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Investing in rural people

President's report

Proposed loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Tea and Rubber Revitalization Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

AWP/B	annual work plan and budget
DPMC	district project management cell
MPI	Ministry of Plantation Industries
PMU	project management unit
RDD	Rubber Development Department
TSHDA	Tea Small Holdings Development Authority

Map of the project area

Sri Lanka

Smallholder Tea and Rubber Revitalization (STaRR) Project

President's report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
Map compiled by IFAD | 02-12-2015

Democratic Socialist Republic of Sri Lanka
 Smallholder Tea and Rubber Revitalization Project
 Financing summary

Initiating institution:	IFAD
Borrower:	Democratic Socialist Republic of Sri Lanka
Executing agency:	Ministry of Plantation Industries
Total project cost:	US\$65.4 million
Amount of IFAD loan:	SDR 18.45 million (equivalent to approximately US\$25.764 million)
Terms of IFAD loan:	Blend terms: Maturity period of 25 years, including a grace period of 5 years, with interest at a fixed rate of 1.25 per cent plus a service charge of 0.75 per cent per annum
Cofinancier(s):	Bank of Ceylon and People's Bank
Amount of cofinancing:	US\$3.25 million
Contribution of borrower:	US\$32.76 million
Contribution of beneficiaries:	US\$3.61 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Tea and Rubber Revitalization Project, as contained in paragraph 34.

Proposed loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Tea and Rubber Revitalization Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Sri Lankan economy has grown at an impressive pace in recent years, recording an annual average growth rate of about 7.4 per cent in 2014. The country is on track to meet most of the Millennium Development Goals and compares favourably with other countries in its income band in terms of gender equality. The Government's development policy framework is articulated in the Public Investment Strategy 2014-2016, which sets the principal targets as raising the per capita income to US\$4,000 in 2016 and elevating Sri Lanka to the level of a strong middle-income country. The new Government, initially appointed in January 2015 and then reappointed in September 2015, has maintained these targets.
2. Eighty per cent of Sri Lanka's population resides in rural areas, and agriculture remains the backbone of the economy despite its declining share of GDP. Smallholder farmers are major contributors to food security. The government's strategic direction for agriculture is to achieve a sustained improvement in production through increased productivity and market competitiveness. Poverty is primarily a rural phenomenon, and the main population groups living in poverty are: (i) smallholders in crop and plantation production; (ii) plantation workers in estate areas; (iii) artisanal and small-scale fishers; (iv) women-headed households; and (v) unemployed and underemployed labourers.

B. Rationale and alignment with government priorities and RB-COSOP

3. Rationale. The tea and rubber subsectors have been important contributors to the national economy. Tea smallholders contribute 70 per cent of Sri Lanka's total tea production while smallholder rubber growers make up 62 per cent of the land under rubber cultivation. About 50 per cent of the smallholder tea lands are more than 20 years old with less than optimal production capacity. There is a dire need for replanting, without which many of the smallholders will be pushed below the poverty line. The Government has a subsidy scheme in place aiming to address smallholders' difficulty in accessing appropriate financial products for tea replanting. However, both the timeliness and level of financial support this government scheme provides remain problematic, and additional financing is needed in order to strengthen smallholders' participation in the replanting programme. The project will complement the existing government scheme, and will make it more effective by providing capital investment support to smallholders at the commencement of tea replanting.
4. As part of the National Rubber Master Plan, the Government has been promoting rubber in non-traditional rubber cultivation areas to provide a source of livelihood for smallholders. This expansion is also a direct response to the demands of the

private sector, which has been calling for greater government support for rubber production. The Government has introduced proactive policy that supports the granting of land permits, land clearance and initial rubber cultivation. The project serves to reinforce the Government's priority of rubber development in non-traditional areas, focusing support on smallholder production.

5. Alignment with government priorities and the results-based country strategic opportunities programme (RB-COSOP). The project is directly aligned with the government's development priorities as defined in the Public Investment Strategy 2014-2016, particularly the policy directions for the tea and rubber subsectors. It is consistent with the RB-COSOP for Sri Lanka (2015-2020) and contributes directly to its two strategic objectives.

