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Investing in rural people

Democratic Socialist Republic of Sri Lanka

Smallholder Agribusiness Partnerships (SAP)
Programme

Negotiated financing agreement

Executive Board — 120th Session
Rome, 10-11 April 2017

For: Information

Negotiated financing agreement: "Smallholder Agribusiness Partnerships (SAP) Programme"

(Negotiations concluded on 8 April 2017)

Loan Number: _____

Programme Title: Smallholder Agribusiness Partnerships (SAP) Programme (the "Programme")

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 Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
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 Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is thirty three million seven hundred thousand United States dollars (USD 33 700 000).
2. The Loan is granted on blend terms and shall be subject to interest on the principal amount outstanding at a fixed rate of 1.25 per cent and in addition a service charge of 0.75 per cent per annum payable semi-annually in the Loan Service Payment Currency and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years, starting from the date of approval by the Executive Board.
3. The Loan Service Payment Currency shall be the United States Dollar.
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 one Designated Account denominated in USD (the "Designated Account") opened by the Borrower at the Central Bank of Sri Lanka (CBSL), through which the proceeds of the IFAD Financing shall be channelled.

7. There shall be two programme accounts opened at Bank of Ceylon or another bank designated by the Borrower, respectively for IFAD and GoSL funded expenditures.

8. The Borrower shall provide counterpart financing for the Programme in an approximate amount of nineteen million four hundred thousand United States Dollars (USD 19 400 000) comprising the estimated amount of eighteen million four hundred thousand United States Dollars (USD 18 400 000) towards the line of credit (LOC) for on-lending to beneficiaries which will be held in a segregated account at CBSL. The remaining approximate amount of one million USD will cover taxes and duties related to the Financing, and salaries of Government staff.

Section C

1. The Lead Programme Agency shall be the Presidential Secretariat.

2. The following are designated as additional Programme Parties:

- (i) The Mahaweli Authority;
- (ii) CBSL.

3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

- (a) The Programme Implementation Manual ("PIM"), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.
- (b) The Programme Director, Finance Manager, Agribusiness Manager and the Monitoring and Evaluation (M&E) Officer are appointed, transferred or moved from the Programme Management Unit (PMU) without the prior concurrence of the Fund.

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Borrower has duly opened the Designated Account and the programme accounts specified in paragraphs B.6 and B.7 above;
- (b) The Borrower has established the National Steering Committee (NSC) and the PMU in accordance with section II paragraph A7 of Schedule 1 to this Agreement;
- (c) The Borrower has appointed the PMU Programme Director and Finance Manager with terms of reference and qualifications acceptable to the Fund; and
- (d) The Borrower has prepared a draft PIM as described in section II of Schedule 1, in form and substance satisfactory to the Fund.

3. The following is designated as additional specific condition precedent to withdrawal:

- (a) No funds will be disbursed under Category III "Credit" before the Borrower and CBSL have entered into a Subsidiary Loan Agreement (SLA) as outlined in section II paragraph B11 of Schedule 1 to this Agreement, in form and substance satisfactory to the Fund.

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

For the Borrower:

For the Fund:

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

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

(Authorised Representative)
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Programme area. The Programme built on a demand driven basis will have national coverage and preference will be given to low income districts and where agri-production potential is high. (the "Programme Area").

2. Target Population. The Programme target group will comprise 57,500 poor rural households with the potential to become active economic players in a diverse array of value chains and under the framework of Public-Private-Producer Partnership (4P) schemes.

3. Goal. The goal of the Programme is to contribute to Sri Lanka's smallholders' poverty reduction and competitiveness.

4. Objectives. The objective of the Programme is to sustainably increase the income and quality of diet of 57,500 smallholder households involved in commercially-oriented production and marketing system.

5. Components. The Programme shall consist of the following Components:

5.1 Component 1. Access to commercial partnerships. This component will focus on the establishment of Public-Private-Producer Partnerships (4Ps) and on the institutional strengthening and capacity building of producer groups within a market-driven model.

