

Document: EB 2019/128/R.24/Rev.1  
Agenda: 7(d)(i)(e)  
Date: 11 December 2019 **E**  
Distribution: Public  
Original: English



Investing in rural people

## **President's report**

## **Proposed loan and grant**

## **Democratic Socialist Republic of Sri Lanka**

## **Smallholder Agribusiness and Resilience Project**

Project ID: 2000002583

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Executive Board — 128<sup>th</sup> Session  
Rome, 10–12 December 2019

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**For: Approval**

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### Project delivery team

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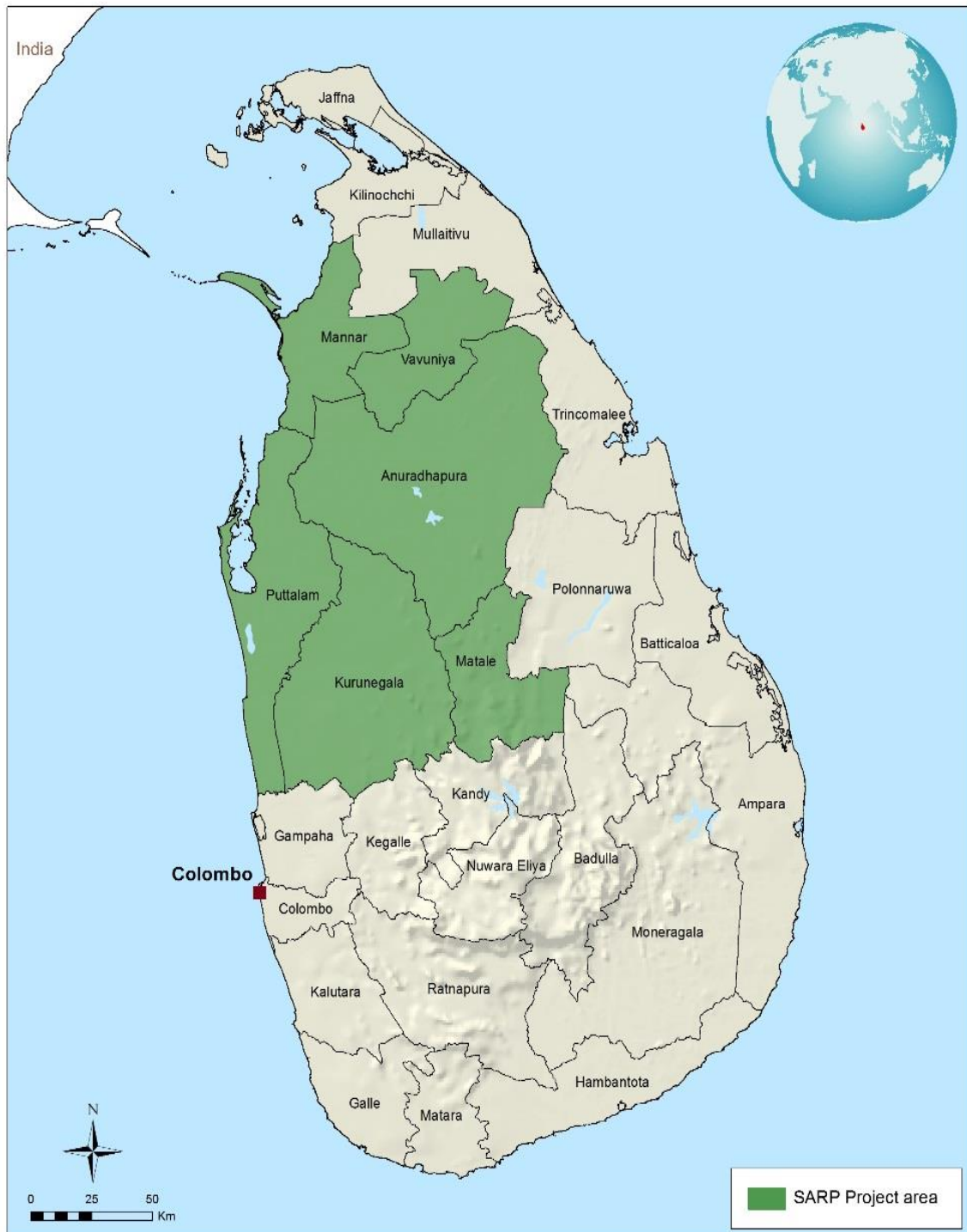
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## **Abbreviations and acronyms**

ASC	agrarian service centre
M&E	monitoring and evaluation
PMU	project management unit
SARP	Smallholder Agribusiness and Resilience Project
SDG	Sustainable Development Goal
SO	strategic objective
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
WFP	World Food Programme

## Map of the project area



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 | 01-07-2019

## Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	Democratic Socialist Republic of Sri Lanka
<b>Grant recipient:</b>	Ministry of Finance and Planning
<b>Executing agency:</b>	Presidential Secretariat, Ministry of Agriculture
<b>Total project cost:</b>	US\$82.0 million
<b>Amount of IFAD loan:</b>	US\$41.7 million
<b>Terms of IFAD loan:</b>	Ordinary terms 28 years, including a grace period of 11 years, with an interest rate equal to the IFAD reference interest rate including the variable spread
<b>Amount of IFAD grant:</b>	US\$1 million
<b>Cofinanciers:</b>	United Nations Development Programme (UNDP), World Food Programme (WFP), United Nations Office for Project Services (UNOPS), private sector
<b>Amount of cofinancing:</b>	UNDP: US\$8.8 million WFP US\$2.6 million UNOPS: US\$0.3 million Private sector US\$1.7 million
<b>Terms of cofinancing:</b>	Grant funding
<b>Contribution of borrower/recipient:</b>	US\$12.7 million
<b>Contribution of beneficiaries:</b>	US\$13.2 million
<b>Amount of IFAD climate finance:</b>	US\$36.7 million
<b>Cooperating institution:</b>	IFAD

**Recommendation for approval**

The Executive Board is invited to approve the recommendation contained in paragraph 47.

**I. Context****A. National context and rationale for IFAD involvement****National context**

1. Since the end of the civil war in May 2009 the Sri Lankan economy has grown at a steady rate, averaging 6 per cent to 7 per cent per annum and resulting in significant poverty reduction. This rapid economic growth rate has led to Sri Lanka being classified as a lower-middle-income country with per capita GDP of US\$4,104. At present, agriculture accounts for 10 per cent of GDP, industry for 30.5 per cent and services for 60 per cent. Although the country is currently undergoing a structural transformation away from agriculture, it is progressing relatively slowly and 30 per cent of the labour force continue to be employed in agriculture.
2. Extreme poverty, while rare, is concentrated in geographical pockets. Although growth has contributed to poverty reduction, as indicated, some 32 per cent of the population continue to be classified as nearly poor or poor, the majority of them living in rural areas and estates, and subsisting at slightly above the extreme poverty line of US\$1.50 per day. Sri Lanka can however be considered a development success story, having surpassed many of the Millennium Development Goals. Still, achievements at the national level conceal considerable differences in terms of gender, age, ethnic group and geographic location. While food availability at the national level is secure, this does not necessarily translate into food and nutrition security at the household level for all segments of the population, especially socially and nutritionally vulnerable groups.
3. The current Government's economic development vision is illustrated by the Vision 2025 (2017-2025), which aims at moving Sri Lanka towards commercial agriculture at the same time as addressing food security and increasing incomes for smallholder farmers. It recognizes the need to address growing income disparities among income earners and geographical regions.