II. Project description

A. Project area and target group

6. The project area will cover eight neighbouring districts in central and southern Sri Lanka, including Galle (tea), Matara (tea), Ratnapura (tea and rubber processing), Badulla (tea), Kandy (tea), Moneragala (rubber) and Ampara (rubber) and Nuwara Eliya (tea). A total of 144,000 people, or 32,000 households, are expected to benefit from the project.
7. The target group of tea interventions will be existing poor smallholder tea growers having less than one hectare of unproductive tea lands. The target group of rubber interventions will be smallholders having a holding of one hectare of rubber, to be selected by poverty level. Gender equality will be one of the criteria used in the selection of beneficiaries, to ensure that at least 30 per cent of the tea and rubber growers are women.

B. Project development objective

8. The project goal is to enable poor rural people to improve their food security, increase their incomes and strengthen their resilience. The development objective is to ensure that smallholders' economic activities in tea and rubber become more productive, profitable and resilient.

C. Components/outcomes

9. The project will have three components: (i) tea smallholder development; (ii) rubber smallholder development; and (iii) inclusive rural financing, to be supported by project management.
 - (i) Component 1: Tea smallholder development (approximately US\$44.44 million; 69 per cent of total base cost), will promote better organization among tea smallholders to enable them to effectively and sustainably produce and market their products. It has three subcomponents: (a) strengthening tea societies in production and marketing; (b) market-driven production support; and (c) income and market diversification for tea smallholders.
 - (ii) Component 2: Rubber smallholder development (approximately US\$14.78 million; 22 per cent of total base cost), will enhance rubber production and processing of quality rubber products with better market linkages. It has three subcomponents: (a) strengthening rubber societies, including processing and market sensitivity, (b) market-driven production support, and (c) income and market diversification for rubber smallholders.
 - (iii) Component 3: Inclusive rural financing (approximately US\$3.5 million; 6 per cent of the total base cost), will facilitate access by the targeted smallholders to available bank financing for production, harvesting and marketing of green tea leaves and rubber products. It has two subcomponents: (a) facilitating access to lending from the banking system; and (b) supporting implementation arrangements.

10. The main project outcomes include: (i) 200 revitalized tea societies and 100 strengthened rubber societies able to effectively provide a range of services to their members; (ii) high-yield tea crops replanted on 5,500 hectares and rubber planted on 3,000 hectares by smallholders to provide a sustainable source of income and diversified livelihoods; and (iii) strengthened smallholders undertaking sustainable commercial business with the private sector.

III. Project implementation

A. Approach

11. The project will adhere to the principles of demand-driven participatory development to ensure that smallholders are the key decision-makers when they participate in project activities. A value chain approach will be adopted in identifying the relevant activities from production to processing and marketing. Overall project implementation will take into account the following key factors: (i) a large number of smallholders are the predominant producers of tea and rubber; (ii) the private sector is keen to enhance tea and rubber production in order to meet the growing market demand for these commodities, as well as to promote sustainable and responsible farming; (iii) the formal banking sector is unable to effectively provide the needed lending products due to their loan processing procedures and risk aversion to rural lending; (iv) there is a need to strengthen the capacity of government extension staff; there is also a need to put in place an implementation strategy that is sustainable and does not lead to friction with existing line agency staff; and (v) the cadre of village-level government staff can be effectively employed for project implementation.

B. Organizational framework

12. The lead agency for the project will be the Ministry of Plantation Industries (MPI). MPI will (i) appoint a senior staff member to supervise the overall implementation of the project; (ii) set up a national steering committee to guide and steer project implementation; and (iii) establish a project management unit (PMU) responsible for daily project operations. The PMU will be headed by a project manager. District level implementation will be the responsibility of the Tea Small Holdings Development Authority (TSHDA) and the Rubber Development Department (RDD), two of MPI's main constituent institutions. The district office of TSHDA, headed by the TSHDA regional manager, and that of RDD headed by the RDD deputy director, will act as the district project management cell (DPMC).

