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Investing in rural people

Democratic Socialist Republic of Sri Lanka
Country strategic opportunities programme

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Contents

Abbreviations and acronyms	ii
Map of the programme area	iii
Summary of country strategy	iv
I. Introduction	1
II. Country context	1
A. Economic, agricultural and rural poverty context	1
B. Policy, strategy and institutional context	3
III. Lessons from IFAD's experience in the country	4
A. Past results, impact and performance	4
B. Lessons learned	4
IV. IFAD country strategic framework	5
A. IFAD's comparative advantage at the country level	5
B. Strategic objectives	5
C. Opportunities for innovation	6
D. Targeting strategy	6
E. Policy linkages	7
V. Programme management	7
A. COSOP monitoring	7
B. Country programme management	7
C. Partnerships	7
D. Knowledge management and communication	8
E. PBAS financing framework	8
F. Risks and risk management	9

Appendices

I. COSOP consultation process	
II. Country economic background	
III. COSOP results management framework	
IV. Project pipeline	

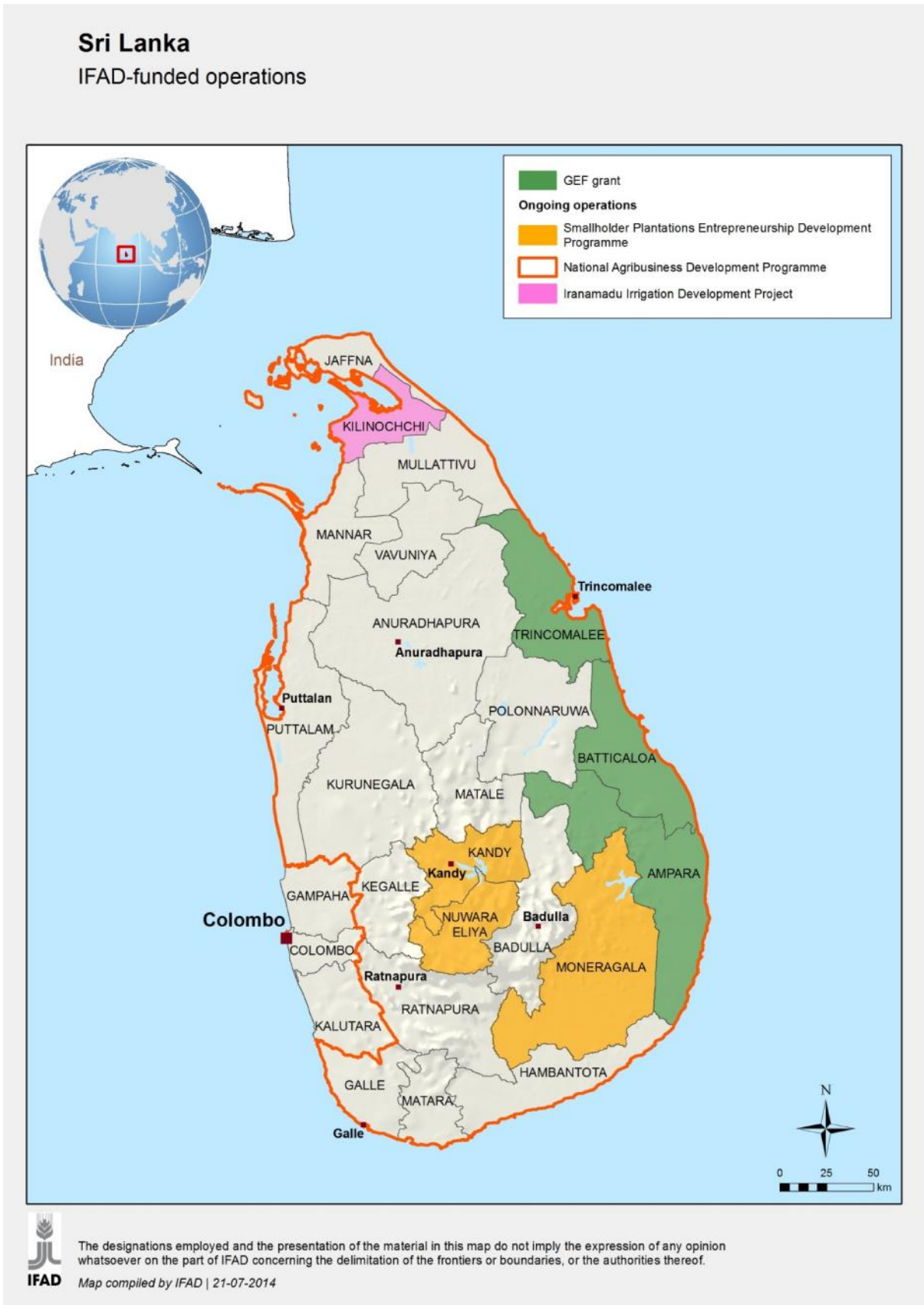
Key files

Key File 1:	Rural poverty and agricultural/rural sector issues
Key File 2:	Organizational matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)
Key File 3:	Complementary donor initiative/partnership potential
Key File 4:	Target group identification, priority issues and potential response

Abbreviations and acronyms

COSOP	country strategic opportunities programme
CPMT	country programme management team
PBAS	performance-based allocation system
SME	small and medium-sized enterprise
SO	strategic objective
UNDAF	United Nations Development Assistance Framework

Map of the programme area



Summary of country strategy

1. This results-based country strategic opportunities programme (COSOP) for Sri Lanka covers investment possibilities from 2015 to 2020. It has been developed against the backdrop of the country's rapidly changing development context and its trend towards becoming a middle-income country (MIC). The COSOP supports government efforts to keep the fiscal deficit at a desirable level, achieve a debt-to-GDP ratio of 60 per cent by 2020, and improve the balance of payments. It builds on IFAD's self-assessment of country programme performance over the last ten years; the findings of a project impact evaluation conducted by IFAD's Independent Office of Evaluation; and broad-based consultations with government institutions, bilateral donors, multilateral agencies, the private sector, civil society and rural people themselves.
2. Rural poverty in Sri Lanka has declined considerably over recent years, to a rate of 6.5 per cent in 2013. Inequality and geographical concentration are the two main features of poverty. The main poverty groups are agricultural smallholders in crop and plantation production, plantation workers, landless labourers, artisanal and small-scale fishers, employees of microenterprises and small and medium-sized businesses, women-headed households, rural communities in fragile, post-conflict areas, and unemployed and underemployed labour.
3. In view of the new Government's development thrust and IFAD's comparative advantage, the strategic objectives (SOs) for the IFAD country programme over 2014-2018 are defined as: SO1 – smallholders benefit from sustainable productivity enhancement in a more resilient livelihood system; and SO2 – poor rural women and men are effectively connected to markets. While SO1 addresses inefficiencies in the production base and labour utilization in rural areas, SO2 will prepare rural people to integrate better into the advancing middle-income economy of Sri Lanka. Rural people in economically lagging and post-conflict areas of Eastern and Northern Provinces will be the target group. Monitoring of COSOP implementation will be based on the COSOP results management framework, and IFAD will manage implementation in collaboration and coordination with the Government.
4. The country programme's efforts in policy linkages, partnerships and knowledge management will be strengthened. There are promising opportunities for innovations in pursuit of the COSOP's SOs. Examples include models for the diversification of smallholder production; technology, techniques and practices for sustainable dryland agriculture; good agricultural practices promoted by the Rainforest Alliance; alternative income-generating sources including off-farm opportunities; modalities for linking small producers to corporate buyers; and alternative financing instruments, including financial products leveraged by remittances. Scaling up will rely on closer partnerships with the Government and other development partners, including the private sector. Knowledge management and sharing will focus on documenting locally generated and wider-ranging best practices for scaling up. South-South cooperation at both the Government and private-sector levels will be facilitated.

Democratic Socialist Republic of Sri Lanka

Country strategic opportunities programme

I. Introduction

1. The previous IFAD country strategy for Sri Lanka was formulated in 2002. This new results-based country strategic opportunities programme (COSOP) covers investment opportunities from 2015 to 2020 and has been developed to guide IFAD's country programme in the rapidly changing country context of Sri Lanka. It builds on IFAD's self-assessment of country programme performance over the last decade, and findings of the impact evaluation of the Dry Zone Livelihood Support and Partnership Programme concluded in 2013 by IFAD's Independent Office of Evaluation. The COSOP process started with the formation of the country programme management team (CPMT) in early 2013, and preparatory studies based mainly on published information. The IFAD country team conducted the main COSOP design mission in June 2013, which undertook broad-based consultations with government institutions, bilateral donors, multilateral agencies, the private sector and civil society. Community-level consultations were undertaken in July and August 2013. The final wrap-up meeting with the Government of Sri Lanka was held in December 2013. An IFAD mission in September 2014 validated the contents of the COSOP. Following the presidential election in early January 2015, further consultations were undertaken with the new Government in January and February 2015.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

2. Following the end of the 26-year civil war in May 2009, the Sri Lankan economy grew at an impressive pace from 2010 to 2012, recording annual average growth of 8 per cent. Gross national income per capita reached US\$3,170 in 2013, compared with US\$2,400 in 2010, solidifying Sri Lanka's status as a middle-income country with a GDP of US\$67.18 billion in 2013. The country is on track to meet most of the Millennium Development Goals (MDGs) and compares favourably with other countries in its income band in terms of gender equality. It also performs well in human development, with a Human Development Index ranking for 2013 of 73rd out of 187 countries, putting Sri Lanka into the high human development category. The newly elected Government's first budget speech set the principle development target of reducing poverty from its current rate of 6.7 per cent by creating 1 million job opportunities, raising per capita income to more than US\$4,000, keeping the fiscal deficit below 5 per cent, reducing the debt-to-GDP ratio from the current 78 per cent to 60 per cent by 2020, and elevating Sri Lanka to strong middle-income country status.

Agriculture and rural poverty

3. Agriculture sector context. Sri Lanka's agriculture sector is composed of the "triple A" – agriculture, aquaculture and animal husbandry – and the plantation subsectors. Eighty per cent of the country's population resides in rural areas and is involved in the triple A economy and the plantation subsector, comprising mainly tea, rubber and coconut production. Despite its declining share in GDP (which was 11.1 per cent in 2012), agriculture is the backbone of the economy and an importance source of employment; almost one third of the total labour force is engaged in agriculture, traditionally dominated by rice and plantation crop production. The Government's strategic direction for agriculture is to achieve sustainable improvements in production through increased productivity, sustained incomes for producers, and market competitiveness. The Government's main

concerns are low and declining productivity; high costs of basic food crops; misuse of agrochemicals, including fertilizer, which affects both water supplies and food quality; adoption of inappropriate, or even harmful, agricultural technologies, leading to highland degradation; poor water management; lack of market competitiveness in the agriculture sector, partly because of the poor quality of products and inadequate food safety measures; inadequate ratios of smallholders to extension staff, and hence poor extension services; and unavailability of pro-poor financial products. Plantation agriculture is to be transformed into an integrated value-added subsector by managing old plantations through continuous cultivation and rehabilitation, increasing productivity, applying good agricultural practices, diversifying products and markets, and enhancing linkages to the private sector.