Sub-Component 1.1. Establishing 4Ps. The programme will support the establishment of market-driven 4Ps under the following three categories, (i) new 4Ps schemes led by private companies, (ii) geographical/ outreach expansion or scaling-up of NADeP-supported 4P schemes; and (iii) new 4P schemes explicitly working with producer/ farmer organizations. The Programme will also provide targeted support to rural youth to become entrepreneurs, and to respond to the demand for services generated along the value chain in complement to the 4Ps.

Sub-Component 1.2. Institutional strengthening and capacity building of producer groups. The programme will aim to support capacity building of FOs. The start-up funding at group (FO) level will be complemented with support in the form of business mentoring, training, exchange visits and digressive support to FOs for their management.

5.2 Component 2. Access to rural finance. This component will aim at facilitating access to rural financial services in a sustainable manner and at affordable rates through the following sub-components:

Sub-Component 2.1. Financing of 4Ps. The Programme shall focus on the establishment of a line of credit (LOC) under the Regional Development Department (RDD) of the CBSL that shall be used exclusively to refinance the Participating Financial Institutions (PFIs) providing financial services and targeted products to programme beneficiaries.

Sub-Component 2.2: Institutional strengthening for the financial services sector. The CBSL will be supported in the elaboration and dissemination of new regulations for the microfinance sector, thus ensuring adequate participation opportunities for rural communities, and in-training of licensed MFIs on these new regulations.

Furthermore, some critical support to PFIs, including commercial banks and deposit-taking MFIs, will be provided to enhance their capacity in rural, micro and agricultural finance for low income groups, mostly through training and technical assistance.

5.3 Component 3. Programme management and policy dialogue. This component will focus on activities to manage and facilitate the implementation of the operational activities under the two other components through:

Sub-Component 3.1. Programme and knowledge management. Under the programme the following measures will be undertaken: (i) establishment of management, finance and administrative procedures including accounting, auditing and a monitoring and evaluation system in line with IFAD guidelines, (ii) recruitment of institutional service providers where required, (iii) development of specialised studies, training manuals and information and communication materials to facilitate knowledge management among the programme stakeholders, and (iv) priority cross-cutting issues such as nutrition and natural resources management/climate change adaptation will be pursued at a high-level.

Sub-Component 3.2. Policy dialogue. The Programme will support activities aiming at improving the policy environment for equitable and sustainable smallholder farmer-sourced agribusiness development under two broad thrusts: (i) creation of space for policy dialogue between stakeholders and support that dialogue through 4P multi-stakeholders meetings at national level, and (ii) analysis of the lessons of the programme implementation experience in order to promote the scaling-up of successful approaches.

II. Implementation Arrangements

A. Organisation and management

6. Lead Programme Agency ("LPA"). The Presidential Secretariat shall be the LPA and shall have overall responsibility for the implementation of the Programme.

7. National Steering Committee ("NSC")

7.1 Establishment and Composition. The NSC shall be chaired by the Secretary to the President or his/her representative and will comprise inter alia, current members representing government or government agencies, plus representatives of the Mahaweli Authority, the Department of Export Agriculture of the Ministry of Primary Industries. It will additionally include representation from the Ceylon Chamber of Commerce, CBSL and a representative of the participating financial institutions.

7.2 Responsibilities. The NSC will provide programme oversight and direction and will meet at least twice-yearly to (i) review and approve the Annual Work Plan and Budgets prior to its submission to IFAD for no objection, and (ii) review implementation and financial progress. In addition the NSC will (i) appoint the 4P evaluation committee, (ii) endorse the 4P schemes to be submitted to IFAD for no objection; and (iii) endorse the policy issues prioritised for follow-up action.

8. Programme Management Unit (“PMU”)

8.1 Establishment and Composition: The PMU will absorb the current staff of the NADeP PMU, and will be further strengthened with additional positions. The key managerial staff, as described in the PIM, will be selected according to the Borrower applicable procedures to the extent these are acceptable to the Fund and their recruitment shall be subject to the Fund’s non objection.

8.2 Responsibilities: The PMU will be an autonomous administrative and financial unit delegated to manage the programme. The PMU key functions will relate to planning, coordination, facilitation and brokerage (amongst 4P stakeholders), and monitoring and evaluation. The PMU will also be responsible for implementing all operational-level fiduciary functions including (i) preparation of the Annual Work Plan and Budget and procurement plan, and (ii) submission of application to withdraw advances from the Designated Account.