**Special aspects relating to IFAD's corporate mainstreaming priorities**

4. In line with Eleventh Replenishment of IFAD's Resources mainstreaming commitments, the project has been classified as:
  - Climate-focused;
  - Nutrition-sensitive;
  - Youth-sensitive.
5. **Gender and social inclusion.** Women play an important role in agriculture (in addition to their domestic and reproductive role), comprising 53 per cent of the agricultural labour force (often as unpaid family labour). The 2012-2013 Household and Income Expenditure Survey showed that 23 per cent of the households in Sri Lanka are headed by women. The general lack of social capital in the agriculture sector, commercial spaces and markets has created barriers to women's involvement in trade and commerce.
6. **Youth.** Young people between the ages of 15 and 29 represent approximately 24 per cent of the population, and over 75 per cent of them live in rural areas. Young people continue to face challenges related to education, civic engagement, political participation and, in particular, employment. Sri Lanka's vulnerability to climate change has a strong impact on youth, limiting job opportunities and income-generating ability in agriculture. Self-employment is also constrained by a lack of business skills and financial literacy and the inability of young people to access finance.

7. **Climate and environment.** Climate change represents a major challenge in the country with increasingly heavier and less predictable rains, hot spells and extended dry periods. This is acutely felt among rural households in the dry zone. Climate change is also exacerbating the effects of environmental degradation, population pressures and unsustainable land use practices as depleted land is further degraded by heavy rains and floods. The frequency and intensity of climatic events has increased in recent decades, with the dry zone particularly affected by these natural disasters.
8. **Nutrition.** Undernutrition remains a concern in Sri Lanka, with around 17 per cent of children under five years of age regarded as stunted. Additionally, 15 per cent suffer from wasting, indicating a critical public health situation according to the World Health Organization benchmark.
9. The Smallholder Agribusiness and Resilience Project (SARP) will pay special attention to these groups during the community mobilization process for their inclusion in project activities. The project implementation team will be trained to ensure that persons with disabilities are able to access and benefit from the project. Young people will be targeted specifically through the youth incubation and enterprise development scheme included in the design. Nutrition-sensitive value chains will be identified and a coherent social inclusion strategy pursued that outlines the nutrition-sensitive approach with a situational nutrition analysis of the targeted beneficiaries and activities to address it. Specific project activities and approaches have been defined to support gender equality and women's empowerment.

#### **Rationale for IFAD involvement**

10. IFAD has been an important partner for Sri Lanka's rural development agenda since 1977, and has supported 18 investment projects with an overall cost of US\$347 million. The initial focus of IFAD investments was on increasing production, productivity and incomes of smallholder farmers, but in recent years there has been a strategic shift by the Government to respond to climate change while commercializing smallholder agriculture as a sustainable driver for poverty reduction. These objectives are closely aligned with IFAD's core competencies.
11. The poverty and malnutrition indicators outlined above confirm that targeted productive investments combined with capacity-building are required in rural areas to address the challenges of climate change while sustainably reducing poverty and improving food security; and that such investments need to focus on water and land, market access, and products with a maximum positive impact on nutrition.
12. IFAD's unique comparative advantage in support of poverty alleviation is reflected in the current 2015-2020 country strategic opportunities programme and its two strategic objectives, namely: (i) smallholders benefit from sustainable productivity enhancement in a more resilient livelihood system; and (ii) poor rural women and men are effectively connected to markets.

#### **B. Lessons learned**

13. The following points summarize the key lessons learned from the 2018 country strategy and programme evaluation that are relevant for the project. These include the need for: (i) greater coherence and strategic focus by targeting specific geographical areas and groups, while addressing priority issues such as climate resilience, nutrition and youth; (ii) targeting poverty spatially and individually while avoiding elite capture; (iii) introducing smart approaches to rural finance, such as combinations of matching grants as an interim instrument to cofinance productive investments, complemented by the expansion of sustainable financial services; (iv) ensuring that improved market access is comprehensive, and not ad hoc in nature; (v) forging partnerships with development agencies, government line agencies and NGOs for cofinancing and technical collaboration; (vi) greater advocacy on policy issues through policy dialogue; (vii) stronger local level coordination to avoid duplication of project activities in the same districts and divisions of the project area; and (viii) adapting and replicating good practices drawn from the implementation of development projects in the dry zone.

## II. Project description

### A. Objectives, geographical area of intervention and target groups

14. The goal of SARP will be to contribute to Sri Lanka's smallholder poverty reduction and food security in the dry zone region. The development objective is to build resilience and improve market participation for 40,000 smallholder households in the project area (180,000 persons).
15. The project will focus on priority districts in the north, north central, central and north-west provinces of the dry zone. It will focus on a selection of 260 tanks forming water management cascades in three river basins – the Malwathu Oya, Mi Oya and Deduru Oya – identified as the most ecologically and socially vulnerable. The selected cascades are located in hot spots: geographical areas where farmers and farming livelihoods are highly exposed and vulnerable to increasing climatic variability.
16. SARP will target three categories of households – extremely poor rural people, poor people with the potential to sell in local markets and more commercially oriented smallholder farmers. Other vulnerable groups include households suffering from severe malnutrition, persons with disabilities and ex-combatants. The targeting mechanisms include: (i) geographic targeting; (ii) self-targeting; and (iii) direct targeting. Elite capture will be averted by careful targeting and close monitoring of the benefits provided to individuals, households, self-help groups and producer groups, supported by social inclusion and gender facilitators and community mentors.

### B. Components, outcomes and activities

17. The development objective of the project is expected to be achieved by implementing two technical components focusing on capacity-building for climate resilience and inclusive value chains (component 1); and climate-sensitive investments for climate resilience and inclusive value chains (component 2). Each of these components comprises two technical subcomponents, supported by a cross-cutting component to provide effective project coordination and management.
18. The project will pursue its objective by working towards four major outcomes:
  - **Outcome 1.** Strengthened capacity of producers' organizations and watershed associations supported to manage climate risks – 182 associations.
  - **Outcome 2.** Strengthened capacity of women, youth, group organizations and social enterprises to manage enterprises in a financially profitable and sustainable way – 400 groups or organizations.
  - **Outcome 3.** Smallholder households reporting improved access to water and land, disaggregated by gender and age – 10,450 households.
  - **Outcome 4.** Smallholder farmers, women and young people managing profitable farm and non-farm enterprises – 6,400 persons.
19. **Component 1: Capacity-building for climate resilience and inclusive value chains.** The component will be implemented through two subcomponents: 1.1, strengthening adaptive capacity of service providers and farmers to climate change; and 1.2, strengthening capacity for inclusive value chain development. The objective of subcomponent 1.1 is to strengthen the capacity and skills of local service providers, water user associations, watershed management organizations and farmers to adapt to climate resilience. The objective of subcomponent 1.2 is to strengthen capacity for inclusive value chain development through training in nutrition, business management, finance and marketing for producers' organizations, self-help groups and individuals to improve nutrition, access markets and enhance incomes.
20. **Component 2: Climate-sensitive investments for climate resilience and inclusive value chains,** including last mile infrastructure. The component will be implemented through two subcomponents: 2.1, investment in climate-resilient production and infrastructure; and 2.2, investment in inclusive value chain development. The objective of subcomponent 2.1 is to enhance climate resilience and



promote better production conditions through investments in the construction of water and land development and adaptive farm technologies. The objective of subcomponent 2.2 is to increase profitability and income through investments in markets, feeder roads and service support centres for smallholder farmers, women and youth.

21. **Component 3: Project management and coordination** will be placed in the Presidential Secretariat, supported by technical lead agencies under the Ministry of Agriculture including the Department of Agrarian Development, the Department of Agriculture and the Department of Irrigation.