4. Rural poverty context. In terms of head count index, rural poverty dropped to 6.5 per cent in 2012, from 15.2 per cent in 2007, across all geographical areas and sectors. During the same period, the Gini coefficient decreased to 0.36, showing declining inequality. Nevertheless, poverty remains unevenly distributed, with sectoral disparity. The majority of the poor live in rural areas and estates. Inequality and geographical concentration are the two main features of poverty. Pockets of higher vulnerability and poverty are often determined by location-specific characteristics. The widely unequal contributions to GDP among provinces reflect regional poverty and inequality. Malnutrition affects nearly one third of children and one quarter of women in Sri Lanka, and is concentrated in poorer areas such as estates, dry zones and the coastal lowlands where there are limited economic opportunities. Besides poverty, other major determinants of malnutrition include inappropriate feeding practices, micronutrient deficiencies and diseases.
5. The population groups most affected by poverty are agricultural smallholders; plantation workers; artisanal and small-scale fishers; woman-headed households; unemployed, underemployed and landless labourers, particularly youth and women; people engaged in the microenterprise and small and medium-sized enterprise (SME) sector (pottery workers, cane craft workers, lace enterprises, etc.); and low-skilled women workers engaged mainly in seasonal work. Dry zones and coastal communities are particularly vulnerable to the impact of climate change, driving them further into poverty.
6. While post-conflict areas offer new opportunities for development, their high fragility needs to be addressed to attain overall poverty reduction. The previous Government and its partners embarked on post-conflict reconstruction and recovery efforts immediately after the conflict ended in 2009, supporting the resettlement of displaced persons, the rehabilitation of properties, and longer-term development initiatives. The current Government will continue this work while promoting social equity more systematically.
7. Remittances. Although Sri Lanka has a comparatively small and open market economy, it has a large expatriate labour force of nearly 1.7 million people, whose remittances of about US\$7 billion in 2013 were equivalent to almost one third of the country's foreign exchange earnings and 11 per cent of GDP. About 10 per cent of households, most of them in rural areas, receive remittances. Housing and self-employment ventures are reported as high priorities for the use of remittances from most migrants.
8. Environment, natural resource management and climate change. The natural resource base and the tropical climate provide both opportunities and challenges for overall development. The potential for producing a diverse range of agricultural and livestock products is the main opportunity. Challenges are depletion of forest cover; land degradation; misuse of agrochemicals, including chemical fertilizer; pollution of inland water, marine and coastal ecosystems; and unsustainable use of natural resources. As an island state, Sri Lanka is very

vulnerable to shifts in weather patterns, coupled with continuous rise in ambient temperature and increasingly variable rainfall, which could have effects on agricultural productivity and food and water security. Coastal communities could also be affected by sea-level rise, frequent storm surges and coastal flooding.

B. Policy, strategy and institutional context

National institutional context

9. The newly established Ministry of Policy Planning and Economic Affairs is mandated by the Government to coordinate official development assistance. The in-country component of the CPMT was led by the Ministry of Finance. IFAD has established close working relationships with the ministries responsible for policy planning and economic affairs, agriculture, fisheries and aquatic resources development, plantation industries, housing and Samurdhi (poverty reduction programme), and local government and provincial councils. Other important partners for the country programme include microfinance institutions (the Regional Development Bank, Women's Development Services Cooperative Society, etc.), agribusiness firms (Cargills [Ceylon], Nestlé, Milco, etc.), government institutions at the provincial and district levels, civil society and community-based organizations (including farmer organizations).

National rural poverty reduction strategy

10. The key policy document outlining the national rural poverty reduction strategy is the Government's development policy framework, complemented by the current election manifesto and the 2015 budget statement. The policy framework focused on achieving the MDGs ahead of time by eradicating hunger and deep-rooted poverty. The budget speech emphasized that: "We [the Government] cannot make the poor rich within a short time. But we can build a society devoid of poverty within a short span of time". The statement therefore seeks to: (i) ensure the development of villages and their emergence as "microcentres of growth on modern lines"; (ii) focus on regional development, with particular emphasis on Northern and Eastern Provinces, to restore people's livelihoods, reactivate services and facilities, rehabilitate infrastructure and develop human capabilities; and (iii) encourage the development of enterprises and domestic agriculture as the means for promoting inclusive economic growth. These strategies are implemented through Samurdhi, the core national poverty reduction and rural development programme, which supports village household economies with multi-pronged activities such as credit-plus services; building of technical skills; marketing and technology assistance for microenterprises and small businesses in agriculture, fisheries, livestock, cottage industries, etc.; community-based banks for savings mobilization; and regional development initiatives.

Harmonization and alignment

11. National ownership of the IFAD country programme is perceived as critical for the programme's success. Central to achieving this ownership is ensuring that the country programme supports national policies, institutions and programmes. In particular, the Government has made important progress in developing results frameworks across the public sector, linked to the national plan. IFAD coordinates its country programme work with government agencies, the international development community and the United Nations system. It contributes to the objectives of the United Nations Development Assistance Framework (UNDAF) 2013-2017, especially UNDAF pillar 1, equitable economic growth and sustainable livelihoods. IFAD takes part in the United Nations Country Team (UNCT) and is a member of the UNCT working group on UNDAF pillar 1. IFAD participates in the Private Sector Development Working Group of the Development Partner Forum, which is attended by all multilateral and bilateral agencies operating in Sri Lanka. IFAD maintains close contacts and undertakes regular consultations with all concerned bilateral and multilateral donor agencies during all project missions,

aiming to promote learning, avoid duplication of efforts and explore partnership opportunities.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

12. IFAD has financed a total of 16 projects in Sri Lanka since 1978, with loan commitments of US\$238.90 million and a total value of about US\$400 million. Currently, three projects are ongoing. IFAD's project approaches have evolved over time: those in the 1980s followed mainly the integrated rural development approach; in the 1990s, projects gradually adopted a collaborative approach involving NGOs, community organizations and the private sector in project planning and implementation; and since the early 2000s, projects have focused on the commercialization of agriculture and the value chain approach. IFAD has concentrated on three geographic zones: the dry zone in northern and eastern parts of the country, smallholder plantation areas in Central Province, and eastern and southern coastal districts affected by the 2004 tsunami. The most recent project is located in Northern Province, contributing directly to post-conflict reconstruction. Altogether, IFAD-financed projects in Sri Lanka have benefited more than 2.2 million poor people.
13. IFAD projects have contributed to increasing the incomes of beneficiary households. In the dry zone, project-supported seed production led to farmers' incomes more than doubling. The incomes of women participants in the loan scheme increased by 32 per cent for agro-based enterprises and 47 per cent for trading. In smallholder plantation areas, the use of water storage tanks and protective netting improved vegetable productivity, with a 40 per cent increase in beneficiaries' gross income. The increase in monthly income of beneficiary households under the coastal project averaged 15 per cent.
14. Improved food security has been reported by all completed projects. In the dry zone, crop productivity was improved thanks to practices introduced through IFAD project interventions. Project-supported small-scale irrigation schemes improved water availability for paddy production, leading to increases in cropping intensity of 50 per cent in the maha (rainy) season of 2010-2011 and 410 per cent in the yala (dry) season of 2011. About 20 per cent of project-supported coastal households reported improved food security, compared with 13 per cent of non-beneficiary households.
15. Through the Post-Tsunami Coastal Rehabilitation and Resource Management Programme, IFAD gained experience in post-conflict fragile areas of Eastern Province where it worked during 2010-2013 with institutions that were struggling to emerge. Flexible operations, willingness to work with multiple partners and a devolved project management system facilitated IFAD interventions in these areas, which achieved almost all their expected outcomes. A rural finance initiative under the programme piloted the provision of business development services to the target population, convincing banks to accept collateral from social groups for loans to SMEs. About 80 per cent of loan beneficiaries were women.
16. Empowerment is an important impact of IFAD project interventions. Women participants in project activities have accounted for around 40-60 per cent of the total, and women hold nearly half the key positions in rural organizations. The majority of loan beneficiaries are also women (60-100 per cent).

B. Lessons learned

17. Based on IFAD's operational experience in Sri Lanka, the main lessons include:
 - (i) IFAD interventions in improved land productivity for domestic crop and plantation agriculture, irrigation rehabilitation, fisheries, rural enterprise development, rural and microfinance, value chain development and rural

infrastructure development contribute to poverty reduction; (ii) geographic targeting with carefully selected poverty-stricken divisions as project areas is an effective strategy; (iii) the private sector's involvement with IFAD projects is strong and sustainable when flexible implementation arrangements, critical volumes of products to meet market needs and strong strategic alliances are available; (iv) equity-sharing models with appropriate legal frameworks are successful; (v) when project beneficiaries are over-dependent on public extension services, project expectations are less likely to be met; (vi) rural grassroots institutions are strong in common property development and management, but are not always effective in market-based commercial enterprises; (vii) rural and microfinance is an effective instrument for providing financial services to the poor; (viii) project management, M&E, financial management and procurement are common and recurrent issues; and (ix) high staff turnover hinders efficient project implementation – efficiency is improved by having a two-tier project administrative system with a senior government official from the project lead agency functioning as project director with a recruited project manager.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

18. Sri Lanka has advanced from having a low-income to a middle-income economy. Since about 2007, the country has been moving increasingly towards new bilateral donors and commercial lending, while traditional bilateral development partners either scale down or phase out their country operations. The main international financial institutions and new bilateral donors focus on interventions at the macroeconomic level, with particular emphasis on economic development of the country's north and east, and on sectors such as roads and transport (including highways), power and energy, and water and sanitation. Fewer donor-funded development initiatives address the challenges of reducing rural poverty and supporting smallholder agriculture, particularly in poorer districts and remote areas.
19. This is the context in which the Government has identified IFAD as a main partner in supporting rural development and poverty reduction. IFAD will have a significant role in helping the rural poor in "emerging villages" and subsectors, especially in piloting innovative and effective ways of reducing rural poverty sustainably that can be scaled up by the Government and/or other development partners. The country programme will capitalize on opportunities by scaling up support to agriculture-related subsectors, focusing on effective, environment-friendly and climate-smart approaches and techniques for sustainable productivity improvement; and market-led innovations and instruments for smallholders, with related capacity-building and institutional strengthening.

B. Strategic objectives

20. IFAD will support the Government's rural poverty reduction strategy and agriculture-related subsector policy directions, which call for achieving food security, ensuring higher and sustainable income for farmers, improving production and productivity, and sustainably managing the environment. Within this policy framework, IFAD's country programme will promote broad and deep involvement of the private sector (where such involvement can contribute to these objectives), and of small and medium-sized industries related to the agriculture, fisheries, livestock and plantation sector. Based on the Government's development agenda and IFAD's comparative advantages, the strategic objectives (SOs) of the IFAD country programme in Sri Lanka up to 2020 are defined as follows:
 - SO1: Smallholders benefit from sustainable productivity enhancement in a more resilient livelihood system. This objective builds on IFAD's past project experience and contributes directly to

addressing the causes of rural poverty that relate to inefficient factors of production, low productivity due to degradation of natural resources (mainly land), adoption of harmful agricultural technologies, and lack of off-farm opportunities. SO1 is fully aligned with the Government's sectoral priorities, as highlighted in the previous subsection, and recognizes the growing linkages between urban and rural growth and employment creation. Adaptation to climate change will be a core design consideration.

- SO2: Poor rural women and men are effectively connected to markets. This objective calls for scaling up experiences from IFAD's ongoing projects in value chain development linked to urban consumers, enhancing market connectivity through effective private- and public-sector partnerships, and mobilizing innovative financial products. The strategy will contribute to addressing the causes of poverty connected with unemployment, limited access to remunerative markets, and weak financial infrastructure. SO2 is aligned with the Government's development priorities and addresses the needs and characteristics of the advancing economy of an MIC.