C. Planning, monitoring and evaluation, and learning and knowledge management

13. Planning. The project logframe will be the basis for preparing the annual work plan and budget (AWP/B). The logframe will be refined periodically to reflect any changes and adjustments that may be necessary during the life of the project. The overall responsibility for AWP/B preparation will rest with the project manager, with support from the TSHDA regional manager for tea and the RDD deputy director for rubber at the district level. The district project AWP/Bs will be prepared by the TSHDA regional manager or the RDD deputy director. The project manager will be responsible for consolidating the district AWP/Bs into the overall project AWP/B, for approval by the national steering committee and then no-objection by IFAD.
14. Monitoring and evaluation (M&E). The project will establish an effective and efficient M&E system to provide comprehensive, frequent and reliable data and information for sound result-based management and decision-making. The overall responsibility for the project M&E activities will lie with the PMU, specifically its M&E coordinator, who will be responsible for ensuring the consistency, accuracy and timeliness of all project reporting. All M&E activities will be based on the IFAD guidelines for project M&E and the Results and Impact Management System (RIMS) first- and second-level indicators handbook. All indicators will be disaggregated by

gender and socio-economic status to allow for a proper assessment of poverty and gender targeting.

15. Learning and knowledge management will be a key underlying theme. The project is expected to offer valuable opportunities for learning at the policy, operational and technical levels because it has certain novel features that can make the existing government scheme for tea replanting and rubber expansion more effective. In addition, the project can contribute to restructuring the manner in which the group rubber processing centres are financed and operated as business enterprises; demonstrating the use of eco-restoration to enhance tea yields; promoting partnership with the private sector for better market linkages; and enhancing the access to existing bank lending products for tea and rubber production and other income-generating activities.
- D. Financial management, procurement and governance
16. Financial management. MPI as the lead project agency will be responsible for overall financial management. The financial management arrangements will, to the extent feasible, be mainstreamed into government systems. Operational day-to-day fiduciary functions will be the responsibility of the PMU embedded within MPI, in liaison with the DPMCs attached to district-level TSHDA and RDD offices. The PMU's financial management role will include consolidating AWP/Bs, managing the flow of funds, maintaining project bank accounts, processing disbursement requests, consolidating interim financial reports, and preparing annual financial statements for audit. The PMU will put in place an imprest mechanism for the release of adequate funds to DPMCs. It will also be responsible for ensuring that district-level finance staff are provided with appropriate training and guidance with regard to reporting expenditure and procurement. The financial management risk for the project is rated medium. Measures to be put in place to mitigate this risk include qualified and experienced financial staff, a detailed financial and accounting manual, automated accounting processes (accounting software), quarterly financial reporting, and internal and external audit.
 17. Flow of funds. MPI will be responsible for managing the flow of funds from the IFAD loan proceeds and the government counterpart funds, opening and maintaining the designated account in United States dollars at the Central Bank of Sri Lanka to receive initial deposit and replenishments, obtaining the agreed counterpart funds from the General Treasury, forwarding imprest applications prepared by the PMU to obtain advances from the designated account to meet project requirements, and scrutinizing and forwarding withdrawal applications to IFAD. MPI will make adequate annual budgetary provisions for both IFAD and counterpart funds in the national budget, based on the project AWP/B.
 18. Audit. The Auditor General, who is constitutionally mandated to audit all government accounts and reports to Parliament annually, will perform the external audit of the project. The Auditor General will submit audited financial statements and a detailed audit report along with a management letter no later than six months after the end of the financial year.
 19. Procurement. Procurement of goods, works and services financed by the project will be carried out in accordance with the national procurement guidelines to the extent that they are consistent with IFAD's project procurement guidelines. The procurement methods to be applied in each case will depend on the expenditure and the estimated value of the contract. The thresholds for the different procurement methods will be detailed in the letter to the borrower.
 20. Governance. In line with its anti-corruption policy, IFAD will apply zero tolerance in respect of fraudulent, corrupt, collusive and coercive action.

E. Supervision

21. The project will be directly supervised by IFAD which, with government collaboration, will conduct annual supervision missions, regular implementation support missions, a midterm review and a completion review.

IV. Project costs, financing, and benefits

A. Project costs

22. The total project cost is estimated at US\$65.4 million including contingencies (US\$3.8 million) over a period of six years. Project costs are organized into: (i) tea smallholders development (69 per cent of total base costs); (ii) rubber smallholders development (22 per cent of total baseline costs); (iii) inclusive rural financing (6 per cent of the base cost); and (iv) project management (4 per cent of total baseline costs).