### **C. Theory of change**

22. SARP's theory of change recognizes that smallholder farmers and rural households in the dry zone are unable to transition from semi-subsistence farming to market-oriented operations on their own. A wide range of underlying causes hampers this transition process, among them: (i) weaknesses in policies and knowledge-sharing; (ii) lack of knowledge and technical capacity among service providers and farmers; (iii) lack of access to quality inputs and effective advisory and support services; (iv) limited access to rural infrastructure (water, land, storage and feeder roads); (v) variable rainfall distribution and intensity, and rising temperatures (climate change); (vi) poor quality diet, and insufficient dietary and nutritional knowledge; and (vii) a negative perception of agriculture among young people.
23. The theory of change offers livelihood pathways for the different categories of beneficiaries. The most vulnerable households with limited access to land will be employed in cash for assets activities, graduating to income-generating options. Smallholder farmers will have access to improved production technologies and will be encouraged to form commercial producer organizations. Farmers, including women and youth, will be organized and equipped with the necessary skills to manage water and land resources sustainably, access markets and manage profitable rural enterprises. Studies and investigations on priority topics will contribute to policy dialogue at the national level.

### **D. Alignment, ownership, and partnerships**

24. SARP is closely aligned with Sri Lanka's Vision 2025 (2017-2025), which sets out the country's national priorities and strategic direction. SARP is also closely aligned with the Sustainable Development Goals (SDGs) and contributes to the achievement of five of them in particular: no poverty (SDG 1), zero hunger (SDG 2), gender equality (SDG 5), climate action (SDG 13) and life on land (SDG 15). In addition, SARP is fully aligned with IFAD's Strategic Framework 2016-2025 and contributes directly to achieving its strategic objectives (SOs): SO1 – increase poor rural people's productive capacities; SO2 - increase poor rural people's benefits from market participation; and SO3 – strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.
25. SARP will also harmonize its design with the activities of WFP, UNDP and the World Bank on resilience issues in the dry zone. SARP will work closely with the Smallholder Agribusiness Partnerships Programme 2017-2023 to build synergies and partnership with the private sector. WFP's Vulnerability Analysis and Mapping Unit will be used to collect baseline data for the project. A partnership with the International Water Management Institute and the International Rice Research Institute will be developed at the initial stages of implementation.

### **E. Costs, benefits and financing**

#### **Project costs**

26. Total project costs are US\$82 million over six years. All cost estimates are based on current prevailing prices in Sri Lanka. The total amount of IFAD climate finance for this project is US\$36,723,902 (86 per cent of the total IFAD project amount).

Table 1

**Project costs by component and subcomponent and financier**

(Millions of United States dollars)

	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>UNDP</i>		<i>WFP</i>		<i>UNOPS</i>		<i>Private sector</i>		<i>Beneficiaries</i>		<i>Government</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Capacity-building for climate resilience and inclusive value chains																		
1.1 Capacity-building for climate resilience	4.5	42.9	0.3	2.9	2.4	22.9	0.5	4.8	-	-	-	-	-	-	2.8	26.7	10.5	12.8
1.2 Capacity-building for inclusive value chain development	0.9	73.2	-	-	-	-	-	-	-	-	-	2.4	0.1	8.1	0.2	16.3	1.2	1.5
Subtotal	5.4	46.0	0.3	2.6	2.4	20.5	0.5	4.3	-	-	-	0.2	0.1	0.9	3.0	25.6	11.7	14.3
2. Climate-sensitive investments for climate resilience and inclusive value chains																		
2.1 Investing in climate resilience	21.0	46.2	-	-	6.4	14.1	2.1	4.6	0.3	0.7	0.7	1.5	9.9	21.8	5.1	11.2	45.5	55.5
2.2 Investment in inclusive value chain development	11.2	56.3	0.7	3.5	-	-	-	-	-	-	1.0	5.0	3.2	16.1	3.8	19.1	19.9	24.3
Subtotal	32.2	49.2	0.7	1.1	6.4	9.8	2.1	3.2	0.3	0.5	1.7	2.6	13.1	20.0	8.9	13.6	65.4	79.7
3. Project management and coordination																		
3. Project management and coordination	4.1	83.7	-	-	-	-	-	-	-	-	-	-	-	-	0.8	16.3	4.9	6.0
<b>Total project costs</b>	<b>41.7</b>	<b>50.8</b>	<b>1.0</b>	<b>1.2</b>	<b>8.8</b>	<b>10.7</b>	<b>2.6</b>	<b>3.2</b>	<b>0.3</b>	<b>0.4</b>	<b>1.7</b>	<b>2.1</b>	<b>13.2</b>	<b>16.1</b>	<b>12.7</b>	<b>15.5</b>	<b>82.0</b>	<b>100.0</b>

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

	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>UNDP parallel funding</i>		<i>WFP parallel funding</i>		<i>UNOPS</i>		<i>Private sector</i>		<i>Beneficiaries</i>		<i>Government</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Civil works	19.5	48.6	-	-	6.3	15.7	-	-	0.3	0.7	0.1	0.2	6.3	15.7	7.6	19.0	40.1	49.0
2. Goods	2.8	52.8	-	-	0.1	1.9	-	-	-	-	0.2	3.8	1.3	24.5	0.9	17.0	5.3	6.4
3. Consulting services	4.1	38.0	1.0	9.3	2.4	22.2	-	-	-	-	0.4	3.7	0.2	1.9	2.7	25.0	10.8	13.3
4. Grants	7.9	48.5	-	-	-	-	2.1	12.9	-	-	1.0	6.1	5.3	32.5	-	-	16.3	19.9
5. Training	4.7	74.6	-	-	-	-	0.5	7.9	-	-	-	-	0.1	1.6	1.0	15.9	6.3	7.8
6. Salaries & allowances	1.7	89.5	-	-	-	-	-	-	-	-	-	-	-	-	0.2	10.5	1.9	2.2
7. Operating costs	1.0	76.9	-	-	-	-	-	-	-	-	-	-	-	-	0.3	23.1	1.3	1.4
<b>Total project costs</b>	<b>41.7</b>	<b>50.9</b>	<b>1.0</b>	<b>1.2</b>	<b>8.8</b>	<b>10.7</b>	<b>2.6</b>	<b>3.2</b>	<b>0.3</b>	<b>0.4</b>	<b>1.7</b>	<b>2.1</b>	<b>13.2</b>	<b>16.1</b>	<b>12.7</b>	<b>15.5</b>	<b>82.0</b>	<b>100.0</b>

Table 3

**Project components by year – totals including contingencies**

(Thousands of United States dollars)

	Totals Including Contingencies						Total
	2020	2021	2022	2023	2024	2025	
1. Strengthening Adaptive Capacity of Service Providers and Farmers to CC	2 166	2 157	2 022	1 567	1 407	1 141	10 460
2. Strengthening Capacity for Inclusive Value Chain Development	114	285	406	255	80	49	1 189
	2 280	2 442	2 428	1 822	1 487	1 190	11 649
1. Investments for climate resilient production and infrastructure	164	8 535	9 106	9 467	9 683	8 586	45 541
2. Investment for inclusive value chain development	1 596	3 956	3 986	3 742	3 649	2 961	19 890
	1 760	12 491	13 092	13 209	13 332	11 547	65 431
	1 241	666	768	637	650	940	4 902
	5 281	15 599	16 288	15 668	15 469	13 677	81 982

**Financing and cofinancing strategy and plan**

27. The project will be financed by an IFAD loan of US\$41.7 million, an IFAD grant of US\$1.0 million, a government contribution of approximately US\$12.7 million, a beneficiary contribution of approximately US\$13.2 million and a private sector contribution of US\$1.7 million. UNDP, WFP and UNOPS are committed to providing US\$11.7 million in parallel financing.