C. Opportunities for innovation

21. There are proven successful approaches for promoting innovations and scaling-up. Work to achieve SO1 will support innovative models for enhancing productivity of smallholder plantations; models for improved crop and livestock integration; sustainable dryland agricultural technology that is climate-smart, climate-resilient, less harmful to the environment, and cost-effective; the good agricultural practices with minimum use of agrochemicals promoted by the Rainforest Alliance and Unilever for tea production; the farmer business school model together with elements from the farmer field school model; and models for alternative income-generating sources, with an inclusive targeting strategy covering post-conflict and fragile areas of Eastern Province. The learning agenda linked to SO1 will address several dimensions: (i) the misuse of agrochemicals, fertilizer recommendations for farmers based on soil conditions and assessment of soil plant nutrients, and the linked issue of food safety; (ii) the inappropriate drive towards mechanization, which increases inefficiencies in the production system, with concomitant increases in the costs of production; and (iii) the use of highlands for annual cropping without adequate safeguards against erosion or consideration of crop rotations.
22. For SO2, the country programme will build on the strong interest shown by the private sector and key players in financial institutions, and on their partnerships with smallholder farmers developed through ongoing projects. The focus will be on fine-tuning partnership arrangements and scaling up successful ones, such as those involved in marketing linkages, forward sales or buy-back contracting, processing of crops and other farm produce, value addition to agroproducts, storage and transport, equity-sharing models, and shared responsibility arrangements; joint investments in processing centres by farmer organizations and the private sector; and support to collecting centres for farm and primary processed products. Leveraged financing with guaranteed funds and other innovative financial products, such as those based on remittances, will be facilitated as supplementary instruments.

D. Targeting strategy

23. The targeting strategy of the country programme will be in full conformity with IFAD's targeting policy. Project support will target districts and areas with higher incidences of poverty, and localities that are conflict-affected and face specific development challenges because of their geographic locations. The main target groups include: (i) smallholders in domestic crop production and plantation; (ii) artisanal and small-scale fishers and women involved in the fishing industry; (iii) landless labourers, particularly in the plantation sector; (iv) rural youth; and (v) women, especially woman-headed households. Gender mainstreaming and

women's empowerment will remain a central focus in project design and implementation.

E. Policy linkages

24. The country programme's policy linkages will be guided by the COSOP SOs. Given its strategic focus on a limited number of themes such as smallholder agriculture, private-sector linkages, SME development and rural financing, IFAD will have an important role in providing evidence to enable government and other national stakeholders to engage in policy review and dialogue. This evidence will also support the COSOP's scaling up agenda. The main policy agenda covers land tenure, especially for tea and rubber smallholders; incentives for diversification and crop and livestock integration; initiatives and models for effective partnership with the private sector; sustainable institutional building of community organizations; SME development and diversification; and initiatives or products for productive use of remittances. IFAD will use its ongoing and future projects as the main platform for providing evidence and guiding dialogue on these issues. Instruments for policy discussions include national workshops, forums and initiatives dealing with rural poverty reduction. These processes will be supported by greater attention to the generation and dissemination of knowledge from IFAD-supported project activities. To promote this agenda, projects will be designed with government and other stakeholders and with South-South and Triangular Cooperation.

V. Programme management

A. COSOP monitoring

25. Monitoring of the COSOP's implementation progress will be based on the COSOP results management framework. The framework's key outcome and milestone indicators have been projected on the basis of results expected from ongoing and new projects likely to be implemented over the COSOP period. The Ministry of Finance and IFAD will jointly conduct annual COSOP reviews. Starting from 2015, the IFAD country team will prepare an annual progress report. The COSOP midterm review will take place in early 2018, and the completion review will be carried out at the end of 2020. During the annual and midterm reviews, efforts will be made to use the inbuilt flexibility of the COSOP to realign its priorities with emerging national policies and priorities.

B. Country programme management

26. IFAD will manage COSOP implementation in close collaboration and coordination with the Government and other active partners. The CPMT (with an in-country component and a headquarters' component) will be the main instrument. IFAD will continue the direct supervision of its projects in Sri Lanka and will proactively provide implementation support to ongoing projects. Implementation support will complement the supervision exercise, focusing on both project-specific issues and common issues affecting all projects. The IFAD country office will play crucial roles in project supervision and implementation support; sharing of experience and lessons learned among IFAD-supported projects; and support to policy dialogue, partnership building and knowledge management. The existing annual reviews of country programme implementation will be continued.

C. Partnerships

27. During the COSOP period, IFAD will strengthen its partnerships with the Government, including the Ministry of Finance, the Ministry of Policy Planning and Economic Affairs, various sectoral and other ministries and agencies, and country stakeholders from civil society and academia. IFAD will also explore cofinancing and other partnership opportunities with the development community, including multilateral institutions and bilateral donor agencies. Partnerships with non-traditional donors or others will be explored, such as in the use of remittances or other alternative financing resources. IFAD will continue to contribute to the UNDAF

process, and will cooperate closely with the other Rome-based United Nations agencies at both the in-country policy dialogue and operational levels. Private-sector stakeholders have been dynamic partners on all ongoing IFAD projects in Sri Lanka, and the country programme will enhance these partnerships through proactive information sharing, regular bilateral meetings and consultations, project cofinancing, and fostering of improved partnership arrangements between smallholder producers in project areas and private-sector firms. South-South and Triangular Cooperation will also be facilitated. IFAD is well placed to promote South-South and Triangular Cooperation between Sri Lanka and IFAD's other member countries, within the subregion and beyond. Such cooperation could take the form of activities related to knowledge sharing with other MICs; exposure visits to other countries and training of Sri Lankan officials, project staff and farmer representatives; and transfer of Sri Lanka's experiences.

D. Knowledge management and communication

28. Knowledge management and communication efforts will be guided by IFAD's strategy for knowledge management and its communication strategy. The knowledge management agenda will facilitate policy dialogue, promote learning and disseminate experiences gained. At the country programme level, existing arrangements – such as country programme newsletters, special studies, and support for information, experience and knowledge sharing between and among projects and with other development partners – will be continued and improved. At the project level, knowledge management and learning will be guided by an agenda to be developed by project managers during the first year of the project, and will be facilitated by the IFAD country team and supervision missions. Inter-project exchange of knowledge and learning will be promoted through events such as exchange visits (locally and/or to other countries), annual country programme reviews, workshops, etc. The country programme will promote sharing of Sri Lanka's experience and knowledge on rural poverty reduction with other MICs. Knowledge cooperation with the Government will be an area of particular focus during the COSOP period. The country team will work with the Ministry of Finance and the Ministry of Policy Planning and Economic Affairs and lead project agencies in documenting experiences and lessons that can provide the basis for policy review dialogue and guide scaling-up plans. Subject to resource availability, the country team will also support activities and events that promote the transfer of IFAD's accumulated knowledge and good practices to Sri Lanka.

E. PBAS financing framework

29. The COSOP will cover two performance-based allocation system (PBAS) cycles: 2013-2015 and 2016-2018. Based on the current PBAS formula, IFAD's funding for Sri Lanka is estimated at about US\$26 million for 2013-2015. Table 1 illustrates how this allocation is derived. The resources will be used to develop one project per PBAS cycle, and about US\$1-2 million will be set aside for non-investment (or non-lending) activities.

Table 1
PBAS calculation for COSOP year 1

	<i>Indicators</i>	<i>COSOP year 1</i>
Rural sector scores		
A (i)	Policy and legal framework for rural organizations	3.75
A (ii)	Dialogue between government and rural organizations	3.63
B (i)	Access to land	3.56
B (ii)	Access to water in agriculture	3.13
B (iii)	Access to agricultural research and extension services	3.67
C (i)	Enabling conditions for rural financial services development	4.00
C (ii)	Investment climate for rural businesses	4.08
C (iii)	Access to agricultural input and produce markets	4.08
D (i)	Access to education in rural areas	5.44
D (ii)	Representation	4.50
E (i)	Allocation and management of public resources for rural development	3.31
E (ii)	Accountability, transparency and corruption in rural areas	3.56
	Sum of combined scores	46.71
	Average of combined scores	3.89
	Project-at-risk (PAR) rating	4
	Country policy and institutional assessment rating	3.93
	Country score	3 959
	Annual allocation (United States dollars)	9 510 132

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	3	3.59	-23
Base case	4	3.89	0
Hypothetical high case	5	4.19	26

F. Risks and risk management

30. The main risks associated with both SOs, and the risk management measures are outlined in the following:

- Inadequate focus on poverty and elite capture of project benefits: This is a medium- to high-level risk. IFAD could manage it through: (i) vigilance during project design and implementation with – where possible – the promotion of project activities that are intrinsically of more interest to poorer groups (and less interest to better-off groups) in rural communities; (ii) adequate focus on targeting poverty during supervision and implementation activities; (iii) sensitization against interference by local elites, through empowerment of project participants; (iv) alerting the project lead agency to cases of inappropriate targeting, with evidence; and (v) effective monitoring systems to ensure validation of targeting.
- Weak enabling environment for private-sector engagement: This is a medium-level risk as the working environment for the public and private sectors evolves while: (i) certain policies (e.g., pricing, especially for major food crops) do not support value chain development; (ii) transaction costs for traders dealing with rural producers remain high; and (iii) contracts may be breached by either of the parties in sales contracts. This risk could be

managed through: (i) improved marketing channels, processing and packaging; (ii) awareness-building schemes to enhance understanding of contractual obligations, especially among small producers, and preparing small producers to satisfy market demands (particularly in terms of quality); (iii) close collaboration with like-minded development partners on helping improve the enabling business environment; (iv) encouraging aggregated product supply through producer organizations; and (v) clear, mutually agreed and legally strong sale agreements/contracts backed up by secure enforcement mechanisms and processes.

- Poor project management performance: This is a medium-level risk, which could be managed through: (i) constant dialogue and follow-up with lead project ministries to ensure the appointment of competent project management personnel and to minimize staff turnover; (ii) proactive implementation support from the IFAD country office, particularly through participating in policy dialogues with government authorities on revising the payment systems for staff on externally funded projects; and (iii) integrating project management processes into the lead project agency, or employing government staff as the projects' core staff.
- Lack of engagement by the public sector in knowledge management and communication: This is a medium-level risk, which could undermine the basis for evidence-based reviews and discussion of policies and strategies for smallholder income generation and employment. This risk could be managed by: (i) selecting appropriate topics and providing examples of IFAD's development and transfer of knowledge management within Sri Lanka and elsewhere in the region; and (ii) using grant resources to provide forums for disseminating knowledge and results. Communication and advocacy by IFAD programmes in Sri Lanka would be highlighted.
- Risk associated with financial management and procurement: This is a medium- to high-level risk. In the 2012 annual global Corruption Perceptions Index released by Transparency International, Sri Lanka ranked 79th out of 176 countries. IFAD will manage this risk through: (i) adequate arrangements for procurement and financial management at the project level to ensure proper checks and balances; (ii) regular reviews of fiduciary aspects by supervision missions; (iii) adequate external and internal audit arrangements; and (iv) support for capacity strengthening to address capacity gaps at the project level.

