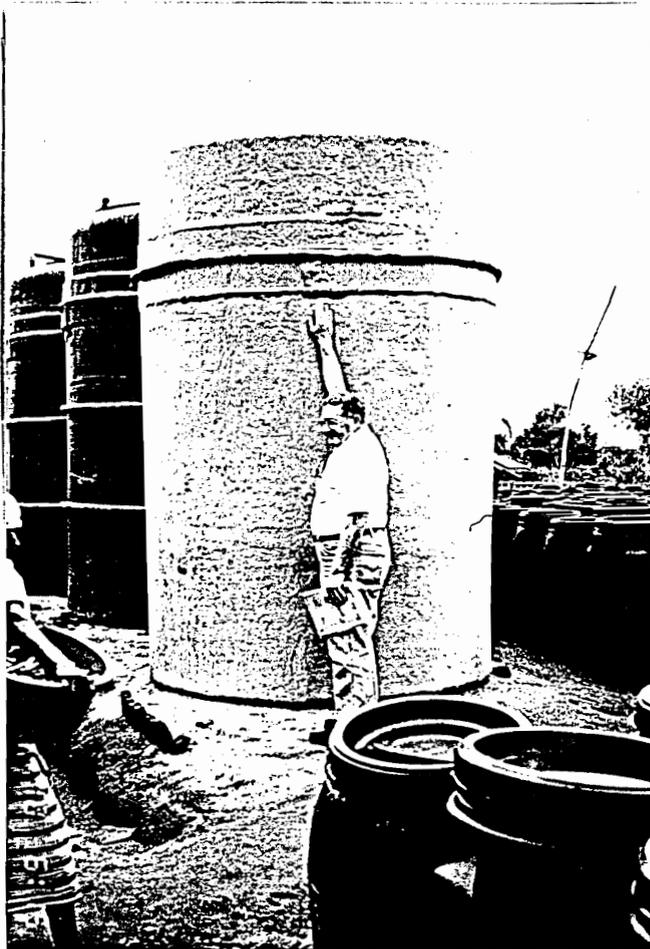
Uda Walawe : SSEs



Uda Walawe : SSE (handicrafts)



System B & C -- MLEs



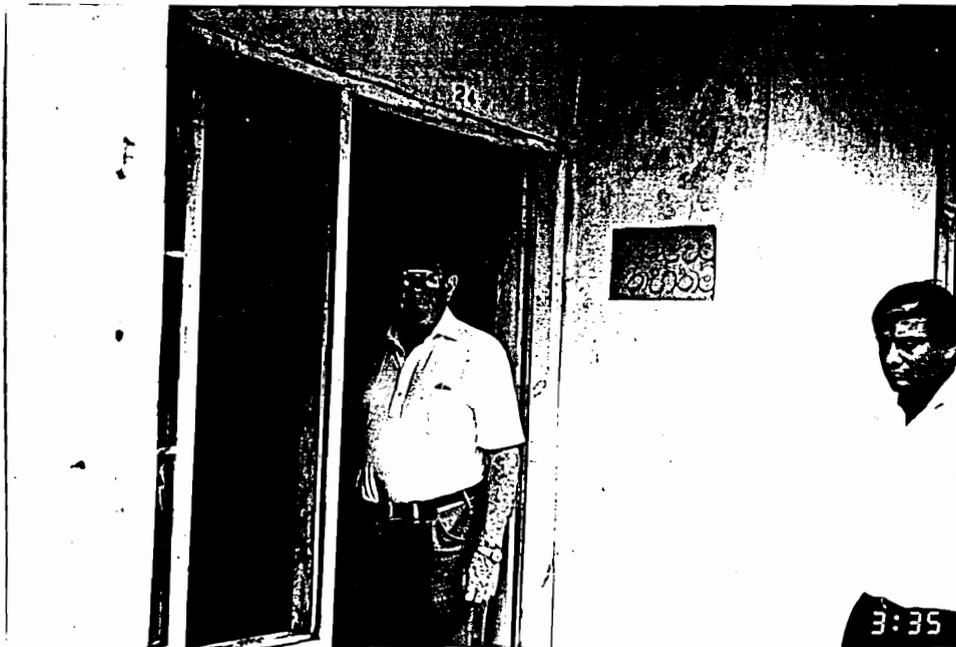
79

System B & C



90

Kotmale : SSE



81

Kotmale : SSE



Kotmale : Tourism Site







85

ANNEX 10  
COMMENTS  
GOVERNMENT OF SRI LANKA



# MAHAWELI AUTHORITY OF SRI LANKA

## EMPLOYMENT INVESTMENT AND ENTERPRISE DEVELOPMENT DIVISION

2, 8th Floor, Unity Plaza, Galle Road, Colombo 4 Sri Lanka. Tel:502327/29 (General), 502380 Telex:22637 EIED CE Fax:502328