**Disbursement**

28. The Presidential Secretariat, as the lead executing agency, will be responsible for managing the flow of funds from the loan proceeds and for opening and maintaining the designated account in United States dollars at the Central Bank of Sri Lanka to receive the advance. The designated account will be administered following imprest arrangements, whereby an initial loan and grant amount is advanced and then replenished periodically based on justified expenditures. Three standard disbursement procedures will be available for SARP withdrawal of financing: (i) advance withdrawal; (ii) direct payment; and (iii) reimbursement.

**Summary of benefits and economic analysis**

29. SARP will increase household family income by at least 50 per cent. The overall investment will yield an economic rate of return of 18.6 per cent assuming a 70 per cent adoption rate for new climate-smart agricultural and climate-resilient practices. Financial benefits will take the form of increased cash incomes for beneficiary households. Social benefits will include a reduction in poverty rates, with special measures taken to ensure inclusion of disadvantaged groups, and increased food and nutrition security. Environmental benefits will consist of reduced land degradation through better land and water management, and community forestry.

**Exit strategy and sustainability**

30. SARP has been designed in consultation with and involvement of the relevant government agencies, technical line departments of the Ministry of Agriculture, development partners and potential beneficiaries. These consultations and discussions have resulted in a sound approach and a suite of interventions that will be implemented with strong community participation and engagement of local officials. Building on this foundation, it is expected that the investments and the results of the interventions will be sustained beyond the project period and into the long term.

### III. Risks

#### A. Risks and mitigation measures

Table 4  
Risks and mitigation measures

<i>Risk type</i>	<i>Rating</i>	<i>Main risks</i>	<i>Mitigation measures</i>
<i>Political and governance</i>	Medium	Political changes following the December 2019 election could result in turnover at senior decision-making levels, with a subsequent risk of delays in project approval and the start of implementation.	The anticipated changes in the Government are not expected to affect the current administrative structure at the provincial and district levels.
<i>Macroeconomic</i>	Low	High levels of debt.	SARP will minimize grant funding and will focus more broadly on facilitating links to banking institutions for loan financing.
<i>Sector strategies and policies</i>	Low	Lack of appropriate policies relating to land tenure, agricultural extension and an enabling environment for agricultural value chain development.	Policy dialogue will provide an evidence base for policy reform and capacity-building.
<i>Technical design of project</i>	Low	Insufficient capacity of producer organizations to sustainably manage assets.	(i) Support from local service providers; (ii) Skills development interventions for producers' organizations.
<i>Environmental and social</i>	High	Adverse climatic events as a result of climate change.	(i) Set up a system for climate-smart information collection and dissemination to provide climate change adaptation options; (ii) Invest in climate-smart technologies (solar pumps, irrigation, water harvesting); (iii) Provide training to increase smallholder capacities to adapt to the effects of climate change.

#### B. Environment and social category

31. The environmental and social category assigned to SARP is B. The project will be carried out in different districts that include protected areas (national parks and their buffer zones, wildlife and nature reserves, and areas of special cultural or religious significance). The project took this situation into account by integrating the following criterion in the list of criteria for the selection of project sites: "existence of protected areas: the project sites must not be in close proximity/adjacent to protected areas." Approval of all road alignments and design will be subject to an environmental screening process to ensure that the rehabilitation does not have any adverse social or environmental impact. An environmental and social management framework has been developed for the project.

#### C. Climate risk classification

32. The climate risk classification for the SARP is high. SARP is located in areas where rural development projects have experienced significant weather-related losses and damages. Flood events have negatively impacted roads, bridges and irrigation schemes, and droughts, prolonged dry spells and floods have adversely affected the targeted smallholders. The dry zone reflects mainly rainfed cropping systems, which are subject to significant annual variations in rainfall and therefore productivity fluctuations.

## **D. Debt sustainability**

33. Sri Lanka's debt-to-GDP ratio of 79.9 per cent is well above peer emerging markets. The latest World Bank/International Monetary Fund debt sustainability analysis of Sri Lanka considers the risk of external debt distress and overall debt distress to be high. The Sri Lankan economy remains vulnerable to shocks given high public debt, large refinancing needs and low external buffers. Real GDP growth is, however, projected to reach 3.6 per cent in 2019, driven by agriculture and manufacturing, and to gradually reach 5 per cent over the medium term. Stronger external demand and foreign direct investment, an easing of trade tensions and improved global financial conditions could support growth and facilitate adjustments.

## **IV. Implementation**

### **A. Organizational framework**

#### **Project management and coordination**

34. The lead executing agency will be the Presidential Secretariat, which will implement SARP in cooperation with various departments of the Ministry of Agriculture. The Secretary of the Presidential Secretariat will establish a project management unit (PMU) to manage and supervise the project. The PMU will be led by a project director, who will have overall responsibility for project implementation. The PMU will be supported by a team of technical specialists and administrative and financial support staff. Two area-based hubs will be set up to provide overall coordination and oversight of all project activities within the six districts and ensure an adequate presence and implementation support at district level.
35. A technical implementation unit will be established in the district hubs. The technical implementation units will have executive and technical responsibilities and will consist of technical staff from implementing agencies at district level and contracted project staff. The Secretary of the Presidential Secretariat will oversee the SARP national steering committee, which will provide strategic oversight to the project. At district level, coordination will be conducted through district multi-stakeholder committees.

#### **Financial management, procurement and governance**

36. Sri Lanka is ranked 89<sup>th</sup> out of 180 countries with a score of 38 on the Corruption Perceptions Index of Transparency International. The 2018 rural sector performance rating is 3.7, in the medium risk bracket. Overall, the financial management risk is rated as medium. Pursuant to the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, IFAD applies a zero-tolerance policy when it comes to any fraudulent, corrupt, collusive or coercive actions in the projects it finances. This entails not only pursuing all allegations of fraudulent practices and imposing appropriate sanctions but promoting preventive control measures such as assessments of national and project-specific financial management and auditing and procurement systems during the project design phase. Procurement will follow government procedures, insofar as they comply with IFAD requirements. In accordance with specifications in the letter to the borrower/recipient, IFAD will conduct either a post or a prior review of procurement activities.
37. Consolidated annual financial statements for the project will be audited annually by the supreme audit authority and an audit report will be prepared and submitted annually to IFAD. The settlement of audit observations will be monitored by the executing agency, the auditors and IFAD through supervisory processes.
38. Internal controls and internal audit. As part of internal control procedures, the PMU will apply a formal delegation of authority and clear segregation of duties among the project staff. In addition, the project's financial performance will be reviewed periodically by the national steering committee, chaired by the Presidential

Secretariat. The overall control measures and systems and procedures are in place to address the needs of the proposed project. Furthermore, pursuant to a government circular, all donor-financed projects must employ an internal auditor, which will also be the case for SARP.

## **B. Planning, monitoring and evaluation, learning, knowledge management and communications**

39. The PMU will be responsible for preparing the annual workplan and budget and procurement plan for SARP, and for securing approval from its management and IFAD. The plan will include an activities plan along with targets and an expenditure plan and should reflect overall project targets and activities. An effective monitoring and evaluation (M&E) system will be developed to cover the indicators included in the logical framework. It will be part of a larger management information system, which will serve as an information and knowledge-sharing platform. The M&E system will be utilized as a management tool and will include an assessment of progress and compliance, identification of constraints and proposed remedial actions. All data will be disaggregated by gender, age and geographic location. The project's knowledge management activities will support an effective flow of relevant information among project staff, beneficiaries and other stakeholders. A comprehensive knowledge management action plan will be developed in the early stages of implementation. Output, outcome and impact data generated by the M&E system will inform case studies, briefs and reports. These will be used for policy dialogue, peer learning and potential scaling up. Knowledge management products will be communicated through multiple media, including blogs, written publications, video and social media.