Table 1
Project costs by component and financier
(Thousands of United States dollars)

Component	IFAD loan		Other cofinanciers		Beneficiaries		Borrower/ counterpart		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Tea smallholder development	16 380	36.9	-	-	1 955	4.4	26 107	58.7	44 442	68.0
2. Rubber smallholder development	7 635	51.6	15	0.1	1 654	11.2	5 480	37.1	14 783	22.6
3. Inclusive rural financing	50	1.4	3 251	92.8	-	-	201	5.7	3 502	5.4
4. Project management	1 699	63.6	-	-	-	-	974	36.4	2 674	4.1
Total	25 764	39.4	3 266	5	3 610	5.5	32 762	50.1	65 401	

B. Project financing

23. IFAD will provide a loan equivalent to US\$25.764 million on blend terms; the Government will provide counterpart funds equivalent to US\$32.76 million; the two participating banks will provide an amount equivalent to US\$3.25 million as a line of credit from their own funds; and the beneficiaries' contribution is estimated at US\$3.61 million.

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

Expenditure category	IFAD loan		Other cofinanciers		Beneficiaries		Borrower/Counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Civil works	4 491	60.5	-	-	1 772	23.9	1 162	15.6	7 425
2. Vehicles	686	41.0	-	-	-	-	987	59.0	1 674
3. Equipment and materials	3 985	72.0	-	-	1 332	24.1	219	4.0	5 536
4. Consultancies	587	89.5	-	-	-	-	69	10.5	656
5. Credit	-	-	3 000	100	-	-	-	-	3 000
6. Goods, services and inputs	2 028	75.1	-	-	505	18.7	169	6.2	2 702
7. Capital grants and government subsidy	9 624	27.0	-	-	-	-	26 000	73.0	35 624
8. Training	1 294	67.3	251	13	-	-	364	18.9	1 923
9. Salaries and allowances	1 645	41.0	-	-	-	-	2 369	59	4 014
10. Operating costs	1 424	50.0	-	-	-	-	1 424	50	2 847
Total	25 764	39.4	3 251	5	3 610	5.5	32 762	50.1	62 504

C. Summary benefit and economic analysis

24. The project is expected to benefit a total of about 32,000 households and 144,000 people. Women-headed and poor households will be targeted in particular. The project's support for tea replanting and intercropping will lead to increased yields

from tea as well as from appropriate inter-crops such as pepper. On average, a household's production benefits will increase from 3,000 kg/ha to over 14,000 kg/ha of fresh tea leaves in a year over a 20-year period, at a minimum. Smallholders planting rubber will be able to benefit from a steady income from latex, the average production of which is expected to be 2,160 kg per year for the next 30 years. The project will contribute to institutional sustainability at the village level by strengthening tea and rubber societies and linking them with private-sector partners. The project's economic internal rate of return is estimated at 26 per cent.

D. Sustainability

25. There are strong elements in the project design that will enhance the sustainability of benefits for smallholders. The most significant investment will be in the replanting of tea and planting of rubber trees on new lands. The tea plantations are expected to provide yields for another 20 to 25 years while the planting of rubber trees is expected to provide benefits for 30 to 35 years. The quality of produce will be ensured through the provision of high quality plants from nurseries certified by the Tea Research Institute and the Rubber Research Institute. The marketing of tea and rubber is not an issue in the country as there is high demand for both. Due to the acute shortage of rubber, any additional rubber product can easily be marketed. The ability of smallholders to convert latex into ribbed sheets will enhance shelf life, and this in turn will make marketing easier. The increased capacity of the smallholders to undertake intercropping and other small enterprises through project support will enhance the sustainability of their livelihoods. Smallholders' livelihoods will be further enhanced by increased incomes generated from linkages with the private sector and implementation of the business models.

E. Risk identification and mitigation

26. The first risk is smallholder's lack of capital to invest in the replanting of old tea crops and new rubber lands and also in processing equipment. This will be addressed by providing capital support upfront to supplement government financing. The second risk is the unavailability of plant materials, which can be addressed by supporting private nurseries for tea and the large RDD nursery in the Ampara district for rubber to provide the required plant materials. The third risk is related to the timely regularization of land for the new rubber plantations. This is currently being proactively addressed by MPI in collaboration with the Forest Department and the Mahaweli Development Authority, both of which have agreed to make the lands available immediately upon project start-up. The fourth risk is farmer groups' low management and negotiating capacity, poor access to roads, lack of transport and market information. These will be addressed through capacity-building for tea and rubber societies and by supporting farm roads for enhanced accessibility. Finally, the risk of climatic factors such as drought leading to lower yields will be mitigated through the adoption of good agricultural practices, including soil renovation and soil moisture management.