COSOP consultation process

1. The COSOP formulation process started in February 2013 involving the formation of the in-country component of the Country Programme Management Team (CPMT), preparation of background papers and consultations with all the main stakeholders for rural poverty reduction in Sri Lanka.
2. In-country CPMT. This was formed and coordinated by the then (2014) Ministry of Finance and Planning (MOFP), and is composed of representatives from the following government institutions:
 - 1) MOFP: Department of External Resources (chair); Department of National Planning
 - 2) Ministry of Agriculture
 - 3) Ministry of Fisheries and Aquatic Resources Development
 - 4) Ministry of Livestock Development
 - 5) Ministry of Plantation Industry
 - 6) Ministry of Local Government and Provincial Councils
 - 7) Central Bank of Sri Lanka
 - 8) Project Directors of all IFAD-financed ongoing projects (a total of 5 at the time of COSOP formulation)
3. Background papers. From March to June 2013, a series of background papers were commissioned and prepared by a team of national consultants, for the purpose of informing the main COSOP design mission by providing the most up-to-date account of the rural poverty related sectors and cross-cutting topics that are relevant to the COSOP. These involve the following:
 - 1) Agriculture (Gamini Hitinayake, Senior Lecturer, University of Peradeniya, Sri Lanka);
 - 2) Fisheries and aquatic resources (Claude Fernando, Fisheries Biologist);
 - 3) Smallholder plantations (Gamini Hitinayake);
 - 4) Irrigation (Mahinda Panapitiya, Irrigation Engineer);
 - 5) Microfinance (Bodhi Wanniarachchi, consultant);
 - 6) Baseline poverty analysis (Anoja Wickramasinghe, Professor, University of Peradeniya, Sri Lanka);
 - 7) Private-public partnerships for agribusiness development (Bodhi Wanniarachchi);
 - 8) Environment and climate change (Gamini Hitinayake);
 - 9) Remittances (IFAD design team); and
 - 10) Self-assessment of the performance of IFAD's country programme (Anoja Wickramasinghe).

The first five are sector papers while the last five are papers on cross-cutting topics. The in-country CPMT met on 19 June 2013 to discuss the main findings of the background papers.

4. **Development partners.** The IFAD COSOP design mission was conducted from 10 June to 20 June 2013. During this period, broad-based consultations were undertaken with government ministries, foreign embassies, bilateral donors and multilateral development agencies. The team had meetings and discussions with Asian Development Bank (ADB), Agence Francaise de Development (AFD), Canadian International Development Agency (CIDA), Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH, European Union Delegation, Food and Agriculture Organization of the United Nations (FAO), French Embassy, Japan International Cooperation Agency (JICA), Netherlands Embassy, Norwegian Embassy, United Nations Development Fund (UNDP), United States Agency for International Development

(USAID), World Food Programme (WFP), and the World Bank. These meetings and consultations served the main purpose of (i) exchanging views on the country context (especially the aspects pertinent to poverty reduction and smallholder agriculture), and on operational lessons and experiences as well as those emerged from interactions with the government; (ii) sharing information on respective country programmes, for both country strategy and operations; and (iii) exploring areas of cooperation and joint work.

5. The IFAD team also had several rounds of contacts and communications with a number of other bilateral agencies which were unable to meet with the IFAD team, including AusAID of Australia, KoICA of Korea, Saudi Fund of Saudi Arabia, DFID of UK, etc.
6. Private sector and other stakeholders. During the 10-20 June mission, the IFAD team organized two consultation workshops to solicit views and opinions from the private sector, non-governmental organizations, microfinance institutions and banks, service providers, research institutes, etc., including: Cargills Ceylon PLC., CIC Seeds (Pvt) Ltd, J K Marketing (Pvt) Ltd (John Keels PLC.), Daya Group of Companies, Bio Foods (Pvt) Ltd, Lanka Canneries Ltd, Ceylon Agro Industries Ltd (Prima), International Foodstuff Group of Companies, Aqua 'N Green Ltd, Green Plants & Flowers (Pvt) Ltd, Intercom Group of Companies, National Chamber of Commerce, Women's Chamber of Industry & Commerce, Spice Council, Agribusiness Council, Sewa Lanka Foundation/Sewa Finance Ltd, Sanasa Group, Seeds (Sarvodaya), Plan International, Regional Development Bank, Women's Bank, Industrial Services Bureau, IDAR (Pvt) Ltd, Development Facilitators (Pvt) Ltd, Greentech Consultants (Pvt) Ltd, Capacity & Entrepreneurship Development for All, Hatton National Bank (HNB), and International Water Management Institute (IWMI). Apart from the consultation workshops, bilateral discussions were held with some of these stakeholders. These entities were unanimously enthusiastic in seeking opportunities of linkages with the IFAD project operations. In particular, the agribusiness firms considered the partnership as a win-win situation for both the IFAD-supported small producers and the firms, in the form of secured market access for the former and guaranteed source of product supply for the latter. HNB is interested in working together with IFAD to promote the productive use of remittances.
7. Consultations with the rural poor. In the context of two IFAD project supervision missions in July (Iranamadu Irrigation Development Project) and August 2013 (GEF grant project), special sessions were organized with the project target groups in the project areas to understand the perspectives and priorities of the rural poor. These participatory consultations were conducted in the Northern (Kilinochchi) and Eastern Provinces (Trincomalee, Batticaloa and Ampara) respectively, providing valuable insights on how the issues of poverty and poverty reduction are perceived by the poor people themselves.
8. Development Partner Forum Private Sector Development Working Group (chaired by IFC). IFAD made a presentation on the COSOP work during the Working Group's meeting on 21 November 2013 at the IFC Country Office, which was attended by Australia, DFATD, EU, IFAD, IFC, Korean Exim Bank, GIZ, UNDP, UNICEF, UNOPS and USAID. Participants discussed the partnership arrangements with the private sector built up by the IFAD-financed projects/programmes, modalities for scaling up, market chain development for rural farmer produce, and cofinancing opportunities.
9. Wrap-up meeting with MOFP. The meeting was held on 06 December 2013, under the chairmanship of the Secretary / MOFP, with the participation of senior government officials from MOFP and other ministries. It was noteworthy from the meeting discussions that the government attaches the highest importance to poverty reduction, and this was explicitly articulated in the Sri Lankan President's

2014 budget speech at the Parliament. The government has adopted a new approach for foreign funded projects, requiring their full alignment with national development programmes. While endorsing the proposed COSOP SOs, MOFP requested that the COSOP's country economic and sector background information be updated on the basis of the government's Public Investment strategy 2014–2016, newly released by the Department of National Planning.

10. A final COSOP validation mission was therefore fielded in September 2014, with the task of further consulting with all the concerned stakeholders, from government to private sector players and development partners, to validate the priority areas that have already been identified for: further deepening efforts on IFAD's engagement in government's rural and agricultural development efforts; agreeing on the scaling up agenda through increased co-financing partnerships with other development partners and better linking with ongoing or planned government investments; and introducing more forcefully into IFAD's Sri Lanka country programme key elements of knowledge generation and sharing of both local and global best practices on rural and agricultural development investment policies and strategies. The Aide Memoire of the validation mission was submitted to the government, and its contents served as the basis for the finalisation of the COSOP.
11. Following the presidential election in early January 2015, an additional round of consultations was held with the new Government, particularly with the newly-established Ministry of Policy Planning and Economic Development. The new Government requested the COSOP be brought in line with its election manifesto and the budget speech, which are the currently available policy documents of the government; it confirmed its endorsement of the COSOP SOs through an official correspondence dated 13 February 2015.

Country economic background

Sri Lanka

Land area (km2 thousand) 2011 1/	63	GNI per capita (USD) 2011 1/	2 580
Total population (million) 2011 1/	20.87	GDP per capita growth (annual %) 2011 1/	7
Population density (people per km2) 2011 1/	333	Inflation, consumer prices (annual %) 2011 1/	7
Local currency Sri Lanka Rupee (LKR)		Exchange rate: USD 1 = LKR	
Social Indicators		Economic Indicators	
Population growth (annual %) 2011 1/	1	GDP (USD million) 2011 1/	59 172
Crude birth rate (per thousand people) 2011 1/	18	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2011 1/	7	2000	6.0
Infant mortality rate (per thousand live births) 2011 1/	11	2011	8.3
Life expectancy at birth (years) 2011 1/	75		
		Sectoral distribution of GDP 2011 1/	
Total labour force (million) 2011 1/	8.62	% agriculture	12
Female labour force as % of total 2011 1/	32	% industry	30
		% manufacturing	18
		% services	58
Education		Consumption 2011 1/	
School enrolment, primary (% gross) 2010 1/	99	General government final consumption expenditure (as % of GDP)	15
Adult illiteracy rate (% age 15 and above) 2010 1/	9		
		Household final consumption expenditure, etc. (as % of GDP)	70
Nutrition		Gross domestic savings (as % of GDP)	15
Daily calorie supply per capita	n/a		
Malnutrition prevalence, height for age (% of children under 5) 2009 1/	19	Balance of Payments (USD million)	
Malnutrition prevalence, weight for age (% of children under 5) 2009 1/	22	Merchandise exports 2011 1/	10 236
		Merchandise imports 2011 1/	20 269
Health		Balance of merchandise trade	-10 033
Health expenditure, total (as % of GDP) 2011 1/	3	Current account balances (USD million) 2011 1/	-4 615
Physicians (per thousand people) 2010 1/	0.49	Foreign direct investment, net 2011 1/	-896
Population using improved water sources (%) 2010 1/	91		
Population using adequate sanitation facilities (%) 2010 1/	92		
Agriculture and Food			
Food imports (% of merchandise imports) 2011 1/	13.3	Government Finance	
Fertilizer consumption (kilograms per ha of arable land) 2009 1/	258	Cash surplus/deficit (as % of GDP) 2011 1/	-6
Food production index (2004-2006=100) 2011 1/	117	Total expense (% of GDP) 2011 1/	18
Cereal yield (kg per ha) 2011 1/	3 503	Present value of external debt (as % of GNI) 2011 1/	37
		Total debt service (% of GNI) 2011 1/	2
Land Use		Lending interest rate (%) 2011 1/	9
Arable land as % of land area 2011 1/	19	Deposit interest rate (%) 2011 1/	6
Forest area as % of total land area 2011 1/	29		
Agricultural irrigated land as % of total agric. land 2011 1/	n/a		

1/ World Bank, *World Development Indicators* database
CD ROM 2013-2014

COSOP results management framework

Country Strategy Alignment	COSOP Strategic Objectives	COSOP Outcome Indicators (by end 2018) *	COSOP Milestone Indicators (by end-2016)	COSOP Institutional/Policy Objectives (in partnership mode)
<p>Investment would be aligned with the agricultural policy directions prescribed in Mahinda Chintana: achieving food security of people; ensuring higher and sustainable income for farmers; ensuring environmental conservation; introducing efficient farm management techniques; using high yielding seeds and improved water management; and improve irrigation water delivery.</p>	<p>SO1. Smallholders benefit from sustainable productivity enhancement in a more resilient livelihood system</p>	<p>(i) The productivity of 100,000 smallholders in the domestic and plantation agricultural sectors that are focused has been increased (Source: Plantation Statistical Book; Agriculture Census)</p> <p>(ii) 50,000 targeted smallholders will have 20% reduction in their income poverty (Source: Sector studies and project outcome assessments)</p> <p>(i) 50,000 targeted smallholders adopting pro-poor climate resilient production systems and practices in their production bases and systems (eco-systems) (Source: Annual outcome survey)</p>	<p>(i) Increase in the number of smallholders in both domestic and plantation sectors registered with relevant GOSL institutions as beneficiaries of productivity improvement programmes (Source: Records of relevant ministries)</p> <p>(iii) 50% of the targeted smallholders' lands have been covered under productivity improvement packages (Source: Records of relevant ministries and project progress reports)</p> <p>(iii) Number of women and men in target areas trained on effective adaptation livelihood systems and approaches (Source: Project M&E reports)</p> <p>(iv) Flood control systems are in place (Source: Irrigation Department)</p>	<p>Policy dialogues and/or initiatives on land tenure, especially for tea and rubber smallholders; incentives for diversification and crop integration; sustainable institutional building of community organization – using IFAD-financed projects as the main platform for evidence-based dialogue, in partnership with other stakeholders</p>