### **Innovation and scaling up**

40. SARP has some innovative features such as: (i) the integrated sub-basin level ecosystem-based approach; (ii) climate-smart technological practices; (iii) linking nutritionally rich food items to institutional markets (e.g. school feeding); (iv) roll-out of the farm business school approach; (v) youth incubation pilot testing; (vi) small-scale mechanization hire services; and (vii) pilot testing of climate data and market information systems. The farm business school approach and community planning processes have already been tested and proven in Sri Lanka and are available for scaling up. Adoption of the integrated sub-basin level ecosystem-based approach to dry zone water management is an innovation that could transform the current sectoral approach to investments in agriculture and irrigation.

## **C. Implementation plans**

### **Implementation readiness and start-up plans**

41. IFAD and the Government have identified the key actions to take to ensure implementation readiness. Preparatory actions include the following: (i) initiating a climate risk analysis consultancy and preparing the environmental and social management framework pursuant to the Social, Environmental and Climate Assessment Procedures; (ii) analysis and modelling of cascades; (iii) conducting a baseline survey of the project area combined with a livelihoods analysis; (iv) mapping and appraisal of partner implementing organizations at community level; (v) mobilization and recruitment of national consultants; (vi) review and evaluation of the performance of agrarian service centres and agrarian banks; (vii) assessment of an inventory of infrastructure investments for SARP; and (viii) preparing construction designs and initiating procurement processes (where feasible).
42. To facilitate start-up and expedite early implementation immediately upon entry into effect of the financing agreement, the Presidential Secretariat will recruit a project expeditor – a person who was previously involved in the project design – to

support establishing the project management structure and system. The project expeditor will facilitate the timely implementation of start-up activities.

**Supervision, midterm review and completion plans**

43. IFAD will conduct regular supervision pursuant to standard procedures. Supervision missions will review project performance, progress towards achievement of objectives and compliance with fiduciary requirements. On a regular basis and especially during the early stages of implementation, IFAD will support SARP as needed to address any implementation bottlenecks that may arise. SARP will submit biannual progress reports using a format pre-approved by IFAD.

**V. Legal instruments and authority**

44. 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/recipient. A copy of the negotiated financing agreement is attached as appendix I.
45. The Democratic Socialist Republic of Sri Lanka is empowered under its laws to receive financing from IFAD.
46. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

**VI. Recommendation**

47. 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 ordinary terms to the Democratic Socialist Republic of Sri Lanka in an amount of forty-one million seven hundred thousand United States dollars (US\$41,700,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Democratic Socialist Republic of Sri Lanka in an amount of one million United States dollars (US\$1,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo  
President



## **Negotiated financing agreement: "Smallholder Agribusiness and Resilience Project (SARP)"**

(Negotiations concluded on 15 November 2019)

Loan No: \_\_\_\_\_

Grant No: \_\_\_\_\_

Project name: Smallholder Agribusiness and Resilience Project (the "SARP" or the "Project")

The Democratic Socialist Republic of Sri Lanka (the Borrower/Recipient)

and

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

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

**WHEREAS** the Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

**WHEREAS**, the Fund has agreed to provide financing for the Project;

**NOW THEREFORE**, 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), 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 December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan and a Grant (the "Financing") to the Borrower/Recipient, which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

### **Section B**

1. A. The amount of the loan is forty-one million and seven hundred thousand United Stated dollars (USD 41 700 000).

B. The amount of the grant is one million United stated dollars (USD 1 000 000).

2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan rate equal to the IFAD Reference Interest Rate including the variable spread, payable semi-annually in the Loan Service Payment Currency, and have a maturity period with 28 years, including a grace period 11 years starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
3. The Loan Service Payment Currency shall be in USD
4. Payments of principal and interest shall be payable on each first (1<sup>st</sup>) of March and first (1<sup>st</sup>) of September
5. The first day of the applicable Fiscal Year shall be January 1<sup>st</sup>.
6. There shall be two Designated Accounts in US Dollars, for the exclusive use of the Project opened in the Central Bank of Sri Lanka, one for the loan and other for the grant respectively. The Borrower/Recipient shall inform the Fund of the officials authorized to operate the Designated Accounts.
7. There shall be Project Accounts in local currency at any of a state owned commercial bank, to receive funds from the Designated Account for eligible expenditure for the project implementation.
8. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of USD 12.7 million mainly taxes and duties, salaries and operating costs, and technical support for the Project. The beneficiaries and private sector will contribute through a combination of loans and matching grants under sub-component 2.2 of Schedule 1. Beneficiaries will contribute approximately USD 13.2 million and the private sector approximately USD 1.7 million, while UNDP, WFP, UNOPS are committed to provide USD 11.7 for the Project.

### **Section C**

1. The Lead Programme Agency will be the Presidential Secretariat or another Party designated by the Borrower/Recipient during implementation.
2. The following are designated as Project Parties: Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation, Fisheries and Aquatic Resources Development, or their successors.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund may designate by notice to the Borrower/Recipient. The Financing Closing Date will be established as specified in the General Conditions.
4. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower/Recipient's procurement regulations, to the extent such are consistent with the IFAD Project Procurement Guidelines.

### **Section D**

1. The Fund will administer the Financing and supervise the Project, and the Borrower/Recipient will implement and conduct its own administration and supervision of the Financing and the Project.

### **Section E**

1. The following are designated as additional grounds for suspension of the right of the Borrower/Recipient to request disbursements under this Agreement:
  - (a) The Project Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that it has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional general conditions precedent to withdrawal:
  - (a) The IFAD no objection to the Project Implementation Manual (PIM) shall have been obtained.
  - (b) Key core PMU staff (the Project Director, technical specialists and Area Based Coordinators) has been appointed as per the applicable circulars/guidelines of the Borrower/Recipient.
  - (c) The Project will procure and install a computerized accounting software to satisfy International Accounting Standards and IFAD's requirements.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Secretary  
Ministry of Finance  
Colombo-1

Copy to:

Director General  
Department of External Resources  
Colombo 1

dg@erd.gov.lk

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/Recipient] and shall enter into force upon its signature of both Parties.

DEMOCRATIC SOCIALIST  
REPUBLIC OF SRI LANKA

\_\_\_\_\_  
[Authorised Representative name and title]

Date: \_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

Date: \_\_\_\_\_

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Target Population.* The Borrower/Recipient shall ensure three categories of households to be benefited from the Project– the extreme rural poor, poor with potential to sell in local markets and more commercially oriented smallholder farmers.

2. *Project area.* The Project will operate in priority districts in the North, North Central, Central, and North West provinces of the dry zone (the "Project Area"); namely in Anuradhapura, Vavuniya, Matale, Mannar, Puttalam and Kurenagala districts. The Project will focus on selected 260 tanks forming water management cascades in three river basins – the Malwathyu Oya, Mi Oya and Deduru Oya - identified jointly with the Department of Agrarian Development (DAD) as most vulnerable areas, ecologically and socially. The selected cascades are located in the so called 'hot spot' geographical areas where farmers and farming livelihoods are highly exposed and vulnerable to increasing climatic variability.

3. *Goal.* The goal of the Project is to contribute to Sri Lanka's smallholder poverty reduction and food security in the Dry Zone region.

4. *Objectives.* The objectives of the Project are to build resilience and market participation of 40,000 rural smallholder households in the project area (180,000 persons). Women will constitute 50 percent (90,000) and youth 20 percent (36,000) of the total beneficiaries.