V. Corporate considerations

A. Compliance with IFAD policies

27. The project is in line with IFAD policies, specifically: (i) the project target group has been clearly defined and the selection of the project area is in keeping with IFAD's targeting policy; (ii) in compliance with IFAD's gender policy, the project will make special provision for the targeting of women, and gender disaggregated indicators will be used to monitor women's participation; (iii) in line with IFAD's private sector strategy, the project will place a strong emphasis on further developing and strengthening the smallholders' linkages with licensed tea and rubber collectors and processors; (iv) in keeping with the IFAD rural finance policy, the project will facilitate access of smallholders to available financing for production, harvesting and marketing of green tea leaves and rubber products; and (v) the design has capitalized on the IFAD strategies and guidance tools for natural resource

management, climate change and environment, and has structured the project activities in a way that will bring positive environmental impact and socio-economic benefits to the communities.

B. Alignment and harmonization

28. The project is aligned with the Government's development priorities for the tea and rubber subsectors, and supports the implementation of the newly developed National Rubber Master Plan. It will complement the ongoing government programmes for smallholder tea replanting and rubber production. The project will explore and support diverse types of partnerships between the project beneficiaries and the private sector for enhanced access to market and financial services.

C. Innovations and scaling up

29. The project will vertically scale up to new geographic areas the successful interventions in support of smallholder tea and rubber production initiated through the IFAD-financed Smallholder Entrepreneurship Development Programme. It will provide funding support for business models that link smallholders with the private sector to ensure effective market access. The project will also partner with two state banks to enhance smallholders' access to existing financial products specific to tea and rubber.

D. Policy engagement

30. The project will facilitate the conduct of studies to assess the role and contribution of the up-front capital grant in encouraging tea smallholders' participation in the tea replanting scheme. The results of such studies will be used to initiate policy dialogue with the Government on reviewing and possibly revising its subsidy scheme to make it more effective for smallholders.

VI. Legal instruments and authority

31. A project financing agreement between the Democratic Socialist Republic of Sri Lanka and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
32. The Democratic Socialist Republic of Sri Lanka is empowered under its laws to receive financing from IFAD.
33. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

34. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on blend terms to the Democratic Socialist Republic of Sri Lanka in an amount equivalent to eighteen million four hundred and fifty thousand special drawing rights (SDR 18,450,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Smallholder Tea and Rubber Devitalization (STARR) Project "

(Negotiations concluded on 26 November 2015)

Loan Number: [click and insert number]

Project Title: Smallholder Tea and Rubber Revitalization (STARR) Project

The Democratic Socialist Republic of Sri Lanka (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is 18 450 000 SDR (eighteen million four hundred and fifty thousand Special Drawing Rights).
2. The loan is granted on blend terms, with interest on the principal amount outstanding at a fixed rate of 1.25% per annum, plus a service charge of 0.75% per annum. The loan will have a maturity period of 25 years, including a grace period of five years starting from the date of approval by the Executive Board of IFAD.
3. The Loan Service Payment Currency shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 15 May and 15 November.

6. There shall be a Designated Account (DA) at the Central Bank of Sri Lanka. The Borrower, through the Project Management Unit (PMU), will open two separate Project Accounts at PMU level at a commercial bank acceptable to both IFAD and the Borrower, to deposit funds received from IFAD through the DA and counterpart funds received from the General Treasury.

7. The Borrower shall provide counterpart financing for an amount estimated at thirty-two million eight hundred thousand United States Dollars (USD 32 800 000) corresponding to subsidies related to the national ongoing tea and rubber replanting programme, taxes, and other expenditures as defined in the AWPBs.

Section C

1. The Lead Project Agency shall be the Ministry of Plantation Industries.
2. The following are designated as additional Project Parties: Tea Smallholding Development Authority (TSHDA) and Rubber Development Department (RDD).
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered by the Fund and the Project supervised by the Fund in collaboration with the Borrower.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) a DA shall have been opened as described in section B6 hereto;
 - (b) two Project Accounts at PMU level shall have been opened as described in section B6 hereto;
 - (c) the Project Director and the Finance Manager shall have been duly appointed/designated and received prior no objection by the Fund; and
 - (d) a draft Project Implementation Manual (the "PIM"), as referred to in Schedule 1 to the Agreement, shall have been duly submitted and received the no objection by the Fund.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Director General
Department of External Resources
The Secretariat
Colombo 01
Sri Lanka
T P No: 0094 11 24846693
Fax No: 0094 11 24476633