9. Other partnerships. In addition to the direct partnerships to be established under the 4P arrangement the Programme will seek to establish strong and complementary linkages with the World Bank Agriculture Sector Modernization Project (ASMP) under the Ministry of Primary Industries, supporting the development of agribusiness companies and eligible producers organisations in order to build linkages and synergies.

B. Implementation of Programme Components

10.1 Component 1. Access to commercial partnerships. Within the first six months of Programme implementation, the PMU will (i) facilitate and broker the 4Ps schemes through sensitization and awareness raising in the lead up to programme effectiveness, (ii) be responsible for inviting expressions of interest and will conduct an independent assessment of the proposals received and (iii) take the lead for 4P development and appraisal. Once the 4P has been approved it is expected that the private sector will take the lead in brokering the partnership and support of financial institutions. In terms of institutional strengthening of FOs, the Mahaweli Authority will be a key partner.

10.2 Component 2. Access to rural finance. A Line of Credit (LOC) will be established for the Programme, consolidating the lines of credit established under previous IFAD-funded projects with new funding for credit under SAP. The Borrower and CBSL will enter into a Subsidiary Loan Agreement (SLA) governing the management of the LOC, which will be subject to IFAD no objection. The Regional Development Department (RDD) of the CBSL will administer the LOC, whose operational procedures, including reporting requirements and oversight – external and internal audit - will be detailed in the SLA. In turn, the CBSL will enter into SLAs with PFIs in order to determine the terms and conditions of the sub-loans. As part of the exit strategy, the LOC will be transformed into a revolving fund - Farming System Sustainability Fund (FSSD) - dedicated to short medium and long terms loan for agriculture, by the end of the programme.

10.3. Component 3. Programme management and policy dialogue. The PMU will have the overall responsibility for policy dialogue, led by the Programme Director.

11 Monitoring and Evaluation. Building on NADEP experience and systems, the programme will set up a participatory and decentralized M&E system that will be part of a larger MIS system to be developed within the first year of implementation, and which will serve as an information and knowledge sharing platform by generating comprehensive and reliable information to improve planning and decision making for results-based management during the programme life. All data will be disaggregated by sex and age where applicable, so as to be able to produce information on different target groups and beneficiaries.

12. Mid-Term Review. The LPA and the Fund shall jointly carry out a review of the Programme Implementation at the end of programme year three (the "Mid-Term Review").

13. Programme Implementation Manual (PIM). Preparation. The LPA shall prepare a PIM acceptable to the Fund, drawing on the existing PIM of NADeP. The PIM shall include among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement, monitoring and evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

14. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Borrower shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written 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 USD)	Percentage net of tax, counterpart and beneficiary contributions
I. Consultancies and non-consulting services	2 830 000	100%
II. Equipment and materials	520 000	100%
III. Credit	11 790 000	100%
IV. Grants	14 450 000	100%
V. Recurrent costs	740 000	100%
Unallocated	3 370 000	
TOTAL	33 700 000	

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

“Consultancies and non-consulting services” includes training and workshops;

“Equipment and materials” includes vehicles;

“Recurrent costs” includes salaries and allowances of staff, and operating costs.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on Programme:

1. Gender. The Borrower shall develop a gender strategy for the Programme to ensure that gender concerns shall be reflected, in order to offer equal opportunities under the Programme to men, women and youth.
2. Implementation. The Programme will adhere with IFAD policies and strategies for environment and natural resources management, climate change and social and environmental and climate assessment.
3. Accounting. The Programme will procure an accounting software meeting IFAD's requirements for financial reporting. The system will be in place and finance staff trained in its usage at implementation start-up.
4. Line of credit (LOC). The Borrower will ensure that one consolidated line of credit is established to be utilised for the Programme, drawing on funds from previous IFAD-financed lines of credit and new financing. The LOC will be held in a segregated account at CBSL and will be governed by an MOU between the Borrower and CBSL.