

The IDA Sector Mission of 1982 and the Present set up

The second stage of the IDA mission evaluated the response of the dairy sector to the basket of incentives offered by the government and based on their findings, the sector mission outlined the need for the following changes, in March 1983, on policy:

- 1) To streamline the network by setting up collecting centres equipped with milk testing.
- 2) To improve the transportation system by increasing road fleet and speed up the transportation process between collecting centres and factories.
- 3) To establish the importance of bank credit as the main financing source, namely for purchase milk cows, improve pasture and set up small farm milk units.
- 4) To provide technical assistance for on farm development in the wet zone.

The project study recognized the difference in regional potentialities for dairy development and wanted priority to be given to the hill country, mid country and coconut triangle as the major zones.

The mission suggested that the entire country should be divided into five milk sheds, namely:

- a) Jaffna -
Includes the administrative districts of Jaffna, Mullativu, Mannar and Vavuniya.
- b) Colombo -
Includes the administrative districts of Colombo, Kalutara, Kegalle, Ratnapura, Galle and Gampaha.
- c) Kandy -
Includes Kandy, Matale and Nuwara Eliya.
- d) Polonnaruwa -
Includes Polonnaruwa, Anuradapura, Puttalam, Kurunegala and Trincomalee.
- e) Moneragala -
Includes Moneragala, Badulla,

Ampara, Habantota and Batticaloa.

The mission also identified that to ensure that both rural producers and urban consumers gain from a programme of dairy development, major institutional and organizational changes which result in increased milk production and promote processing and marketing should be introduced.

A major diversification from the existing institutional framework proposed was the liquidation of the public sector's direct involvement in dairy development activities. The aim of this change had been to maximize efficiency at the level of collection, processing and marketing of milk for which the study recommended that the Government of Sri Lanka should divest itself of the management of investments in milk processing and marketing, which are essentially commercial activities purported to be better handled by the private sector. It was presumed that a private company unlike a public enterprise would have full autonomy in pricing and management and would pay sufficient wages to attract high calibre staff.

The study also visualised that the existing co-operative system is incapable of providing the producers with the benefits of higher prices, and therefore under the new set up the producers should be granted greater control over the affairs of the dairy producing associations for which they were encouraged to enter into partnership with entrepreneurs in building the dairy industry. In view of this environment, the new project is proposed to be established with an organisational infrastructure patterned after the Indian Amul model. However, the new entities would be registered under the Companies Act and not under the Co-operatives Act.

The project is planned for implementation over a period of seven years.

The objectives of the project are as follows:

- 1) To create an apex organization to provide financial and technical

support for the long-term development of the dairy sector;

- 2) To increase rural employment and incomes through expanding milk production (by providing autonomous organization for the efficient collection, chilling, processing, and marketing of milk and by allowing producers to share in the management and profits of each of these activities in the dairy industry).
- 3) To increase the supplies of domestically produced and hygienically processed liquid milk to urban areas;
- 4) To provide technical assistance and training to support the development of the sector;
- 5) To strengthen and support the monitoring and evaluation of projects in the livestock sector.

The entire project is divided into 6 different components.

They are —

1) Organization and Management

The organizational and management structure of the project contains a four tier structure, in which a non profit guarantee company called Dairy Development Foundation (DDF) is set up at the apex level. The Milk Industries Lanka (MILCO) Limited owned by producers and the private sector forms the next level of organization, which is followed by Milkshed Producer's Companies (MPCs). At the lowest level would be the Village Milk Producers Companies (VMPCs) owned by producers and it is proposed to set up 1,920 such companies at the grassroots level.

2) Processing Plants and Chilling Centres

To modernize and expand the capacity of milk chilling, processing and marketing, it is intended to rehabilitate the existing plant in Colombo and set up three additional plants in

Colombo, Kilinochchi, and Ampara and finally to establish about 11 medium sized plants at other regional centres like Haputale, Haliela, Nawalapitiya, Chenkaladi, Ruwanwella, Vavuniya, Chilaw, Horana, Tissamaharama, Kolagalle and Norwood. At the end of this scheme the total plant capacity would reach 490,000 NLPD with expansion capabilities to reach the 630,000 NLPD level.

3) Technical In-puts and Extension Services

The dairy farms will be provided with artificial insemination (AI) Services, an Emergency Veterinary service, first aid, and advisory services on fodder and pasture production and dairy management. The flow of the advisory, technical, and extension services, would form different magnitudes proportionate to the role and responsibilities of the different organizational structures discussed above, under the Organization and Management Component.

4) Training

The project had emphasised the importance of training of people and expects to launch different types of programmes for different groups of people involved in the project. The proposed training would be provided at local centres as well as at Anand in India.

5) Technical Assistance

The fact that the bulk of the technical assistance can be found in Sri Lanka itself is recognized by the study team. Yet, provision is made to have about 408 man-months of technical assistance at the base cost of US\$ 3.2 million and this constitutes almost 85 percent of the provision made for technical assistance.

6) Monitoring and Evaluation

The project contemplates having monitoring and evaluation sepa-

ately in which physical and financial progress would be monitored by the Dairy Development Foundation itself while the evaluation aspect would be taken care of by the Ministry of Rural Industries Development.

The total cost of the project is estimated at Rs. 2,093 million of which 47 percent will constitute the foreign exchange component. The price contingencies of the total cost, (inflation) over the 7 year period is estimated to constitute 30% of the total cost of which the reliability is questionable given the bitter experiences of many major projects implemented during the last seven year period.

About 66 percent of the total cost is expected to be financed through foreign assistance coming in the form of commodity aid and other donor assistance. Another 28 percent would be financed through a soft loan from an IBRD, credit while the balance which comes to about 6 percent will be provided by the local banks.

The study also highlights the importance of an effective tariff structure to enhance stability and protection of the industry in the early years of the programme's operation. The purpose of such tariff, which is advocated to be below the level of 25 percent, is proposed to be superior in delivery goods.