January 20, 1993

Messrs. Gary Alex/Glenn Anders  
USAID  
356 Galle Road  
COLOMBO 3

Dear Sir

I have reviewed in detail the draft Devres report dated 12/12/93 which I received on 10/1/93. The copy which I received included none of the annexes - apparently there are nine. Also, the authorship of the report is not clear. The report is by Devres, the consulting firm which employed Mr. Allen. However, the text states that a "project development/financial analysis specialist on contract to USAID/Sri Lanka also participated" and the introductory disclaimer refers to the "Evaluation Team".

The report makes several points which I agree with:

the MED design and its components remain "valid".(p.16)

the high marks given for policy work, although it should be recognized that it is in having exceeded its original policy targets that the project has adopted ambitious privatization targets.

the emphasis on issuing land titles and leases, although it should be recognized that the delays in this area have not prevented MED assisted enterprises from generating jobs in excess of project targets.

the recognition of the success that I have had in energizing the program, although, as I have repeatedly pointed out, this recognition should be shared with the MED/COP.

the need for a backup MIS person.

Notwithstanding the above, the report is not in compliance with the terms of reference, full of errors and misleading. To be acceptable it would require extensive corrections, reinforcing, restructuring and rewriting. See the attached statement, which is a draft.

We, USAID and the consultants have spent considerable time dealing with Mr Allen. I would suggest that at this point it would not be useful for us to attempt further to assist him to bring his report up to an acceptable standard. Rather, I recommend that we jointly reject the report. That having been done, I would suggest that we immediately in joint discussions focus on the five recommendations at pp. vii-viii in the summary th a view to agreeing an agenda of actions to be carried out to improve project performance.

Yours faithfully

  
A.M.A. Abeysinghe  
DIRECTOR

51

Attachment

1. The report is based on an elliptical evaluation style in which key tasks are not addressed and others are not completed. The TOR specified that Mr. [REDACTED] was to (i) determine progress against goal and purpose, (ii) determine the appropriateness of the design and (iii) recommend actions to achieve project objectives. As for approach, he was to (iv) present findings and conclusions in an interactive and collaborative manner aimed at forging a consensus on actions to increase project performance. As discussed below, in all four of these areas the report is inadequate.

(i) There is no systematic setting out of purpose, accomplishment and timeframe. Mr. [REDACTED] mixes (see, pp. 9 - 11, 17) in an apparently random fashion different analytical levels (goal, purpose, output and inputs). Four of the six purpose level indicators are skipped. Of the two project purposes, the prime one is to generate jobs and its two indicators are SSE and MLE jobs created; on this, Mr. [REDACTED]'s discussion is, at best, confusing: on the same page (p.9) the number of MLE jobs created is reported variously as 4,525 (which is a 50% achievement in 45% of the time) and 1,011. For the second purpose, Mr. [REDACTED] skips (p.9) all four indicators, including the one that the GSL would establish no more public sector production facilities in the Mahaweli, which has been achieved although it is not noted by Mr. [REDACTED]. Meanwhile, as the project has moved on to the commercialization (read privatization) of the existing facilities, Mr. [REDACTED] obliquely criticizes for not having commercialized sufficient assets. In gauging progress against elapsed time, Mr. [REDACTED] is uncertain as to his starting point. For the MASL and the contract team, and as explained to Mr. [REDACTED], the five years of the designed implementation period began in July, 1990, and, thus, 45% of the time had elapsed by the September 30, 1992, the cut-off date for data for Mr. [REDACTED]. Mr. [REDACTED] makes only an unqualified reference to "about 60%" in his draft. Related references are similarly vague, e.g., the project was "initiated in March, 1989", the technical assistance team was on site "within the next 12 months".

