

Robber barons back in Sri Lanka?

by A. Denis N. Fernando
Fellow National Academy of Sciences

With my first hand experience of being closely involved with the Mahaweli Project from its planning stage in 1961 till its final execution stage with the opening of the Kotmale new town in 1990, what I cannot get out of my mind is that All is not well with the Mahaweli Project. This was especially true in connection with the non-monitoring of its dams for safety and could spell a man made disaster in dams falling like a pack of cards ending in an unprecedented catastrophe if any one of the dams in the upper reaches fail.

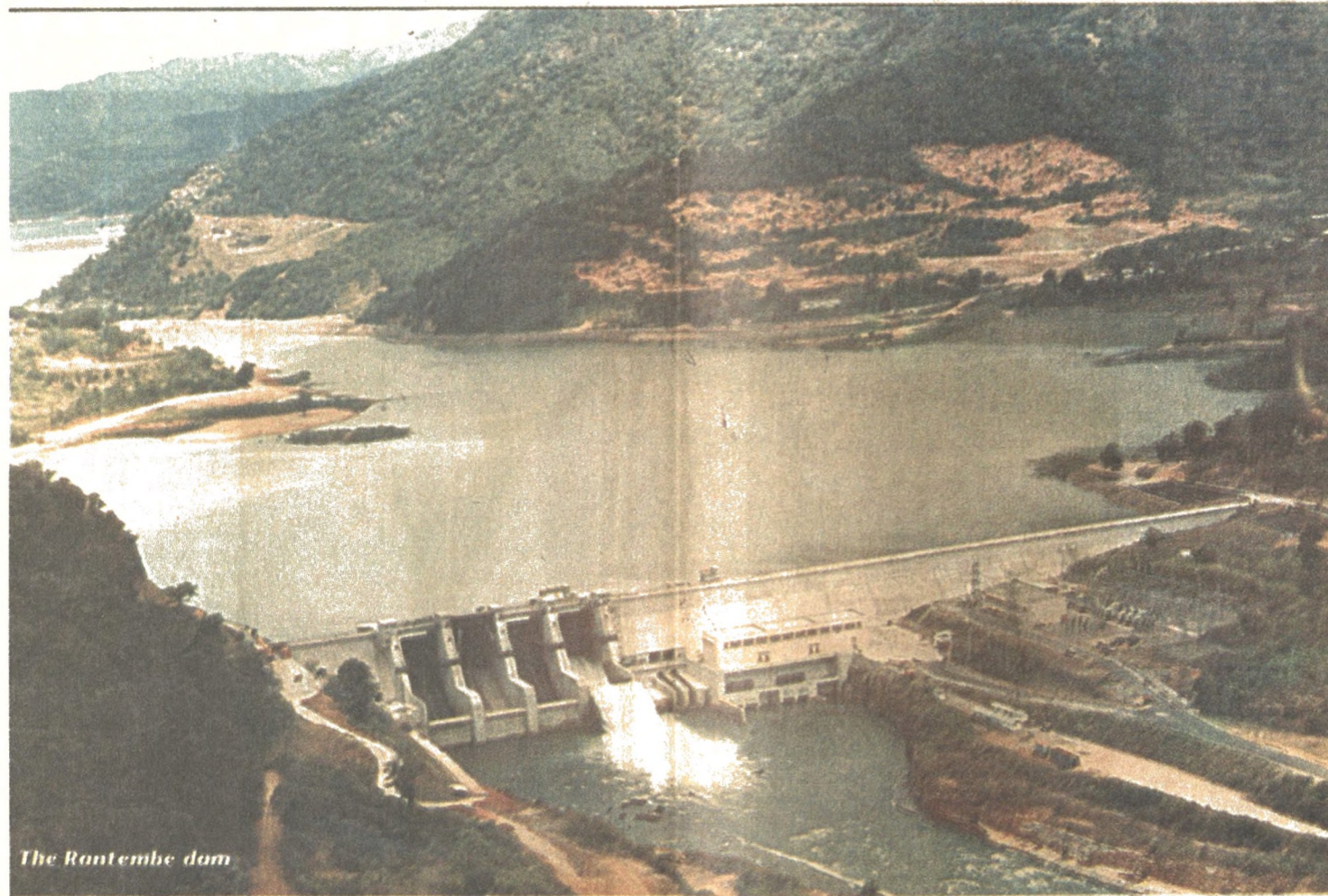
This envisaged catastrophe would be of a much larger magnitude than we have ever faced in our history, exceeding only what we faced in the 13th century, that caused by the natural change of the river course of the Mahaweli ganga resulting in the abandoning of the dry zone. This is mentioned in passing here, because the present disaster facing the country with floods we are witness to, is only a minor catastrophe. There are in fact non-scientists accusing us scientists of not warning them in time, though the impending catastrophe in the Mahaweli has been reported in writing. However no one in the ministries reads them, or takes such reports seriously and relegate them to the wastepaper basket. Possibly because it is beyond their comprehension. And what is worse is that when knowledgeable scientists recommend the total abandoning of the Upper Kotmale project, as it is a danger for the entire Mahaweli project, such advice is not even considered because there are as some who are expecting commissions from this project which would destroy our country.