<p>IFAD interventions in value chain would strengthen the policy focus in Mahinda Chintana in terms of value chain development as highlighted below - commercial agriculture will be encouraged to meet required quantities for the international market. Assistance will be provided to improve value chain efficiency through upgrading the production process. Special attention will be given to promote value addition and encourage PPP investments.</p>	<p>SO2. Poor rural women and men are effectively connected to markets</p>	<p>(i) 7000 mt (pepper, coffee, cinnamon, fruits etc that are intercropped) of the non-plantation agriculture crop production in target areas have entered into value chain business. (Source: Crop production information at Provincial Department of Agriculture and Export Agriculture of targeted provinces)</p> <p>(ii) Farm income share of 20,000 targeted households that is generated through value chain initiatives has increased by 30% (Source: Project Annual Outcome studies)</p>	<p>(i) Numbers of agriculture value chain related business registered with local authorities of the target areas (Source: Business registry of local authorities)</p> <p>(ii) Number of farmer involved companies or business CBOs registered under the company act</p> <p>(iii) Number of forward sales contracts developed with the project target groups by gender (Source: Project progress reports)</p> <p>(iv) Number of women and men trained in commercial agriculture in the target areas (Sources: Project Annual Outcome Survey and Project Progress Reports)</p> <p>(v) Number of farmers, by gender, contacted by private extension agents in a year (Source: records of selected private extension agents)</p>	<p>Policy dialogues on effective partnership with the private sector, through specific initiatives and models</p>
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Project Pipeline

Concept Note: Smallholder Plantation Revitalization Project

Possible geographic area of intervention and target groups

1. The project will support productivity improvement of tea smallholdings and establishment of rubber in smallholdings. Both types of smallholdings would be operated by rural poor people. Enhancing tea production and improving rubber processing and production in the country is a national strategy for tea export promotion and rubber import substitution.
2. The project would be located in relatively poor districts of the Uva and Sabaragamuwa provinces and Central province for tea and rubber. The targeted provinces and districts for tea are, Ratnapura district in the Sabaragamuwa Province, and Badulla in the Uva Province and Kandy in the Central Province. Ratnapura district in the Sabaragamuwa Province and Moneragala in the Uva Province are targeted for rubber processing.
3. The target group is unproductive tea smallholders in the case of tea and it would be 50,000 rural poor people who are operating unproductive tea. As evident from the current Smallholder Plantation Entrepreneurship Development Programme women and youth in particular are keen to develop their tea lands. The same trend could be observed in the project areas. It is expected that the women smallholders would be about 10%, or 5,000 and the youth be about 15% or 7500. They would be developing about 8000 ha of unproductive tea smallholdings. Rubber processing would be operated by about 30,000 rural poor people and out of them about 2500 would be women. About 10,000 youth would be expected to get involved in rubber processing.
4. The targeting approach for tea smallholdings within the selected districts would be based on three criteria: (i) having a tea smallholding which is less than half a hectare; (ii) belongs to the district poverty group; and (iii) substantial involvement of women and youth in managing the tea holding. The families below the district poverty line will be selected using institutional information for rubber. Gender equality and youth involvement are considered in this selection process as well.

Justification and rationale

5. The plantation sector has been making a notable contribution to the national economy for over a century. At present, around US\$ 2.5 billion of foreign exchange, which is 24% of the total export earnings, is earned annually by exporting tea, rubber and rubber based products. About 340,000 hectares of lands, which is about 21% of the country's total agricultural lands, is under tea and rubber. These two sectors provide income opportunities to 530,000 smallholders spread around 15 districts.
6. Tea smallholdings sector (less than 4.5 ha in extent) is important in terms of its contribution to the national income to the livelihood of the producers. This total extent of 120,664 ha is scattered over 14 tea growing districts in more than 350,000 holdings and it contributes to nearly 70% of the country's total tea production. This sector supports a total population of nearly 2 million women and men, and provides employment to 0.4 million. The average holding size is 0.33 ha and the present productivity level is about 2100 kg made tea/ ha/year corresponding to a monthly green leaf harvest of 815 kg/ha (330 Kg/acre). This translates to a just above US\$ 1.5 gross income per person per day. More than 60% of the small holders depend solely on this income, which is barely sufficient to overcome poverty. An extent of 40,000 ha in the small holdings sector, almost

one third of the total extent in the country, with such production levels needs to be replanted in order to make them economically productive and earn more income.

7. Sri Lanka's total rubber production of 104,352 mt in 2005 has increased to 158,198 in 2011. Contribution of smallholders to the total production also increased from 69,200 (66%) in 2005 to 126,600 (80%) in 2011, indicating its significance and the potential as a sustainable livelihood system. The project will support to improve the quality processing of rubber latex.
8. At the smallholder level both tea and rubber are sold in very primary product form and in isolated manner. The collective marketing will improve the bargaining power to the advantage of smallholders and it would also provide opportunities to add value.
9. Emerging lessons from the ongoing Smallholder Plantation Entrepreneurship Development Programme. There are several emerging lessons that can be relevant for this new project: (i) corporate partnerships need to be carefully nurtured and managed. Private sector engagement is determined by mutual financial benefits and critical volume of products. Several corporate partners dropped out from the Programme due to mismanagement of contracts or disagreement on pricing; (ii) introduction of community procurement (as done in Mid-Country) is proved to be successful in terms of community empowerment and the price advantage; (iii) apart from their own crop development activities, beneficiaries can be further empowered by their active participation in undertaking contracts for infrastructure development such as roads and community buildings; conducting enterprise group affairs; and collective efforts in getting land titles and supporting buffer zone preparation with boundary marking; and (iv) institutional sustainability of community-based organizations relies heavily on the adequate performance of key drivers such as formal registration, governance structure, membership expansion, financial management, institutional capacity, etc.

Key Project Objectives

10. The goal of the project is to reduce poverty of 50,000 existing tea smallholders who are below the poverty line and additional 30,000 poor people who would take up rubber. The following objectives are foreseen:
 - a) The productivity of 8000 ha of tea smallholdings and any intercropped therein enhanced and support about 50,000 smallholders;
 - b) About 6000 ha rubber will be supported under rubber smallholder processing and 30,000 rural poor will be supported to enhance their income; and
 - c) Create better market linkages through collective marketing arrangements

Ownership, Harmonization and Alignment

11. The agricultural policy directions have been prescribed in the long term planning document of the government. The investment in smallholder tea and rubber is aligned with several policy focuses therein. These include (a) achieving food security of people; (b) ensuring higher and sustainable income for farmers; (c) introducing efficient farm management techniques; (d) crop diversification and commercialisation of agriculture; and (e) diversification to improve profitability in the plantation sub-sector. In addition to these, plantation sector, encompassing tea and rubber, emphasises on increasing the productivity and profitability of both corporate and the smallholding sectors of the plantation industry through product and market integration – agro-based industries, aiming at long term sustainability through public-private partnership (PPP) and Private-Private Partnership. The

proposed project directly contributes to achieving these policy objectives. IFAD resources will also be able to help the sector weakness of heavy budgetary strain to maintain highly uneconomical plantation holdings. The interventions are in line with COSOP SO 1 and 2.

12. The environmental policies of Sri Lanka assert that when natural resources including land are used for livelihood, it will be ensured that such use is wise, sustainable, and consistent with the integrity of ecosystems. Tea and particularly rubber are environmentally friendly perennial crops which will be in line with the environmental policy expectations. The project interventions are in line with COSOP SO 1.
13. Tea and rubber are important contributors in the national economy. Therefore several other donors are keen to support the sector in various ways. Asian Development Bank's interests in promoting agribusiness, engagement of private sector and sustainable natural resources management and environmental protection are in line with the focus of this project. Interventions of the first pillar of UNDAF, namely equitable economic growth and sustainable livelihoods are supportive of the project objectives and activities. European Union is assisting to maintain sustainable economic growth through the involvement of the private sector. The project supported marketing linkages would be a candidate to consider under this support of EU. CIDA's support in small agricultural business development could directly be focused on the project beneficiaries. GIZ sponsored capacity improvements in livelihood activities, value chain development, and business development are in line with project beneficiaries' capacity building needs.

Components and activities

14. The project has two components: (i) the productivity enhancement of existing tea smallholding with effective market linkages for green tea leaf processing and marketing; (ii) improvement of rubber latex processing in Moneragala and Kegalle districts with marketing facilities.
15. Under the first components the expected activities are (i) selection of low productive tea smallholdings belongs to those who are below the district poverty line - usually the typical such smallholders have less than half ha of tea holdings - in the districts of Ratnapura and Badulla and form the target group of the project; (ii) provide them with high quality planting material, credit, technical information, market linkages and market information; (iii) assisting commercial tea nurseries in the selected areas with credit facilities to produce quality planting material; and (iv) establishing and improving tea mother bushes of new cultivars to provide necessary shoots for nurseries.
16. Under the second component of rubber development in Kegalle and Moneragala districts the following activities are foreseen: (i) selecting technically suitable trappable rubber holdings in the two targeted districts; (ii) identifying potential beneficiaries who are in the poverty group of the two districts and organise them to clusters through mobilization to make the processing operation more effective; (iii) providing them with processing equipments, credit, technical information and training; (iv) assisting commercial rubber traders to link up with processing centres in the selected districts; and (v) provide credit and grant financing for establishing primary processing centres of rubber latex.
17. In both tea and rubber land a wide range of suitable annual and perennial crops will be provided for intercropping with good agricultural practices. These crops will also be used as a basis for value chain interventions to promote commercial agriculture.

18. For both components additional attention will be paid to: (a) identify the most appropriate mix between government subsidies to generate sufficient incentives for increased private investments (by producers and private sector players) in the development and/or rehabilitation of tea and rubber plantations, further public grants and private loans by the banking sector for financing the further development of the tea and rubber smallholders sector all along the value chain; (b) carefully balancing the provision of extension and business development services, by both public and private sector players, as well as the needed support for a strengthened monitoring system and its use to feed a learning agenda which can be useful for policy makers; (c) build into the design appropriate mechanisms to engage with private companies from the outset to secure market access and to leverage their investments and know-how; (d) highlight clearly elaborated steps that are needed to identify lands for individual beneficiaries to cultivate rubber (as new rubber lands) and ensure the transfer of firm ownership of such lands to the beneficiaries in the very early stage of the project; and (e) review the institutional set up and implementation arrangements that will ensure a better balance between the responsibilities of the public institutions and private sector partners, as well as ensure the appropriate level of the project coordination and management functions in a manner that will ensure efficient and effective reporting lines in MPI, avoid heavy staff turnovers, and facilitate the involvement of private sector players in the policy decisions affecting the project.

Costs and financing

19. Total indicative project cost is US\$55.1 million as summarised below. IFAD would be required to finance 52% of the cost and the Government of Sri Lanka (GOSL) would contribute 34%. The beneficiaries and the participating private sector would provide the balance. The IFAD financing represents the full country allocation for Sri Lanka for the 2013-2015 PBAS allocation cycle.