5. *Components.* The Project shall consist of the following Components:

##### 5.1 *Component 1. Capacity Building for Climate Resilience and Inclusive Value Chains*

*Sub-Component 1.1: Strengthening adaptive capacity of service providers and farmers to climate change.*

- (a) *Community Organization, Planning and Mentoring.* The Borrower/Recipient shall ensure the plans and guidelines to be implemented through mobilization of cascade level water committees that shall include men, women and youth from communities and the local field officers. The activity shall invest in training of trainers and farmer training programmes to ensure design, implementation, and O&M of climate-resilient village irrigation schemes. The planning process shall be complemented by seasonal livelihood analyses and community participatory planning to support the development of a climate resilient community plan. A cadre of Agro-enterprise Promoters shall be responsible for enterprise development supported by Social Inclusion and Gender Facilitators to reinforce the work of local service providers. The support staff shall be selected from Dry Zone districts and shall support contracted service providers responsible for social mobilization, group formation/strengthening and household mentoring.
- (b) *Climate Smart Technologies.* The Borrower/Recipient shall promote Climate smart agricultural technologies through the Farmer Field School (FFS) methodology. The DoA Agricultural Instructors (AIs) and DAD Agrarian Research and Productivity Assistants (ARPA) shall be trained to deliver FFS services. Backstopping mentoring and coaching support shall be available from a Core Team of Trainers and experienced staff of national service providers (NGOs). The project shall also provide technical assistance support through the recruitment of national agricultural officers supported by a national expert with experience in the FFS approach. The training programme shall also invest in awareness raising, knowledge generation, and learning for climate-risk management.
- (c) *Livelihoods Resilience Building.* The Borrower/Recipient shall pursue the skills and capacities required amongst women in particular to be strengthened to ensure that communities become more resilient to climate-related shocks and that the necessary support services to communities and households shall be readily available. The

capacity building programme shall support the diversification of livelihoods amongst the more vulnerable households by building their capacity for resilience. It shall involve a three step process of (i) awareness raising of the potential benefits livelihood activities, (ii) experiential training workshops, and (iii) exposure visits to successful enterprises for knowledge sharing and learning from practitioners.

- (d) *Nutrition Education and Training.* Poor dietary diversity shall be addressed by increasing the availability and consumption of nutritious and diverse foods and enhancing income. The focus shall be on training extension workers and service providers. Evidence informed Behaviour Change Communication (BCC) activities shall be implemented in all six (6) districts to complement and promote positive behaviour changes related to improved nutrition and diet quality.
- (e) *Action Research for Policy Dialogue.* The Borrower/Recipient shall take the integrated ecosystem development approach. Policy dialogue shall be conducted on the approach followed by SARP and other projects relating to integrated watershed development.
- (f) *Preliminary Studies.* A process for the selection of sub-basins and tanks shall be followed to ensure the maximization of the returns on water infrastructure investments. The methodology shall follow three steps: i) an assessment of the water availability in the sub-catchments/tanks; ii) an analysis to see if the available water quantity is sufficient to meet the existing demands for water from different sectors, and (iii) detailed hydrological and water allocation modelling of the sub-basins selected.
- (g) *Micro and Weather Insurance.* The Borrower/Recipient shall build on work undertaken by the GIZ funded, Small and Medium Enterprise project in collaboration with the Borrower/Recipient's Agricultural & Agrarian Insurance Board (AAIB) and the Global Index Insurance Facility (GIIF) in the field of commercial agricultural insurance.
- (h) The IFAD hosted Platform for Agricultural Risk Management (PARM), which embeds the Weather Risk Management Facility shall provide the insurance sector with capacity development and TA together with other Borrower/Recipient's development organizations to bring tested innovative crop insurance schemes to scale.

*Sub-Component 1.2: Strengthening capacity for inclusive value chain development.*

- (a) *Farm Business School.* The Borrower/Recipient shall use the FBS methodology as a main instrument for reaching target individuals – men, women and youth - within the community. The skills and capacities of field level staff, social mobilisers and agribusiness facilitators shall be developed and households shall be available to help them become more market oriented. This shall be done through a Training of Trainers programme with backup coaching support from a Core Team of Trainers. Activities shall include the training of agro-enterprise promoters in group organization, business management and marketing.
- (b) *Skills Development Training for Youth.* The Borrower/Recipient shall use innovative interventions through incubators and access to financial services. Youth led groups or SMEs shall be linked to the Enterprise Sri Lanka programme.
- (c) *Market Appraisal, Post-harvest and Value Addition.* Activities shall include developing the technical skills of women, youth and the most vulnerable households through practical training in post-harvest management and GAP. Training activities shall include piloting and demonstrating new post-harvest management and value adding technologies. Training programmes shall be designed for District and ASC technical and extension staff who will be expected to organize a cascade training programme for farm households in all 6 districts. The Borrower/Recipient shall organize some 20 training programmes at field level . Entrepreneurs with successful value adding businesses shall be invited as resource cum training persons.
- (d) *National Policy Engagement.* Policy engagement shall also be encouraged on the issues of youth employment in agriculture and micro-insurance ecosystem

development. As part of the integrated approach to smallholder agribusiness and resilience development, micro-insurance can build resilience against and transfer risks from the smallholder households. The Borrower/Recipient shall seek to combine insurance with other financial and non-financial services and to create public-private-producer partnerships (4Ps) between the GoSL and the financial sector, particularly public and private insurers and agribusinesses. To support an enabling environment for insurance programme designs and sharing lessons for scaling-up, the Borrower/Recipient shall also promote the inclusion of micro-insurance products, technologies and models in national strategies.

## 5.2 *Component 2: Investments for Climate Resilience and Inclusive Value Chains*

### *Sub-Component 2.1: Investments for climate resilient production and infrastructure*

- (a) *Cascade Water Resource Infrastructure Development.* Project financing shall be used to support the design and upgrade of Village Irrigation Systems, incorporating elements to enhance the resilience of these systems to climate change risks and impacts. The interventions to upgrade the irrigation systems include: (i) reforesting the watershed (ii) restoring the reservoir bund (dam), spill, sluice and canals supplying the fields, and (iii) de-silting the reservoir bed. Catchment organizations shall be set up and supported to ensure sustainability and to avoid possible conflicts. Cash for Assets shall be used to engage the most vulnerable households related to water tank renovation and maintenance drawing on the experience of WFP. Grants of up to \$10,000 per cascade will be allocated to support soil and water conservation and forestry activities in the field.
- (b) *Household Water Harvesting, Irrigation and Soil Conservation.* Household level measures shall include creating storage tanks in home gardens to capture intense rainfall, low-cost drip irrigation technologies. These and other small scale water harvesting structures shall be developed to increase water quality and availability for multi-purpose usage. Low cost drip irrigation systems and water harvesting measures at household level shall be appraised following the preparation of sub-project/micro project proposals. Water User's Groups (WUGs) shall be set up or existing groups strengthened to ensure sustainability in management and to avoid potential conflicts.
- (c) *Household Water Harvesting, Irrigation and Soil Conservation.* The Borrower/Recipient shall support activities at household level including the development of multi-purpose home gardens, nurseries, aquaculture and small scale livestock development and other income generating activities as part of a livelihoods diversification strategy. Matching grants in the form of small livestock shall be offered to the more vulnerable households with limited access to land and the means to graduate from the Cash for Assets interventions.. Households that will receive commercial home gardening support will simultaneously receive technical support to produce nutrition dense products for home consumption. This activity shall be complemented by the Behaviour Change Communication (BCC) activities referred to under sub-component 1.1 Activities relating to household resilience cater for low cost livelihood activities for the most vulnerable households. Beneficiaries will be eligible to request grant support either individually, as partnerships or as small groups.
- (d) *Climate Resilient Farming Practices.* The Borrower/Recipient shall introduce climate resilient agricultural production as part of the cropping system to increase the cropping intensity of the farming system. Producer groups shall be strengthened (apart from capacity building on better production methods and pest management) for access to risk mitigation measures and existing subsidy schemes to ensure better adoption of techniques from FFS to actual farms. In-kind grants for seeds and tools shall be given to smallholder farmers combined with fertilizer through the government subsidy programme, supplemented by agricultural extension support. The intervention shall be accompanied by the capacity building efforts to ensure sustainability of activities (Subcomponent 1.2).