With that short introduction I will address the topic if this paper.

The first round of Robber Barons were entertained by J. R. Jayewardene in 1978 to execute the Accelerated Mahaweli Project (AMP), where the beneficiaries were commission agents, ministers and the political party concerned from the loans. The foreign Robber Barons found employment for their expatriate staff and executed the project at inflated prices, only benefiting the foreign countries providing the loans. And some of our local bureaucrats starting from secretaries even allotted lands for themselves.

An analysis of "A quarter century of the Mahaweli: Retrospect and Prospect" published by the National Academy of Sciences in the year 2000 provides us with the cost/benefit of the project administered in two stages. Firstly, from 1970 to 1977 using local expertise and indigenous construction agencies, the internal rate of return was as much as 20 per cent, meaning that we were able to recover cost within five years.

In complete contrast, the AMP was only the development of 450,000 acres: half of the Mahaweli Master Plan of 900,000 acres. Not the entire project as interested politicians and their false propaganda machines cry from the roof tops. The estimated cost for the AMP was 20 billion rupees, but it escalated to 60 billion rupees, three-fold, while the Kotmale project executed by Skanska ended at 5 times its estimated cost. The Internal Rate of Return of the AMP was unprecedented and as low as less than 7 per cent and we are yet paying back these loans the details of which I would quote from the National Academy of Science Report on the Mahaweli project under the headings that are relevant:



The Rantembe dam

Objectives of the master plan

According to the FAO/UNDP Master Plan the project was to develop 900,000 acres of land by providing irrigation facilities as the first priority. This comprised 650,000 acres of new land and extra irrigation facilities for 250,000.

Accelerating the Mahaweli Project with modified objectives

With the elections of 1977 the UNP government came to power. The decision was taken by the then President Mr. J. R. Jayewardene to accelerate the Mahaweli project to its realistic limits, in order to make the country self-sufficient in rice, generate sufficient hydro power for industrial use, and find employment for nearly 1.2 million unemployed youth in our country. From the experience gained in other colonization schemes under major irrigation schemes and also under both Galoya and Malawa, the government of the time was aware that although the theoretical water requirement per acre was around 10 acre ft per annum, the reality was that the farmers use double this quantity of water for two seasons for various practical reasons. It was therefore very clear that it would be possible to cultivate only half the area that the Master plan envisaged, namely 450,000 acres of the original 900,000 acres planned for development.

The government realized the importance and priority that should be given to water management if we are to develop the entire area as envisaged. Therefore the government took a definite policy decision not to construct the north central province (ncp) canal which was set aside altogether from the project. This was to secure the water issues to satisfy the prescriptive or riparian rights of those lands already receiving them, which were outside the Mahaweli Basin like in

the Kalawewa and Yan Oya basins. This was in fact the rationale for modifying the original Master Plan and drawing up the (AMP) Accelerated Mahaweli Programme (See Map 2).

It was envisaged to complete the Accelerated Mahaweli Project in five years, in less than a third of the time it would have otherwise taken the AMP, which was in effect half the original Master Plan, estimated to cost Rs. 20,000 million. It was to divert Mahaweli waters to about 500,000 acres of land in the dry zone, settle around 140,000 new settlers and their families in addition to the farmers and settlers already living in the areas to be developed. It was to provide the necessary network of roads, schools, hospitals, townships and other amenities. In short, it was to benefit nearly a million people directly, to ease the population congestion in the densely populated areas by giving new opportunities in the Mahaweli area for the poorest of the poor, and to make our country self-sufficient in basic food.