Estimated Project Cost and Financing (US\$ million)

Project components	Total cost	IFAD	GOSL	Beneficiaries
Component 1	32.64	17.63	10.12	4.90
Component 2	20.16	10.88	6.25	3.02
Project management	2.31		2.31	
Total Cost	55.11*	28.51	18.68**	7.92
Financing Contribution	100%*	52%	34%**	14%

Note: *The total cost and financing plan are indicative only at this stage. Potential contributions from private sector (HNB, etc.) and external sources (e.g., Proparco of France), which have expressed intention of collaboration, are not included in the table. These need to be worked out during detailed project design.

**Subsequent to the submission of its project concept note, the government confirmed to IFAD in early December 2013 its commitment to provide counterpart funding at a 1:1 ratio. This will be recalculated during the detailed project design.

20. GOSL contribution would be from the annual budget of the Ministry of Plantation Industries that is allocated to develop tea and rubber through the government assistance schemes. The beneficiaries' contribution would be mobilised in two ways: (i) their own funds which is expected to be meagre and their own labour; and (ii) through micro-financing that is available to the smallholders from various sources. The micro-financing that could be leveraged using remittances of rural people who are overseas employees is gaining prominence as a way of providing funds to income generating activities of rural people. As the COSOP mission noted, the Hatton National Bank (HNB), which deals with about 20% of the total

remittances that is credit to the Sri Lankan banking sector, is hopeful that remittance together with HNB's own funds, can be lent for well organised project such as this to finance rural peoples' enterprises. The project will explore this possibility as the beneficiaries' funding source.

Organization and management

21. The lead project agency would be the Ministry of Plantation Industries (MPI) which is managing the on-going Smallholder Plantation Entrepreneurship Development Programme with IFAD loan funds. A dedicated programme management unit would be established under the direct administration and technical purview of MPI. The main technical institutions that manage tea smallholdings, the Tea Smallholding Authority, and rubber, the Rubber Control Department; and all the research and extension institutions that cover both tea and rubber are under MPI administration. The project will be implemented with the staff that would be seconded from these institutions and attached to the project management unit to implement the project. There will be two sub-units established in the district level institutions of MPI to manage field level activities of tea and rubber.
22. The private sector would be mobilised to assist in planting material production, fertiliser distribution, processing and marketing. The state banks and also the commercial banks would take the responsibility of providing credit with re-financing facilities and their own funds.

Monitoring and Evaluation indicators

23. As indicated above, the goal of the project is to reduce poverty of existing tea smallholders and those rural poor who would cultivate rubber. Farm productivity enhancement, increased involvement of rural poor and women in agriculture and value addition and the private sector engagement in marketing the end product (including intercrops) are being targeted to achieve the project goal.
24. The productivity enhancement of agricultural development projects is assessed through increase in yields and income. The women empowerment that is achieved through entrepreneurship and skill training, and the leadership roles in working with social groups are assessed with qualitative indicators. The number of marketing linkages and partnerships in the form of forward sales agreements etc are the common indicators assess the private sector engagement in business. These indicators represent a simplification or approximation of a situation which need to be broadening in the case of project M&E system.
25. The project management information will be target-specific which would help five core evaluation questions: relevance, effectiveness, efficiency, impact and sustainability. Appropriate set of indicators would be developed assess each of these areas and presented at the mid-term and at the end of the project.
26. For both tea and rubber it is suitable to compare the situation "before the project started" of with the situation "after it started", so the baseline information will be gathered during the first year of project implementation through an external party.
27. M&E system which includes information gathering at sub-unit levels, would be coordinated by designated M&E officers and administered by the project management unit. Project's M&E-related findings have several potential audiences: National Steering Committee (NSC), the MPI, being the implanting agency, partnering institutions including state agencies, credit institutions and the private sector business companies, staff and beneficiaries, and IFAD. The reporting will be quarterly in compilation of management information to MPI, NSE and to partnering institutions as appropriate. The information system and

reporting will be reviewed periodically to improve and to accommodate stakeholder suggestions. An indicative logframe is provided at the end of the concept note.

Risks

28. The main risk is to ensure the availability of GOSL counterpart funds particularly for the development activities in the first and the second components. This can be mitigated to a larger extent by proper and timely planning of the budget need of the project activities and the related activities of MPI, and minimising duplication with increased budget demands.
29. The second risk is the possible unpreparedness of the public officers of MPI, who would be seconded to work for the project, to accept the active and the essential role of the private sector that is required in the project. This can be minimised by conducting project sponsored participatory workshops and experience sharing on the merits and demerits of partnerships.

Timing

30. The government investment cycle is from January to December. The detailed design of the project would be undertaken in the 1st quarter of 2014 and the design completion would be carried out in last quarter of 2014. Loan negotiation would be held in the 1st quarter of 2015, upon conclusion of IFAD's quality assurance process and the necessary in-country formalities. The project is scheduled for submission to the Executive Board for consideration in April 2015.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Group	Major Issues	Actions Needed
Lack of productive assets or inadequacy of the assets for the poor	All smallholder farmers, particularly households in the drought prone areas and disaster risks prone areas are most likely to be affected	<ul style="list-style-type: none"> • Inadequacy of land • Poor irrigation system • Lack of skills and knowledge to improve production • Lack of multi-channels on income sources 	<ul style="list-style-type: none"> • Increase access to financing • Resources management training • Capacity development through training, awareness raising and collateral systems • Facilitate land regularization systems and traditional resource custodianships by organizing group-based or collective spirit among those who have experience • Strengthen social capital to generate and secure assets • Income diversification to mitigate the risks caused by natural disasters
Engagement of a substantial portion of the labour force as unpaid family workers and poorly paid labour	All smallholder farmers, particularly women and women headed households are most likely to be affected	<ul style="list-style-type: none"> • A substantial portion of the labour force as unpaid family workers and poorly paid labour • No or little family savings • Lack of access to credit 	<ul style="list-style-type: none"> • Micro enterprise development interventions related to farm or non-farm enterprises, for rural women who spent most of their time as a source of unpaid family labour • Time charting methods especially designed for women to raise awareness on the prospective and productive use of labour • Increase access to finance &, technologies including household appliances and improved cookstoves or cooking methods to reduce the time spent by women in preparing food • Introduce options for them to engage in paid work or work for remuneration • Take a full account of unpaid family work using a gender disaggregated data collection framework

Priority Areas	Affected Group	Major Issues	Actions Needed
			<ul style="list-style-type: none"> • Facilitate the introduction of labour saving and efficient technologies for the rural sector • Encourage state agencies to reduce gender specific wage gaps that exist in the rural sectors • Empower women to organize themselves to negotiate for equal wage for equal work/hours of work and to secure healthy working environments
Low productivity in agriculture and lack / limited options and alternatives.	All smallholder farmers, particularly those engaged in subsistence farming are most likely effected	<ul style="list-style-type: none"> • A substantial portion of the labour force as unpaid family workers and poorly paid labour • No or little family savings • Lack of access to credit • Lack of income alternatives 	<ul style="list-style-type: none"> • Increase the use of improved crop varieties, sustainable management technologies like organic farming and irrigation • Crop rotations to diversify the production and increase output from a unit of land • Introduce supplementary income sources for the farmers, and their families through commercial crop farming and micro enterprises • Stimulate farmers to workout calendars reflecting their availability to undertake alternative sources of employment • Introduce finance systems and supplementary sources for smallholder farmers • Facilitate the introduction of labour saving and efficient technologies for the rural sector
Women's relatively low engagement in the labour force	All households, particularly those women headed households	<ul style="list-style-type: none"> • Inequity access to productive assets for women • Inequity opportunities to access to schooling, vocational training, etc. • Lack of capacity to compete in the employment market 	<ul style="list-style-type: none"> • Introduce special training packages including skill development and technical knowhow for women • Introduce non-farm and farm product based enterprises for women • Facilitate equal employment opportunities for women through the state machinery

Priority Areas	Affected Group	Major Issues	Actions Needed
			<ul style="list-style-type: none"> • Build women's capacity to compete in the labour market by providing technical education • Encourage financing institutions to introduce service packages specially designed for women • Encourage state agency and women's organizations to invest in developing social enterprises for rural women with a focus on economic empowerment
Lack of access to the market value chain	All smallholders, particularly those are isolated from the market; Interested agribusiness related firms	<ul style="list-style-type: none"> • Weak market linkage • Poor marketing facilities and capacities • Limited labour capacity 	<ul style="list-style-type: none"> • Enhancing the enabling environment for value chain engagement • Capacity building in support of market-led development • Promote farmers' associations, cooperatives and rural entrepreneurship
Fragile resilience to risks of disaster and climate change	All smallholder farmers, particularly households in the drought prone areas and disaster risks prone areas are most likely to be affected	<ul style="list-style-type: none"> • Lack of risk management awareness and capacity • Isolated and unorganized farming • Frequent calamities • Overdependence on climate conditions 	<ul style="list-style-type: none"> • Raise awareness on disasters and climate change • Compile local knowledge on changes and possible coping strategies • Enhance the capacity of local people, their livelihood systems, and the local ecosystems through diversification and enrichment • Adaptation of new technologies for enhancing resilience to changes while reducing the impacts • Establish social networks for enhancing capabilities to deal with repercussions • Develop risk management strategies, including insurance

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Enablers				
Ministry of Finance and Planning	<ul style="list-style-type: none"> • Lead role in national economic planning, budgeting and investment • Responsible for coordinating development assistance & foreign-funded projects, including negotiations of foreign funds • Having separate departments / divisions / institutions for external resources, budgets, foreign aid, budget monitoring & banking • Availability of senior staff with high administrative & planning competences 	<ul style="list-style-type: none"> • Insufficient inter-agency links and middle-level competent people to handle planning & monitoring • Bureaucratic & hierarchical management style 	<ul style="list-style-type: none"> • IFAD maintaining close working relationship with the Ministry, which has focal point responsibility for the government 	<ul style="list-style-type: none"> • The Ministry's wide ranging mandate & responsibilities can make IFAD-related issues sidelined / marginalised.
Ministry of Agriculture	<ul style="list-style-type: none"> • Skilled manpower at national level and countrywide mandate • Supported by several institutes • Decentralized provincial 	<ul style="list-style-type: none"> • Limited budgetary allocation for operations • Limited motivation and capacity of field staff • Inadequate M&E capacity • Limited experience in 	<ul style="list-style-type: none"> • Food crop production, rice in particular, is a government priority • Agriculture is increasingly becoming commercialised and the 	<ul style="list-style-type: none"> • Staff may not be technically up-to-date, especially on higher value agriculture and private sector