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome
Italy

This Agreement, dated [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

[insert NAME of the Authorized Representative]
[insert his title]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project shall benefit about 32 000 smallholder households mainly in the eight districts of Ampara, Moneragala, Badulla, Galle, Matara, Kandy, Nuwara Eliya and Ratnapura (the "Project Area").
2. Goal. The goal of the Project is to enable poor rural people to improve their food security, increase their incomes and strengthen their resilience.
3. Objectives. The objective of the Project is to develop more productive, profitable and resilient economic activities of tea and rubber smallholders in the Project Area.
4. Components. In addition to the Project Management component, the Project shall consist of the following Components: (A) tea smallholders' development, (B) rubber smallholders' development, and (C) inclusive rural finance.

II. Implementation Arrangements

5. Organisation and management

Lead Project Agency. The Ministry of Plantation Industries (MPI) shall be the Lead Project Agency and shall have overall responsibility for the implementation of the Project. Among other things, the Lead Project Agency will chair the National Steering Committee.

National Steering Committee (NSC). Headed by the Secretary of MPI or his alternate, a NSC shall be established to provide the overall policy and administrative support, coordination and direction to the Project in accordance with this Agreement. The rest of the membership shall be drawn from, inter alia, core development and finance departments, implementing departments, the private sector including the banking sector and the Farmers representatives. The NSC will meet minimum once a year to approve the AWBP.

Project Management Unit (PMU). A PMU shall be established and operate as an autonomous institution headed by a Project Director under the guidance of the NSC, and shall be responsible for daily implementation of the Project, including Project planning and budgeting, coordination, monitoring, procurement and annual audits. The PMU shall be composed of the Project Director, a Finance Manager, a procurement officer, and Monitoring and Evaluation officer as well as a Public Private Partnership (PPP) Linkages Coordinator, and necessary support staff. The Fund's no objection shall be received before the appointment or dismissal of the Project Director and other key Project personnel (Finance Manager, a procurement officer, and Monitoring and Evaluation officer as well as a PPP Linkages Coordinator).

Service providers/implementing partners. The main implementing partners in the Project shall be (i) Private sector, (ii) Bank of Ceylon and People's Bank, (iii) TSHDA, (iv) and RDD and farmer organizations.

6. Mid-Term Review. The representative of the Borrower, the Lead Project Agency, the Ministry in charge of Project monitoring and the Fund shall jointly carry out a Mid-Term Review of Project implementation no later than the end of Project Year 3.

7. Project Implementation Manual. The Lead Project Agency shall prepare a draft Programme Implementation Manual (PIM) acceptable to the Fund. The PIM shall include, inter alia:

- (i) Qualifications, terms of reference and detailed implementation responsibilities of Project parties;
- (ii) Recruitment and appointment procedures for key Project personnel;
- (iii) Criteria for the performance appraisal of the Project personnel and adequate internal control system;
- (v) Targeting and selection criteria for participating beneficiaries;
- (vi) Operational procedures for project implementation, monitoring and evaluation; and
- (vii) Financial management and procurement procedures, including accounting procedures for bookkeeping and reporting, expenditure approval procedures, flow of funds and bank account operation and reconciliation processes.

The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage net of tax, Government and beneficiary contribution
1. Civil works	2 900 000	100%
2. Equipment and materials	3 010 000	100%
3. Goods and services	2 520 000	100%
4. Grants	6 200 000	100%
5. Salaries, allowances and operating costs	1 980 000	100%
Unallocated	1 840 000	
TOTAL	18 450 000	

(b) The terms used in the Table above are defined as follows:

- "Grants" refers to capital grants for tea replanting & rubber planting.
- "Goods and services" includes training and consultancies.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of one hundred and fifty thousand United States Dollars (USD 150 000) for expenditure relating to categories 2, 3 and 5 above.

3. Retroactive Financing. Retroactive financing not exceeding an aggregate of five hundred thousand United States Dollars (USD 500 000), for expenditure to facilitate implementation readiness relating to categories 2, 3 and 5 above, shall be deemed Eligible Expenditure for the purposes of this Agreement. Such expenditure may be made before Effective Date, but after approval of the Financing by IFAD's Executive Board.