The strategy adopted for execution of the AMP

To give effect to this decision, a cabinet sub committee was appointed, with president J. R. Jayewardene chairing it. The Ministry of Mahaweli Development and the Mahaweli authority were created by the government.

Since financing the project was one of the chief constraints, the government set about soliciting financial assistance from foreign governments. The Sri Lanka Aid Group was sponsored by the World Bank and ADB and it mobilized external sources for co-financing. The main assistance was from the following countries and agencies within these countries for various components of the project.

Netherlands	NEDECO	implementation strategy
India	WAPCOS	Kotmale Project
Japan	JAICA	feasibility studies for Moragahakanda Project system C
Sweden	SIDA	for Kotmale project
U.K.	ODA	Victoria project
Canada	CIDA	for Maduru oya project
F.R.G.	KFW	for Randenigala and Rantembe project
USA	USAID	for System H. Environment Impact Study

Assistance was also obtained from Australia, Saudi Fund, UNDP, FAO, WFP, and the People's Republic of China.

Irrigation infrastructure

The AMP was to supply Mahaweli water to the vast region along the course of the river, that is mainly in the Mahaweli Basin plain stretching from Mahiyangana to Trincomalee. Water was to be provided to nearly 80,000 acres of existing paddy lands for double cropping, as well as 320,000 acres of new irrigated lands for double cropping for the cultivation of paddy and other crops for two seasons. This region is described as systems A, B, C, D, and G in the Accelerated Mahaweli Development Plan.

Several large irrigation engineering works had to be carried out before Mahaweli waters could be supplied to these 400,000 acres. Side by side with irrigation, Mahaweli waters would also be used to produce electricity through several hydropower projects at the dam sites from the irrigation issues that are used for irrigated agriculture.

Let us now take a closer look at each project that was carried out under the Accelerated Mahaweli Programme and stage 1 of the Mahaweli Master Plan.

Cost benefits and viability of the Mahaweli Project

In the period 1970 to 1976, when stage 1 was executed, as stated earlier the policy of the then government was to mobilize our local expertise, and construction work was executed by the RVDB, MDB, CDE and other local agencies. This kept the costs low and the cost of this part of the Mahaweli Project was recouped in 5 years giving an Internal Rate of Return of over 20 per cent. This was well above the 12 per cent recommended by the World Bank.

An economic analysis of the Accelerated Mahaweli Programme was carried out in 1991 by Vidharshan Fernando, an engineer, for his master degree in Natural Resources Management at the University of Peradeniya. He used data published by the Mahaweli Authority. He had found that the actual cost of the AMP up to 1991 was more than the benefits from agriculture and hydro-power generation. Another words the Benefit/Cost ratio was less than one, indicating that the AMP project was not economical. In August 1995, I made an economic analysis on data published by the Mahaweli Authority in 1994 and came to a similar conclusion, as the internal rate of return was less than 7 per cent, which is less than the World Bank accepted rate of 12 per cent. We note that now priority is given to the generation of hydropower to the cost of irrigation issues, adversely affecting the poorest of the farmers reducing further their already meagre income. This no doubt has contributed to the high suicide rates among them. Priority is given to hydropower generation in order to get more financial returns so that we can pay back their loans and the increasing power demand, can be met at the expense of the farmer.

Through the AMP was estimated to cost around Rs. 20,000 million at 1980 prices, the actual cost has exceeded the estimate by three times, even without the construction of the Moragahakanda dam. The actual benefit will be much less, if agricultural production form state 1, which was carried out earlier and not included in the AMP is left out, as it should be in the assessment of benefits under the AMP.

A further analysis indicates the reasons for the failure of the project to live up to expectations. Some are outside the government's control as would be evident from the list given below.

a. Engineers and local agencies could not be mobilized, unlike in State I of the Mahaweli Project, to keep costs down, as all foreign aid was tied, and construction was carried out by contractors from the donor countries.

b. Built into the foreign contracts were penalty clauses that were very favourable to the foreign contractor agencies. These contracts were clearly not properly scrutinized by those responsible to do so. As a result there were many loopholes in those contracts.

c. The cost of foreign contracts increased not only because of the restriction of bids to the countries providing the loans, but also due to the high cost of expatriate staff and the provision of quarters of a permanent nature with all facilities for both expatriate and local staff.

d. Even heavy machinery brought down on contract at great cost to the project, which should have been handed over to the Sri Lanka government after the contract was over, was not handed over, resulting in tremendous loss to the government. This should be investigated.

Continued on page IV