### *Sub-Component 2.2: Investment for inclusive value chain development*

- (a) *Feeder Road, Construction, Rehabilitation and Maintenance.* Investments shall be made to improve the condition of selected feeder roads and to construct drainage infrastructure (culverts) where needed. Road gangs shall be formed for road rehabilitation, and local road maintenance plans shall be prepared in consultation with local government authorities. Activities shall include rehabilitation of drainage, construction of structures and set up of road maintenance mechanisms employing the most vulnerable households in temporary employment. The interventions shall comply with the Environmental Management Act (EMA), the Guidelines for Environmental Impact Assessment and IFAD's SECAP requirements.
- (b) *Agrarian Service Centres and Agrarian Banks.* 30 Agrarian Service Centres (ASCs), shall be taken transformed into one-stop-shop facilities for advisory and support services (Knowledge and Service Centres). ASC staff in each target area shall be trained to deliver integrated planning and implementation services for climate smart water and agricultural management in cascade systems. Qualified local partner institutions shall be contracted to provide capacity development services based on a rigorous needs assessment. Staff training and technical assistance may be centred around risk management, value chain development, loan portfolio management, management information system, etc.
- (c) *Market Infrastructure and Stakeholder Platforms.* The Borrower/Recipient shall provide Market infrastructure at district and ASC level in the form of construction of local markets, farmer's markets and platforms for value chain stakeholders to convene. Investments shall include collection points, storage and package facilities.
- (d) *Youth and Women's Enterprises.* The Borrower/Recipient shall ensure combinations of matching grants and loans to be offered to youth, women, able bodied persons, and entrepreneurial small farmers to provide commercial goods and services to farm households based on agreed criteria. Small post-harvest management (PHM) investment grants shall also be offered to households to fund investments in post-harvest and value adding technologies. Approximately 1,200 businesses shall be supported with start-up financing for their business plans, in the form of credit and start-up funds. The grants shall be offered by SARP as investment financing with loans potentially available through the Agrarian Banking system and other Participating Financial Institutions (PFIs), including those participating in the Enterprise Sri Lanka Programme by the Department of Development Finance. The Borrower shall also render technical support to PFIs under the Consolidated Revolving Fund managed by the Central Bank of Sri Lanka (CBSL) to explore innovative technology applications.
- (e) *Market, Weather and Climate Information Services.* The Borrower/Recipient shall assess the need to support the generation of market, weather and climate information and its timely dissemination in consultation with the relevant agencies.

5.3 *Component 3: Project Management and Coordination Unit (PMU).* Component 3 is a cross cutting component to the technical components described above.

- (a) The *Lead Programme Agency (LPA)* shall be supported by technical lead agencies under Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation, Fisheries and Aquatic Resources Development (that include the Department of Agrarian Development, the Department of Agriculture and the Department of Irrigation) or their successors.
- (b) The LPA shall establish a Project Management Unit (PMU) for SARP at national level as described under the Implementation Arrangements below.
- (c) A National Project Steering Committee (NPSC) shall provide strategic oversight.
- (d) At District level, SARP shall set up two hub offices in selected districts led by Area Coordinators responsible for day to day implementation.



## **II. Implementation Arrangements**

### **Organisation and management**

6. The LPA shall have overall responsibility for the implementation of the Programme.

7. *Project Management Unit ("PMU")*.

7.1 A Project Management Unit (PMU) shall be established by the LPA to manage and supervise the overall project. It shall be led by a Project Director, and shall have overall responsibility for project implementation. The LPA shall work very closely with the PMU to oversee implementation.

7.2 *Composition*: The PMU and district offices shall be staffed by dedicated full time staff and supported by technical and administrative staff to ensure timely project delivery, as per the applicable circulars/guidelines of the Borrower/Recipient.

8. *Technical Implementation Unit (TIU)*.

8.1 *Establishment and composition*. A Technical Implementation Unit (TIU) shall be established at District level. The TIU will consist of (at least) the Area Coordinator, representatives from the Department of Agrarian Development and the Department of Agriculture in the proposed districts, a representative from the district planning units and appropriate project technical officers. The TIU will, in addition, include representatives of NGO or civil society and a representative of the private sector, when deciding on the approval of micro-projects.

8.2 *Responsibility*: The Technical Implementation unit shall have executive and technical responsibilities. The task of the TIU will be to: (i) speed-up decisions and procedures; (ii) approve micro-projects under Sub-components 2.1 and 2.2 in consultation with the LPA; (iii) propose the agenda for the District MSC meetings and prepare the support documents; (iv) propose the Annual Work Plan and Budget (AWPB) to the District Cluster Hub and PMU for analysis and decision; (v) submit Annual Reports on sub-projects; and (vi) coordinate activities between SARP, UNDP, WFP and share technical experience.

9. *Project coordination and grievance*:

9.1 *Establishment and composition*. The LPA shall oversee the SARP Financial Management, Procurement and Governance through National Steering Committee (NSC) which shall provide strategic oversight to the project. The National Steering Committee shall comprise representatives of the respective Departments of the Ministry of Finance, Department of National Planning and the respective departments of the Ministry of Agriculture as well as the Forest and Wildlife and other relevant Departments of the Ministry of Mahawelli Development and Environment. Coordination shall be made with the Ministry of Mahawelli Development and Environment which has responsibility for forestry and wildlife and other relevant agencies.

9.2 *Grievance*. Communities, individuals and women who believe that they are adversely affected by SARP may submit complaints to the Divisional Grievance Committee to be set up at Divisional Level to redress grievances originating from the Agrarian Service Centre Committee. In the event that grievances cannot be addressed locally, they will be channeled to the District Multi-Stakeholder Committee for redress. The Grievance Committees will ensure that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may further submit complaints that are not resolved locally to the PMU where an independent Inspection Panel will be set up to determine whether harm occurred, or could occur, because of IFAD non-compliance with its policies and procedures.

10. *Project Implementation Manual (PIM)*. The Lead Project Agency shall prepare a draft 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;
- (iv) Targeting and selection criteria for participating beneficiaries;
- (v) Operational procedures for project implementation, monitoring and evaluation; and
- (vi) 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/Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan/Grant and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in USD)	Grant Amount Allocated (expressed in USD)	Percentage (net of Government and other contributions)
I. Works	17 560 000		100%
II. Goods, Services and Inputs	2 510 000		100%
III. Consultancies-Loan	3 720 000		100%
IV. Consultancies-Grant		1 000 000	100%
V. Grants & Subsidies	7 120 000		100%
VI. Training	4 280 000		100%
VII. Operating Costs.	2 360 000		100%
unallocated	4 200 000		
<b>TOTAL</b>	<b>41 750 000</b>	<b>1 000 000</b>	

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

"Consultancies-Grant" under Category III-b, shall mean eligible expenditures from the Grant incurred related to (i) International and national consultancies under Contracting Service Providers of the component Sub-component 1.1: Strengthening Adaptive Capacity of Service Providers and Farmers, (ii) ASC strengthening and knowledge hub: IWMI Technical Support under Sub-component 2.2 Investment for inclusive value chain development;

"Consultancies-Loan" under Category III-a, shall mean eligible expenditures related to consultancies service financed from the Loan;

"Goods, Services and Inputs" under Category II, shall mean eligible expenditures from the loan related (i) good , services, inputs, (ii) vehicles for project implementation which shall be included in the AWPB to be cleared by IFAD and approved by the relevant Treasury Department based on the prevailing guidelines of the Borrower/Recipient.