(ii) To determine the appropriateness of the design, the minimal initial steps are to understand the design as set forth in the Project Paper and to identify the adjustments made during the initial two years. Mr. [REDACTED] did neither, and thus missed the many ways in which the design has evolved in line with experience and learning. For instance:

- the reference to small enterprises employing less than 25 persons - this was not in the project design as implied (p.5, 6), but rather established during implementation;

- the emphasis on outgrower schemes was not in the project design as implied (p.6) but rather introduced during implementation;
- the emphasis on a one team approach (p. ) was not specified in the design nor was it introduced in June, 1992 - rather it was introduced by MED consultants, USAID and EIED during the project's initial six month period. This resulted, for instance, in the shift from separate planning and reporting for ISTI and EIED to a unified system beginning in 1990 and to the unified approach to operations of the Mahaweli Business Centers introduced during 1991.
- the shift in the SSE area from an emphasis on group credit, as per the design, to an emphasis on assisting entrepreneurs to directly access existing financial sources is missed. The report touches on the Savings and Credit Societies but does not discuss the other aspect, which is by far the largest - by the end of September, 15 MED-assisted entrepreneurs had received their loans through the SCSs while 902 had received loans through direct access.
- the shift from separate cadres of business and credit advisors, as provided in the design, to a unified cadre of field business consultants, which was introduced early in 1991 as part of the initial move to a one team approach, is missed and thus references are made to business and credit advisors.
- the project design anticipated a 20% trainee success rate in entrepreneur training programs. Mr. [REDACTED] was informed of this. Nonetheless, without qualification, he effectively criticizes the project's 30% success rate as part of his case for eliminating the training component.
- the project design anticipated that 50% of PIPs would lead to investments, a reasonable design parameter given the nature of pre-investment programs. Mr. [REDACTED] was informed of this. Nonetheless, without qualification, Mr. [REDACTED] harshly criticizes the project's 75% success rate. This is not a minor point for Mr. [REDACTED] - if "full implementation of the nine PIP enterprises" is not achieved by "the 1993 crop season. .... it is recommended that MLE technical assistance be withdrawn by September 1993." (p.28)
- there was no Agribusiness Advisor position in the design, as implied (p.20). This position was established in effect in December 1990 based on the first six months of implementation.

- the design (and implementation) of MED aims to reduce risk as the means to assist enterprises; the provisions of technical and financial support are determined in that context. In other words, MED was conceptualized and designed as an enterprise, not technology driven project. Mr. [REDACTED] missed this aspect of the design and thus, for instance, makes somewhat offhand recommendations to provide grants of \$100,000 for cold chains and \$20,000 for ice making equipment (p.36).

- states that not enough attention is paid to "the issue of permanence of jobs" (p.v) and links this to MIS. Without commenting on Mr. [REDACTED]'s notion of job "permanence", it is noted that the design provided a second MED source for verifying job generation, namely periodic surveys. Mr. [REDACTED] was informed of this. The MED/EIED data base provides information on enterprises assisted by MED/EIED and on the employment generated by these clients. The surveys, on the other hand, track broader trends and impacts by providing information on overall job generation in non-farm and agribusiness enterprises in the Mahaweli. The MED census of enterprises and employment was completed in October, 1992, and sample surveys will be based on the census results.

(iii) Mr. [REDACTED] was charged with recommending actions to improve project performance. He was charged specifically with recommending adjustments to activities or targets and proposing new activities. However, the main thrust of his effort is concentrated on the elimination of most project activities or, alternatively, shifting project activities to other projects (AGENT or TIPS, neither of which was included in the TOR). How did this occur? Mr. [REDACTED] explained that he was requested to recommend project activities for elimination or for transfer to other projects and, also, recommended ways to simplify AID's project management by reducing the project's scope and activities. On this he was responsive, recommending that the training (immediately), SSE (by September 1993) and MLE (by September 1993) components could be eliminated (p.19). The recommendation to privatize the Mahaweli Business Centers arises (p. 22) in this context of looking for items to eliminate so as to simplify AID project management - "if the SSE component is terminated and/or the BDCs (sic) privatized, the organization of the project will be further simplified." As for his initiative to recommend dates for elimination of components, Mr. [REDACTED] explains (p.viii) his setting of dates was because of "natural and normal weather seasons" (sic).