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
	departments to support district level agricultural development	working with the private sector <ul style="list-style-type: none"> • Lack of institutional mechanisms to share the knowledge created by different technical institutions / projects of the ministry to strengthen their functions 	private sector, including some leading agribusiness firms, are enthusiastic in linking with selected crop production <ul style="list-style-type: none"> • Broad policy framework to support wide range of interventions 	linkages <ul style="list-style-type: none"> • Poor coordination between agricultural research & extension
Ministry of Fisheries and Aquatic Resources Development	<ul style="list-style-type: none"> • Skilled manpower at national level and countrywide mandate • Availability of several supporting technical institutions • Marine fisheries, aquaculture and aquatic resources management as government priorities 	<ul style="list-style-type: none"> • Budgetary constraints • Difficulties in obtaining full staff requirements • Lack of resource data for planning purposes • Force majeure such as weather conditions, environment factors • Inadequate M&E capacity • Lack of inter-agency coordination to share the knowledge 	<ul style="list-style-type: none"> • Vast resources in the oceans yet to be utilized • Increasing investment possibilities with foreign partners and private sector • Linking with NGOs & CBOs 	<ul style="list-style-type: none"> • Staff may not be technically up-to-date, especially those at lower levels • Ineffective monitoring, control and surveillance of EEZ • Inadequate research, extension & training
Ministry of Livestock & Rural Community Development	<ul style="list-style-type: none"> • Skilled manpower at national level and countrywide mandate with a focus on Veterinary Regions • Availability of several technical institutions providing livestock 	<ul style="list-style-type: none"> • Limited budgetary allocation for production improvement and breeding operations such as artificial insemination to maintain pure lines etc • Inadequate M&E and experience sharing 	<ul style="list-style-type: none"> • Increasing and high demand for livestock products including milk • Involvement of dynamic private sector in collecting, processing and marketing of all type of livestock products 	<ul style="list-style-type: none"> • Weak link between the state and the private sector • High cost of pure breed / improved breed of animals • If individual animal is not certified

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
	<p>extension, breeding, production and value addition support</p> <ul style="list-style-type: none"> • More attention being paid to rural areas in livestock management 	<p>capacity</p> <ul style="list-style-type: none"> • Limited experience in working with the private sector and the cooperate sector livestock farms • Low proportion of Vet / livestock so that urgent attention to livestock diseases etc is weak 	<ul style="list-style-type: none"> • Widely available and easily adoptable technology in value addition to livestock products so that rural poor can use them • Mature insurance policies and schemes are available with a wide reach in rural areas 	<p>when delivering to farmers it would increase disease spread etc, but at the same time this increases the cost of livestock production</p>
Ministry of Plantation Industries	<ul style="list-style-type: none"> • Skilled manpower at national level and sectoral mandate • Availability of several supporting institutions • Plantation industry's priority status due to its share in foreign exchange earning 	<ul style="list-style-type: none"> • Lack of worker participation and motivation • Weak R&D & extension programmes • Limited technical capacity at the senior level • Heavy budgetary strain to maintain highly uneconomical plantations • No sound management strategies developed to improve plantation production and economic situation 	<ul style="list-style-type: none"> • Possibility of better integration with regional niche markets • Diversification opportunities resulting from replanting • Promising PPP potentials • Availability of vast land resource for development if properly planned • Private sector having many opportunities in productive, processing and marketing of plantation products 	<ul style="list-style-type: none"> • Increased ageing workforce & out-migration • Uneconomical plantations and no sound strategy to develop them • Demand for increasing plantation labour wages • Trade union influence based on mainly politics and less economically productive
Ministry of Economic	<ul style="list-style-type: none"> • Broad mandate for economic development • Responsible for main 	<ul style="list-style-type: none"> • Potentially overstretched capacity due to wide range of responsibility 	<ul style="list-style-type: none"> • Probability of directly linking with national / regional lead projects & 	<ul style="list-style-type: none"> • Potential deviation from IFAD's targeting

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Development	<p>national and regional level lead projects / programmes for development & poverty reduction</p> <ul style="list-style-type: none"> • Linkages with almost all poverty alleviation programmes of the country 	<ul style="list-style-type: none"> • Budgetary & manpower constraints • Lack of technical staff to cover wide range of issues and projects • Problems of mobilizing field staff to development concerns • Lack of empathy and experience in working with the private sector 	<p>programmes</p> <ul style="list-style-type: none"> • Possibility of linking with any national wide state agency 	<p>requirements</p> <ul style="list-style-type: none"> • Heavy political involvement and prioritization of issues accordingly
Ministry of Local Government and Provincial Councils, & government institutions at provincial & district levels	<ul style="list-style-type: none"> • MLG&PC is the only ministry with direct link to provincial councils / provincial administrative set-up • Coordination role for the services of a range of line ministries, departments & agencies at provincial level • District level coordination • Capable technical staff 	<ul style="list-style-type: none"> • Limited experience in coordination & monitoring at project level • Training & experience of staff not reflected in the delivery of provincial level services • Budgetary & manpower constraints 	<ul style="list-style-type: none"> • Good institutional network to mobilize services • Potential to play a lead role in rural infrastructure development • Ability to integrate many service oriented institutions at the provincial level on a focused activity 	<ul style="list-style-type: none"> • Poor record of inter-ministerial coordination • Too much dependence on state sector institutions • Weak capacity at provincial & local levels
Service Providers				
Banks	<ul style="list-style-type: none"> • Good network of state & private banks for rural credit delivery 	<ul style="list-style-type: none"> • Poor farmers' lack of access to finance, especially in remote 	<ul style="list-style-type: none"> • High potential for banks to provide rural credits • Potential for innovative 	<ul style="list-style-type: none"> • Government-run stated banks potentially being

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
	<ul style="list-style-type: none"> • Capable and qualified staff at all levels • Strong presence in regional development scene • Good accessibility to rural farmers through mini branches • Good coordination with government institutions • Range of products for agribusiness development, including new & innovative products (HNB's savings account option for remittances, etc.) 	<p>areas</p> <ul style="list-style-type: none"> • Credit provision is based on collateral requirement which is often a limitation for the poor • High interest rates & processing time • Limited range of financial products in the state banks with the widest coverage that are attractive to the poor 	<p>products, especially on remittances</p> <ul style="list-style-type: none"> • Broad policy provisions for developing a range of financial instruments 	<p>politically motivated</p> <ul style="list-style-type: none"> • Management systems and priorities of state banks are often politically influenced rather than on prudent financial basis
Non-governmental organizations (NGOs)	<ul style="list-style-type: none"> • Wide range of presence at field level • Commercial outlook of interventions • Accumulated knowledge of CBO functioning 	<ul style="list-style-type: none"> • High dependence on donor funding & the consequent sustainability problem of their interventions • Inability to cover large geographic areas • Poor linkages with the commercial private sector 	<ul style="list-style-type: none"> • Flexible administrative rule for investment in rural areas and ability to source in technical expertise • Possibility of donor cooperation for wider coverage & scaling up 	<ul style="list-style-type: none"> • Vested interests for development not always in line with IFAD's concerns • Tendency to focus on commercial sector at the expense of poverty focus
Private sector	<ul style="list-style-type: none"> • Responsiveness of agribusiness firms • Good export market efforts demonstrated for various 	<ul style="list-style-type: none"> • Tendency to use intermediaries for company purchases due to poor connectivity with 	<ul style="list-style-type: none"> • Assured market access for smallholders & value addition • Potential for linking 	<ul style="list-style-type: none"> • Sustainability issue of marketing due to the lack of assurance for

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
	<p>products</p> <ul style="list-style-type: none"> • Availability of expertise with high competency, particularly in processing & marketing • Good institutional support & technical backstopping • Availability of inter-coordinating structure through chambers 	<p>agribusiness associations</p> <ul style="list-style-type: none"> • Limited field level personnel in some areas, especially remote rural areas • Need for quality control of production, harvesting, transport & processing – a huge challenge for company • Poor image among the rural poor as dependable partners 	<p>farmers with modern / commercial production</p> <ul style="list-style-type: none"> • Reduced economic isolation of remote areas by forming closer commercial links with agribusinesses • Workforce with high management and technical skills 	<p>uniform supply of agro-products on farmer side</p> <ul style="list-style-type: none"> • Competition from larger regional companies • Varying and undependable economic policy frame which is not always commercial-friendly
Client Organisations				
Community-based organizations, farmers' organizations & farming / coastal communities	<ul style="list-style-type: none"> • Wide experience & potential to build on what is existing in the field • Social organizations • High literacy level • Thorough knowledge of the area • Traditional resource management • Availability of federated bodies to create partnerships and coordination • Availability of easy and 	<ul style="list-style-type: none"> • Strong traditional hierarchy & leadership / authority structure which in some cases may exclude marginalized groups or communities • Inexperience in community programme initiation & social inclusion • Little experience in managing development funding & contracting service providers 	<ul style="list-style-type: none"> • Open to accept proven technology • Strong gender view & attitude • Ethnic sensitivities • Prominent women involvement in many institutions 	<ul style="list-style-type: none"> • Dependency on government • Reluctance to function as groups for technology transfer & for developing self-help initiatives • Poor skills in financial management and accounting

ORGANISATION	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
	<p>effective registration process</p>	<ul style="list-style-type: none"> • No proven track record of community assets management • No proven business skills so that collective commercial activities are mostly absent 		
<p>Women's groups</p>	<ul style="list-style-type: none"> • Women leadership role in microfinance • Success stories of women-led microenterprise development 	<ul style="list-style-type: none"> • Inadequate familiarization with banking & microfinance culture in some areas, especially remote ones • Micro business profitability eroded by high lending rates 	<ul style="list-style-type: none"> • Strong role of women in smallholder agriculture livelihood activities 	<ul style="list-style-type: none"> • Health & nutritional risks • Productive role vs reproductive role

Key file 3: Complementary donor initiative/partnership potential

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
World Bank	<ul style="list-style-type: none"> • Facilitating sustained private and public investment • Supporting structural shifts in the economy • Improving living standards and social inclusion 	2012-2016	<ul style="list-style-type: none"> • Collaboration in policy dialogues on issues of rural poverty • Experience & knowledge sharing on private sector partnerships & sustainable natural resource management
Asian Development Bank	<ul style="list-style-type: none"> • Inclusive and sustainable economic growth • Catalyzing private investment and enhancing the effectiveness of public investment • Human resource and knowledge management 	2012-2016	<ul style="list-style-type: none"> • Potential areas of partnership with ADB can be pursued in the following areas • Promotion of agribusiness and engagement of private sector • Sustainable natural resources management and environmental protection • Climate effect mitigation and adaptation • Water management • Community infrastructure development • Policy dialogue
UN Agencies	<ul style="list-style-type: none"> • Equitable economic growth and sustainable livelihoods (UNDAF pillar 1) – promoting an enabling environment for sustainable livelihoods and decent work, market-oriented skills training, empowering vulnerable groups, and enhancing support to lower income groups and the most vulnerable to move beyond subsistence • Disparity reduction, equitable and quality 	2013-2017	<ul style="list-style-type: none"> • IFAD is a member of the UN Country Team and takes part in the working group on UNDAF Pillar 1. • IFAD could explore opportunities of collaboration with other UN agencies in areas such capacity building, technical assistance, policy dialogue, etc. • IFAD could pay particular attention to strengthened cooperation with FAO and

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
	<p>social services (UNDAF pillar 2) – supporting interventions aimed at promoting health, food and nutrition security, education, water and sanitation, housing, social protection as well as management reforms and improvements in data and information systems</p> <ul style="list-style-type: none"> • Governance, human rights, gender equality, social inclusion and protection (UNDAF pillar 3) – supporting government to translate international commitments into local laws; supporting strengthening mechanisms that promote participatory and transparent decision making at the policy, planning and implementation levels and initiatives aimed at increasing interaction and dialogue between various groups. • Environmental sustainability, climate change and disaster risk management (UNDAF pillar 4) – supporting review and analysis of environmental policies and programme, formulation of new policies, programmes and interventions in partnership with the government, strengthening the combined efforts of all stakeholders and improving capacities at all levels 		<p>WFP, both in project operations and knowledge sharing / management.</p> <ul style="list-style-type: none"> • Disaster management and prevention • Vulnerability management • Promoting community co-management of natural resources
European Commission	<ul style="list-style-type: none"> • Environment and climate change 	2007-2013	The EU pursues a development cooperation policy aimed at supporting Sri Lanka in areas