Logical framework

Results hierarchy	Indicators					Means of verification			Assumption
	Name	Baseline	YR1	Mid-term	End target	Source	Frequency	Responsibility	
Goal: Enable poor rural people to improve their food security, increase their incomes and strengthen their resilience.	1. Number of households (HH) benefiting from project services. 2. Improved HH assets. 3. Improved food security. 4. Reduction in prevalence of child malnutrition.			1. At least 7,300 HH, or 32,820 people, 30% women 2. The 7,300 HH registered an average of 20% increase in HH asset 3. The 27,600 HH (10% women headed) will not experience hunger period of more than 1 month/year 4. Prevalence of child malnutrition reduced by 20%	1. At least 27,600 HH, or 124,000 people, 30% women 2. The 27,600 HH registered an average of 40% increase in HH asset; 3. The 27,600 HH (10% women headed) will not experience hunger period of more than 1 month/year 4. Prevalence of child malnutrition reduced by 20%	RIMS impact surveys at baseline and completion Special impact evaluation studies by external agencies	Year 1 At the end of 4 th project year	M&E Coordinator/ Project Manager	Government will continue to have favorable policies towards tea and rubber sub-sectors. The economy in general will have favorable growth and low cost escalations. Less or no natural calamities affecting tea and rubber community.
Development Objective: Smallholders' economic activities in tea & rubber become more productive, profitable and resilient.	5. Increased productivity.				5. Average green tea leaf productivity increased from 3,000 kg/ha to 14,000 kg/ha Average dry rubber sheets productivity of 2160kg/ha achieved	M&E reports Records of rubber societies Reports of service providers, BDOs, pvt sector linkage coordinator	Monthly	M&E Coordinator/ Community Development Officer as the field-level M&E supported by Business Development Officers (BDOs)	Price recovery over next five-year economic/price cycle. Lands be timely available for planting.
Outcomes/ Components: Better organized tea & rubber smallholders able to sustainably produce & market	6. Societies organised and selling members' tea & rubber.			6. At least 30 tea societies & 10 rubber societies	6. At least 50 tea societies and 20 rubber societies	M&E reports Records of tea & rubber societies	Monthly	M&E Coordinator to coordinate with originators of reports	No holdups of the project tea replanting incentive and the TSHDA subsidy paid to the beneficiaries.

Results hierarchy	Indicators					Means of verification			Assumption
	Name	Baseline	YR1	Mid-term	End target	Source	Frequency	Responsibility	
their products.									
Tea & rubber smallholders get increased access to credits.	7. Number of tea & rubber growers got loans.			7. The 1,450 beneficiaries, 30% women, got loans	7. The 16,000 beneficiaries, 30% women, got loans	Partner bank monitoring reports; progress reports of facilitators	Partner bank reports quarterly and others monthly	BDOs at the field level and M&E Coordinator at PMU level	Commitment of banks in financing tea and rubber sub-sectors. Political uncertainties and special initiatives related to agricultural finance do not affect credit culture.
Outputs: Tea societies capacity built including gender. Smallholder tea replanted in 5 districts. Overhauling farm roads in tea areas.	8. Number of tea societies diagnosed & capacity built. 9. Tea replanted extent. 10. Farm road length overhauled.			8. 100 tea societies 9. 2,250 ha of tea 10. At least 50 km of designated road lengths overhauled	8. 150 or more tea societies 9. 5,500 tea replanted in 5 districts 10. At least 80 km of designated road lengths	M&E reports Records of tea societies Reports of service providers, BDOs	Monthly	M&E Coordinator to coordinate with originators of reports	MPI use a scheme to pay the "target related incremental payment" to participating TSHDA staff. TSHDA will continue with the proposed modified infilling scheme.
Rubber society capacity built including gender. Smallholder rubber planted in 2 districts. Overhauling farm roads in rubber areas.	11. Number of rubber societies diagnosed & capacity built. 12. Rubber planted extent. 13. Farm road length overhauled.			11. 40 societies 12. 900 ha rubber planted in 2 districts 13. At least 50 km of designated road lengths overhauled	11. 60 or more tea societies 12. 3,000 ha rubber planted in 2 districts 13. At least 70 km of designated road lengths	M&E reports Records of rubber societies Reports of service providers, BDOs	All monthly	M&E Coordinator to coordinate with originators of reports	MPI resolves at earliest the scheme to pay the "target related incremental remuneration" to participating RDD staff.