(iv) There is no indication of any effort by Mr. [REDACTED] to achieve an interactive or collaborative approach. As the Director, EIED, has observed, Mr. [REDACTED] held project

discussions with none of the five EIED managers, none of the five RPMs, and no senior MASL or Ministry officials other than the Director himself. An yet, inexplicably, Mr. [REDACTED] asserts that the GSL has found the administration of MED to be "especially demanding". The lack of consultation with GSL officials has hindered the accuracy and evenhandedness of Mr. [REDACTED]'s statements on GSL and MASL policy matters.

2. The report is not fact-based. It is replete with errors, both those carried over from an earlier draft (in spite of corrections having been provided) and others introduced during the rewriting. While recognizing the more smoothed and grammatical language of the revised report, the report's many errors distract the reader and ultimately undermine the very basis of the recommendations. A selection follows:

- states that 5,500 business consultancies (p.iv) have been provided; later states that the number is 4,220 (p.17). In fact, the actual number of recorded consultancies as of September, 1992, was 10,357. This information was provided to Mr. [REDACTED].

- states that he was unable to distinguish between consultancies and, on the other hand, entrepreneurs and enterprises assisted.

- states that investment by large enterprises is estimated at \$990,000 (p.vi). Mr. [REDACTED] provides no calculations or background for this estimate, which is clearly off the mark. A reasonable estimate could have been made: 2,000 acres under cultivation by \$1,000 - \$2,000 per acre in investment costs - say, \$2.0 to \$4.0 million has been invested. (The project design anticipated \$2,000 per acre.)

- states that the LOP target for investment by large enterprises is \$14.2 million (p.vi). In fact, the LOP target is \$6.2 million, by the entire private sector.

- the number of agribusiness approved and operating in the Mahaweli is wrongly reported. Mr. [REDACTED] states variously that the number approved is 6 (p. iii, vii, ) and the number operating is 3 (p. iii, iii,). In fact, there are 120 approved agribusinesses and 36 are in operation.

- stated that Mr. [REDACTED] met with six of the ten that have tried to establish agro-industries. 36 agribusiness were in operation at time of evaluation.

- states that the Credit Consultant was a Sri Lankan position (p.8). This was an expatriate. Implies (p.8) that positions were reserved for expatriates.

- states (p.8) that MLE advisor's job description was amended by a contract modification in September, 1992. This was by a modification in May, 1992.
- states that three of Sri Lanka's seven gherkin processors use product from Mahaweli (p.11) and two of the three had processing facilities in the Mahaweli. In fact, six use Mahaweli product and five have processing facilities in the Mahaweli; the sixth is now installing a processing facility in Uda Walawe.
- makes inaccurate statements on the official investment approval procedures. It is represented that a critical constraint is that "a major portion" (p.16) of investment approvals have not received Cabinet approval. However, this is because Cabinet approval is only required for allocations of land in excess of 50 acres, and each application made to Cabinet to date has been approved. The vast majority are approved at level of Minister. Mr. [REDACTED] was informed of this procedure.
- states that not enough attention is paid to "momentum of a market oriented economy" (p.v) and also states the importance of the commercialization program which has been developed. Seems not to see the relationship between the "momentum" of a market-economy and commercialization.
- states that the project approves investment applications. (p.17). This is not correct; MED does not approve investments - applications are approved by the MASL and the Minister and, in some cases, by the Cabinet.
- the activities of EIED, which is the official MED implementing agency, are not correct as stated.
- states that six PIPs are active (p.10, p.11). In fact, two are active.
- states variously that 10 (p.10) and 40 (p.17) PIPs were targeted in the project design.
- states variously that 15 (p.10) and 27 (p.23) Savings and Credit Societies have been established.
- states that disbursement of grants to SCSs have been slow (and Mr. [REDACTED] recommends that this be done within 10 days). (p.24) Documentation provided to Mr. [REDACTED] indicates that all grants have been disbursed within two to seven days.
- states that disbursement of loans under the SCS program by banks is extremely slow. (p.24) In fact, of the 18 loans approved by September, 1992, 12 were released within five days of receipt of the grant and three more within 14 days.

The three which were delayed are the exception to the rule and were caused by reasons specific to each case.

- the number of approved PIPs is various stated 8, 9 and 10; the correct number is 9.