"Operating Costs" under Category VI, shall mean eligible expenditures for Salaries & Allowances 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/Recipient to request withdrawals from the Loan/Grant Account if the Borrower/Recipient 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 the Project:

1. *Planning, Monitoring and Evaluation.* The Borrower/Recipient shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement This system shall generate comprehensive and reliable information to support planning and decision-making. The M&E framework in the PIM shall outline the developing of an MIS system as well as regular data collection channels from the field. In addition, a geo-referenced ICT-based M&E system shall be used.

2. *Gender.* The Borrower/Recipient shall ensure that the Project will pay due attention to women's empowerment and voice including skills and capacities (at producer organizational level, and within communities as farmer leaders) and the promotion of economic activities best-suited to them. Particular consideration will also be given to nutrition determinants for the potential to engage with women and adolescent girls in project activities.

3. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower/Recipient shall ensure that the Project will be implemented in compliance with IFAD's SECAP and more specifically that the following measures shall be taken: water infrastructure and rural feeder roads technical groups will be formed for preparing rehabilitation and maintenance plans. The structure and road designs will adopt innovative climate smart solutions and also promote good environmental management. The interventions will comply with the Sri Lanka Environmental Management Act (EMA), the Guidelines for Environmental Impact Assessment of IFAD and IFAD's SECAP requirements.

4. *Environment and Social Safeguards.* The Borrower/Recipient shall ensure that: (a) all Project activities are implemented in strict conformity with the Borrower/Recipient's relevant laws/regulations; (b) all Project activities give special consideration to the participation and practices of ethnic minority population in compliance with IFAD's *Policy on Indigenous Peoples* (2009), as appropriate; (c) proposals for civil works include confirmation that no involuntary land acquisition or resettlement is required under the Project. In the event of unforeseen land acquisition or involuntary resettlement under the Project, the Borrower/Recipient shall immediately inform and the Fund and prepare the necessary planning documents ; (d) women and men shall be paid equal remuneration for work of equal value under the Project; (e) recourse to child labour is not made under the Project; (f) the measures included in the Gender Action Plan prepared for the Project are undertaken, and the resources needed for their implementation are made available, in a timely manner; (g) all necessary and appropriate measures to implement the Gender Action Plan to ensure that women can participate and benefit equitably under the Project are duly taken; and (h) existence of Protected Areas: the project sites must not be in close proximity/adjacent to the Protected Areas.

5. *Anticorruption Measures.* The Borrower/Recipient shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

6. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower/Recipient and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.

# Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility		
Outreach	<b>1.b Estimated corresponding total number of households members</b>				RIMS	Annual	PMU	(A) Extreme climate change shocks do not occur. (A) Project management and support service capacity is supportive	
	Household members - Number of people			81000					180000
	<b>1.a Corresponding number of households reached</b>				RIMS	Annual	PMU		
	Women-headed households - Number								
	Non-women-headed households - Number								
	Households - Number			18000	40000	RIMS	Annual		PMU
	<b>1 Persons receiving services promoted or supported by the project</b>								
	Females - Number								
	Males - Number								
	Young - Number								
	Total number of persons receiving services - Number of people								
Male - Percentage (%)				25					
Female - Percentage (%)				45					
Project Goal Contribute to smallholder poverty reduction, food security and nutrition in target Dry Zone districts	<b>70% of project supported HHs reporting a &gt; 30% increase in their income</b>				Reference studies and HH surveys			Baseline, MTR, End-line	
	Number of HHs - Number of people			10500		28000			
	<b>% of children suffering from reduced prevalence of chronic malnutrition</b>				HH survey	Baseline, MTR, End-line	PMU		
	% of children - Percentage (%)			25				50	
	<b>% HH reporting improved food security</b>				Food Insecurity Experience Scale (FIES) assessment	MTR	PMU		
Households - Percentage (%)			40	80					
Development Objective Build resilience and market participation of rural households in geographical areas affected by climate change	<b>No. of individual entrepreneurs and HH report a &gt; 50% increase in resilience score</b>				Specific application of the resilience methodology	Annual	PMU	A) Extreme climate change shocks do not occur. R).population increases may jeopardize sustainability of management systems. A) Sustainable and qualified business service providers are available to provide access to services	
	Males - Number								
	Females - Number								
	Young - Number								
	Number of people - Number of people			10000	28000				
	<b>1.2.8 Women reporting improved quality of their diets</b>				Baseline, MTR and Endline surveys and Outcome Surveys	Annual	PMU		
	Women reporting improved quality of their diets - Number								
	Percentage - Percentage (%)		0	20					50
	Non-women-headed households								
	Women Headed Households								
Young - Number									
Outcome Climate resilient and value chain capacity built	<b>Number of water user associations and producer organizations supported to manage climate-related risks</b>				Evaluation studies	Annual	PMU	A) Social mobilization and group management support is available; A).Extreme climate change shocks do not occur; A) Sustainable and qualified SLM support is available to provide ecosystem services	
	% water user associations - Percentage (%)			50					182
	<b>No. of Producer Organizations with capacity to manage group enterprises in a financially profitable and sustainable way</b>				Project M&E system	Annual	PMU		
	Number of POs - Number			100					400

<b>Output</b> Service providers and producers' groups created and capacitated for better land and water management	<b>No. of group members trained in land and water management</b>				Specific Technical and project activity reports	Annual	PMU	Technical assistance is available through WFP in SLM
	Number members - Number of people		2000	6000				
<b>Output</b> Farmers especially women and youth trained in business and marketing	<b>No. of farmers, women and youth trained in business and marketing</b>				Project M&E system	Annual	PMU	Sustainable and qualified business service providers are available to provide access to services
	Males - Number							
	Young - Number							
	Not Young - Number							
	Number of people - Number of people		800	1950				
<b>Output</b> Advocacy and Policy meetings conducted	<b>Policy 1 Policy-relevant knowledge products completed</b>				Project M&E System	Periodic	PMU	
	Number - Number		2	5				
<b>Outcome</b> Climate resilient climate change and value chain investments made	<b>No. of households reporting improved access to water resources for productive and domestic use</b>				Project M&E system	Annual	PMU	Extreme climate change shocks do not occur A) Sustainable and qualified SLM support is available to provide ecosystem services
	Households - Number		4000	10450				
	<b>No. of HH applying climate resilient technologies and practices</b>				Periodic evaluation study	Annual	PMU	
	Households - Number		10000	30000				
	<b>Number of smallholder farmers, women and youth managing their enterprises profitably</b>				Periodic evaluation study	Annual	PMU	
	Females - Number							
	Young - Number							
	Number of people - Number of people		1500	6400	Periodic evaluation study	Annual	PMU	
	<b>No. of farmers, women and youth reporting the use of knowledge in business and marketing</b>							
	Females - Number							
	Number of people - Number of people		1500	4600				
	Young - Number							
<b>Output</b> Minor irrigation tanks and water harvesting infrastructure constructed or rehabilitated	<b>No. of hectares of farmland under water-related infrastructure rehabilitated</b>				Regular project monitoring	Annual	PMU	Sustainable and qualified SLM support is available to provide ecosystem services
	Hectares of land - Area (ha)		1000	3000				
<b>Output</b> Beneficiaries with access to market infrastructure and business services	<b>No. of HHs utilising rural feeder roads constructed and/ or rehabilitated</b>				Project M&E System	Quarterly	PMU	A) Local government planning support is available R) District level plans match the geographic targeting of districts and divisions
	Households - Number							
	<b>No. of HHs with access to improved support services through the ASCs</b>				Project M&E System	Quarterly	PMU	
Households - Number		12000	20000					