

**Sri Lanka– Asian Development Bank – Multitranche Financing Facility
Mahaweli Water Security Investment Program**

June 24, 2015
U.S. Position

Sri Lanka has benefitted from strong and shared economic growth in recent years, seeing poverty rates declining along with a decrease in inequality. This growth is largely driven by the strong performance of industry and services. Agriculture accounts for only 11 percent of GDP. In the northern and northwestern dry zone, however—home to 30 percent of the country’s population—agriculture contributes 19 percent to the local economy and provides livelihoods to 70 percent of the rural population. This region exhibits lower average household incomes and a higher incidence of poverty. The country as a whole has ample annual water endowment, but water resources are very unevenly distributed. The dry zone receives just 30 percent of the country’s water resources, but has 80 percent of the total water demand, predominantly for irrigated agriculture.

The proposed investment program will build on the Mahaweli Development Program, initiated by the government in the 1970s to transfer available water resources toward the dry zone and rehabilitate existing irrigation systems. In addition to supporting new and improved water conveyance and constructing storage infrastructure, the program will build capacity in water resources management and study ways to improve system efficiencies and water productivity.

The United States notes up front that, based on a legislative mandate, the United States is obliged to vote “no” on this program, as the majority of the program does not support the “basic human needs” of the poorest. However, the United States does note that poverty rate in the project area is 40 percent, so many of the beneficiaries will be poor rural farmers. In addition, the program is expected to provide bulk water to 358,000 people for domestic use.

The United States has three additional comments on the program.

First, the United States commends staff and the authorities of Sri Lanka on the quality of the environmental impact analysis. The United States notes that the EIA is based on extensive biodiversity and water resources studies that provide adequate baseline data. The alternatives analysis sufficiently considers other routes, water allocations, and the no-project alternative. The design of this program was selected—at greater cost—to reduce resettlement and minimize impacts on wildlife and archaeological sites. The EIA also comprehensively identifies potential cumulative impacts arising from river diversions, irrigation, and hydropower generation. These impacts were evaluated as part of a country-wide water balance study, an environmental flow analysis, and a country-wide strategic environmental assessment to arrive at a country-wide management plan for water resources and agriculture. The United States believes the government of Sri Lanka has made great progress in developing a comprehensive approach to resource development and environmental protection.

Second, however, the United States must note that two small reservoirs, canals, and roads will be built within and alongside protected forest that are home to endangered flora and fauna,

including elephants. The project proposes to offset any habitat loss through measures that include the rehabilitation of degraded areas and reforestation of former teak plantations with indigenous species. The proposed fencing measures would ultimately expand the total protected area of the existing sanctuary. The United States understands that the International Union for the Conservation of Nature (IUCN) is currently undertaking a nationwide study on elephant habitats with the Ministry of Mahaweli Development and Environment. Given the sensitivity of protected areas affected by project activities and the potential impact on elephant habitat, the United States hopes that the project design will consider and incorporate findings of the ongoing IUCN study.

Finally, the United States has some concerns about the timeline and capital requirements for this significant infrastructure project. Completion of the overall North Central Province Canal Program that ADB is supporting with this multitranche financing facility (MFF) is estimated to cost \$1.64 billion. This facility will support only the first phase of the program over the next nine years. Achieving the full benefits of the project requires completion of a second phase, requiring significant additional resources, and the proposed project will not be fully realized until the 2030s. Achieving the envisioned benefits will also require the government to maintain its commitment to funding operations and maintenance over many years. On the one hand this type of long-horizon planning for essential infrastructure development demonstrates the MFF modality at its best. Conversely, however, it begs important questions about project sustainability given the potential vagaries of both political will and political risk. On a related point concerning the timeline: the United States would also like to point out the importance of addressing water resource management and system efficiencies.