- technical assistance effectiveness was delayed, but not, as stated (p.20), because of failure of EIED to appoint counterparts. A group of reasons delayed effectiveness for some six months after the contract team's arrival.

- states that there are 12 commercial farms in System B. Actual number is 26, as detailed in the MED reports on the farms made available to Mr. [REDACTED].

- states that fee schedule for Mahaweli Business Centers was approved but not implemented. (p.25) Mr. [REDACTED] was informed that fees were being charged during the last quarter on a trial basis in three centers.

- states that the MIS existed before MED implementation. (p.33). Actually the MIS being used by MED/EIED was designed and installed during MED.

15  
- states that "the project is behind schedule in meeting project objectives" (p. 16). With exception of land tenure, this is not correct. Annexed is a simple statement of progress against the agreed project indicators. This information was provided verbally to Mr. [REDACTED] during the evaluation. It was provided to him in writing after his first draft was circulated.

62  
- states that MIS is not able to distinguish between consultancies and enterprises, not able to link jobs created to enterprises, and does not emphasise impacts (p. 34). All of these statements are inaccurate. The MIS is a services and clients data base based on a model of legal, accounting and consulting firms which bill clients for services. The whole design of the system is based on the distinction between consultancies (services) and enterprises (clients). The data base can only record jobs created by specific enterprises; in can not record jobs that are not linked to enterprises. Finally, the key impact which is monitored is jobs generated.

- states that MIS has no mechanism to check duplicate names and enterprises (p.34). In fact, this mechanism is in place. Duplicates which were identified in lists given to Mr. [REDACTED] are cases of one entrepreneur having more than one business or cases taken from an old list generated during the development of the system (Mr. [REDACTED] was informed of this when the old list was given to him).

- implies that MIS does not respond to management needs

(p.34). This inaccuracy is probably derived to Mr. [REDACTED]'s failure to discuss with any of EIED's five managers.

- states that the MIS is not user friendly. Mr. [REDACTED] was informed at the outset that the writing of the system was done so as to support mouse, windos and pull down techniques and that the menus etc are to be completed during the first quarter of 1993.

- states that most of the training has been vocational, states that the training component has recently has been "sidetracked" (p.31) and goes on to suggest its termination (p.26). Mr. [REDACTED] was informed of his inaccuracy on this point in the draft and in the rewriting he merely notes that EIED does not share his view; he fails to note that the MED consultants also do not share his view.

- states (p.ii) variously that credit associations is a problem area and that it is an area in which good progress has been made.

- states that Kandy is a "relay station" for most communications. (p.21) Kandy is, inter alia, office that attends to day to day administration of the FBCs. It is not a relay station because (i) communications are easier between the field and Colombo than between the field and Kandy and (ii) most field - Colombo communications are not related to day to day administration of FBCs.

3. The report is weighted by Mr. [REDACTED]'s opinions on the "termination" of the former SSE advisor who had been based in Kandy. This sparse report of 39 pages, which misses major activities and indicators, nonetheless includes ten explicit references and many implicit references to the termination of the SSE Advisor. Mr. [REDACTED] notes without explanation that the termination "complicated" the evaluation of the t.a. provided to the SSE component (p.iv). He states (p.iv), again without explanation, that the "termination of the SSE Specialist may have an impact on the direction of one project component." He asserts (p. 20) that the termination "may have serious long-effects, as is discussed in more detail in Section V.E", and then does not mention at V.E. Remarking (p.iv) that the "technical guidance and momentum provided by this advisor are important", Mr. [REDACTED] suggests that he not be replaced. Mr. [REDACTED]'s stated reasons (p. 29) for not replacing the advisor are that a Sri Lankan could not do it and an expatriate would take too long to be recruited and become effective. The other area in which Mr. [REDACTED]'s work was most obviously "complicated" by this termination is that of "planning and administration". Comments about field personnel receiving conflicting instructions from ISTI, EIED and MASL regional project managers (RPMs), of unsatisfactory communications links with the field, of an unclear chain of command between center and field, of the need to reduce the influence of the RPMs on the field business consultants echo the

opinions of the terminated SSE advisor and are not supported by the facts. While within internal project discussions the idea of "privatizing" the business centers has been seen as a positive one, in Mr. [REDACTED]'s report it is contorted and linked to termination (p.22 - "if the SSE component is terminated and/or the BDCs (sic) privatized").

95