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
	<ul style="list-style-type: none"> • Human resources development and capacity building • Social service and equity • Sustainable economic growth through the involvement of the private sector • District and divisional level of development needs (mainly in the North) 		<p>where EU's experience can add value. IFAD could cooperated with the EU in such areas:</p> <ul style="list-style-type: none"> • Adaption to climate change in the agricultural sector • Utilising Grants which are usually channelled through UN agencies and also now through IFC of WB, mainly for the private sector which will initiate SL - EU industries • Leverage IFAD funds with potential credit lines, which is available for next programme cycle from 2014, and channelled through participating financial institute (PFI) through a loan agreement with the Government. This is provided by the European Investment Bank. It is available for the private sector investment. The focus areas are alternative energy and SME sectors • Two types of regional grants are available - Non State Agency proposal through call for proposal methods and Asian Pro-Eco, environment and alternative energy projects, again on call for proposal methods which IFAD has the potential to create partnerships
USAID	<ul style="list-style-type: none"> • Economic revitalization of the North & East 	2014-2017	<ul style="list-style-type: none"> • USAID assistance focuses mainly on the

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
	<p>(2009-2014) through technical assistance that supports public private alliances (PPAs), including PPAs with Hayleys Agro Farms (2009-2013), with Aqua 'N Green Ltd (2010-2013), with Cargills (Ceylon) PLC (2010-2013), with Daya Apparel Export (Pvt) Ltd (2010-2013), and with MAS Active (Pvt) Ltd (2010-2015).</p> <ul style="list-style-type: none"> • Poultry, dairy & horticulture are key priorities of support. • Main target group: vulnerable population – IDPs, former combatants, war widows etc. 	(under preparation)	<p>conflict-affected areas of the Northern and Eastern Provinces. Due to the different geographic location, direct operational linkages between IFAD projects and USAID-supported interventions in these areas will be limited. However, a few adjacent districts (such as Monaragala) are also covered by USAID-supported projects. In these districts, there are high potential for project-level cooperation between IFAD and USAID.</p> <ul style="list-style-type: none"> • USAID's focus on private sector partnerships will be mutually complimentary and reinforcing with similar arrangements supported by IFAD projects (particularly Cargills, Hayleys, & Aqua 'N Green).
CIDA	<ul style="list-style-type: none"> • Sustainable economic growth • Women and children development • Increase skills for employment • Support small agricultural business • Improve the business climate • Increase women's access to economic assets and jobs 	2013-2015 (about 75million)	<ul style="list-style-type: none"> • Information sharing • Technical assistance in pro-poor policy development • Technical assistance in capacity building and gender main streaming • Potential partnership with rebuilding efforts of livelihoods in the northern province
JICA	<ul style="list-style-type: none"> • Establish an economic infrastructure for growth • Environmental and climate change measures • Improve the social environment in lagging 		<ul style="list-style-type: none"> • Information sharing • Partnering with livelihood development interventions (agriculture, dairy, seed production, floriculture etc)

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
	regions <ul style="list-style-type: none"> • Mitigation for vulnerabilities 		<ul style="list-style-type: none"> • Technical assistance in capacity building and product development • Disaster management activities
GIZ	<ul style="list-style-type: none"> • Promoting economic growth through partnerships for social cohesion and sustainable development. • Microfinance – to improve the inclusiveness and efficiency of the financial system, at macro and micro levels. Particular attention is given to group-based and participative approaches in order to strengthen self-organization and social participation (ProMiS) • Capacity building for CBOs (PIP 2001-2013; FLICT 2002-2010 (Phase I & II) and 2011-2013 (Phase III)). • Strengthening the basic education sector and operating at three levels of implementation covering the entire spectrum of the education landscape: national, provincial and school level (ESC) • Vocational and entrepreneurship in the North and the East (PB-VT 2010-2013) 		<ul style="list-style-type: none"> • Complementarity and synergy potential exist in microfinance, where IFAD project beneficiaries can be linked up with the MFIs supported by GIZ, for enhanced access to financial services • Partnership potential will be explored for capacity building of farmers or other community organizations • Capacity improvements in livelihood activities, value chain development, and business development • Promoting eco-friendly agriculture and SMEs
French Development Agency	<ul style="list-style-type: none"> • Export credit provisions for SME and industrial sector • Infrastructure development • Promoting energy efficiencies in industries including SME sector 	On-going and increasing assistance	<ul style="list-style-type: none"> • Leverage credit financing • Technical support for livelihood development with livestock etc • Private sector linkages and financing

Agency	Priority sectors and areas of focus	Period of current country strategy	Complementarities / Synergy Potential
	<ul style="list-style-type: none"> Rehabilitation of production assets (forestry, livestock etc) 		
Norway	<ul style="list-style-type: none"> Support to reconstruction and development in the former war affected areas Support to organizations that work on good governance, reconciliation, gender equality and human rights 	Ongoing and decreasing	<ul style="list-style-type: none"> Limited involvement in the reconstruction work in the North Interest in women development, governance issues, and democracy in the conflict areas Promote cleaner products and environment concerns in SME and industries Close collaboration with District Chambers in technical assistance SME and business development using match making financing
Netherlands	<ul style="list-style-type: none"> Sri Lanka is not an ODA partner for the Netherlands (since 2002). However, a number of Netherlands financing instruments to enhance trade and investment are available for Sri Lanka private sector, including support for initiatives aimed at cooperation in food security or in the water sector. 	Ongoing and declining	<ul style="list-style-type: none"> While a direct partnership in the context of IFAD projects is not possible, where feasible IFAD will encourage local partner agribusiness firms to explore opportunities of using these instruments (e.g., the recently introduced PPP facility) for innovative initiatives that will have positive impact on rural poverty reduction.

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Smallholders, in both crop & plantation production	<p>Incidence of income poverty for rural areas – 9.4%; for plantation (both smallholders & estate workers) – 11.4%</p> <p>Main causes:</p> <ul style="list-style-type: none"> • Low agricultural productivity & returns • Lack of technologies and adaptive measures to deal with seasonal droughts, crop failures and water scarcities in the dry zone • Heavy dependence / engagement in subsistence agriculture • Inadequate capacity for non-farm income generating activities • Resource 	<ul style="list-style-type: none"> • Diversification into non-farm activities, including small business • Casual wage work • Resource transfer & remittances 	<ul style="list-style-type: none"> • Increased income from agriculture • Crop diversification and intensification • Access to financial services • Commercialization of production & access to market 	<ul style="list-style-type: none"> • “Samurdh”, the main national poverty reduction programme, with priority to development of rural infrastructure & improvement of health & nutritional conditions • “Divineguma”, for improved family nutrition and development of economic activities of low income groups, including smallholders • Province-based development initiatives such as “GamiDiriya” for empowering the rural economy, “Gamaneguma” for agriculture and rural development, and “Maga Neguma” for rural infrastructure development • Rehabilitation & economic development 	<ul style="list-style-type: none"> • Support productivity improvement • Promote diversification and commercialization of production • Scale up effective approaches / production techniques for dry zone agriculture, e.g., small-scale irrigation schemes, farmer field school, etc. • Support capacity development • Introduce & encourage economically viable, environmentally friendly and climate smart practices of agricultural production

	degradation			projects in Northern and Eastern Provinces, which are the main focus of support by bilateral donor agencies	
Plantation workers in the estate areas	<p>Incidence of income poverty – 11.4%</p> <p>Main causes:</p> <ul style="list-style-type: none"> • Lack of capacities & capabilities to secure alternative sources of income outside plantations • Poor working & living conditions, leading to voluntary unemployment & ageing workforce • Labour shortages 	<ul style="list-style-type: none"> • Out-migration 	<ul style="list-style-type: none"> • Improved working & living conditions • Increased productivity & profitability 	<ul style="list-style-type: none"> • Ditto 	<ul style="list-style-type: none"> • Support provision of better working & living conditions • Support capacity development of workers • Support adoption of proper land use practices • Promote PPP and encourage better market integration

<p>Artisanal and small-scale fishers</p>	<p>No data on incidence of poverty, however it's widely perceived that a large number of fishing families have income levels either below or close the poverty line</p> <p>Main causes:</p> <ul style="list-style-type: none"> • Marine coastal fisheries approaching its carrying capacity & limited opportunities for production expansion • Limited capacity & options for alternative livelihood activities • Isolation of fishing communities & limited market access • Sub optimal quality of fish and value addition resulting from inadequate fisheries infrastructure • Climate change related risks 	<ul style="list-style-type: none"> • Diversification to non-fishery income generating activities • Use of resource harmful practices for fishing (purse seining conducted with light attraction, bottom trawling with motorized boats, use of explosives, seining in reservoirs etc with methods such as long lining, etc.) 	<ul style="list-style-type: none"> • Quality improvement & value addition of fish products • Diversification of livelihood opportunities • Access to financial and technical services 	<ul style="list-style-type: none"> • Ditto 	<ul style="list-style-type: none"> • Promote fisheries co-management programme • Support replacement of resource harmful fishing practices • Encourage diversification of coastal fisheries to exploit under-exploited resources • Support value addition process and connectivity with market • Promote alternative livelihood opportunities through vocational training / skills development, entrepreneurship and start up support • Promote adaptation to climate change and address issues related to coastal resources management
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<p>Women & women-headed households</p>	<p>Women-headed households accounting for 22.4% of rural households (incidence of poverty not available)</p> <p>Main causes:</p> <ul style="list-style-type: none"> • Low labour force participation • Labour on unpaid / non-remunerative activities • Poor access to credit • Unequal access to productive resources • Gender biases in rights and entitlements • Vulnerable status in the community 	<ul style="list-style-type: none"> • Low remunerative work • Government welfare programmes • Out-migration 	<ul style="list-style-type: none"> • Equal employment opportunities • Health & nutrition support 	<ul style="list-style-type: none"> • Ditto 	<ul style="list-style-type: none"> • Introduce special training packages including skill development and technical knowhow for women • Introduce non-farm and farm product based enterprises for women • Facilitate equal employment opportunities for women • Work with like-minded financing institutions such as Women's Bank to introduce service packages specially designed for women • Encourage state agency and women's organizations to invest in developing social enterprises for rural women with a focus on economic empowerment.
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<p>Unemployed and underemployed labour, particularly youth and women</p>	<p>Rate of youth unemployment – 22% in rural areas & 7.97% in estates; women unemployment – 9.1% in rural areas & 2,4% in estates areas</p> <p>Main causes:</p> <ul style="list-style-type: none"> • Lack of technical skills and capacities to enter labour market • Lack of access to financial products / services and start-up capital for small business development • Unemployed women are affected by gender specific factors in the structure of rural employment / patterns of engagement as well as in the decisions of remuneration 	<ul style="list-style-type: none"> • Out-migration 	<ul style="list-style-type: none"> • Employment opportunities • Capacity / skill development through vocational training • Start up support 	<ul style="list-style-type: none"> • Ditto 	<ul style="list-style-type: none"> • Support vocational training and skills development for youth and women • Support SME development & private sector partnerships, specifically targeting youth & women and exploring productive use of remittances • Develop sub-contracting arrangements for market linkages • Improve access to financial and technical services, including innovative products such as HNB's "Adhishtana" savings account option for remittances • Facilitate equal employment opportunities
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