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Enabling poor rural people to overcome poverty

President's report

Proposed loan to the Democratic Socialist Republic of Sri Lanka for the

National Agribusiness Development Programme

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

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Contents

Abbreviations and acronyms

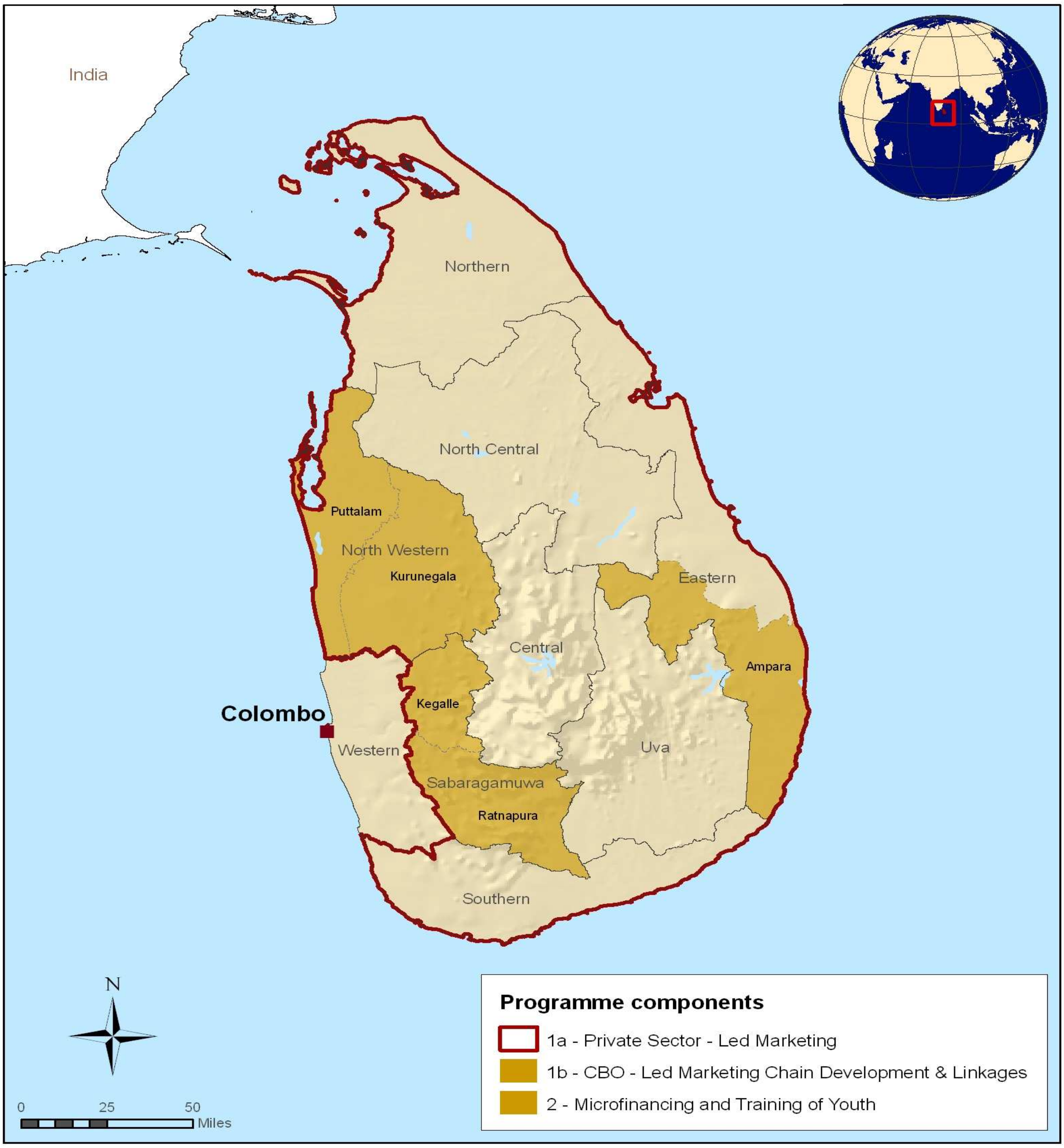
AWPB	annual workplan and budget
CBO	community-based organization
PFI	participating financing institution
PMU	programme management unit

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Democratic Socialist Republic of Sri Lanka for the National Agribusiness Development Programme, as contained in paragraph 36.

Map of the programme area

Sri Lanka
National Agribusiness Development Programme



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.

IFAD *Map compiled by IFAD*

Democratic Socialist Republic of Sri Lanka

National Agribusiness Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Democratic Socialist Republic of Sri Lanka
Executing agency:	Central Bank of Sri Lanka
Total programme cost:	US$32.96 million
Amount of IFAD loan:	SDR 15.55 million (equivalent to approximately US$25.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	Private companies (PCs) Community-based organizations (CBOs) Participating financing institutions (PFIs)
Amount of cofinancing:	PCs: US$5.25 million CBOs: US$0.76 million PFIs: US$0.39 million
Terms of cofinancing:	PCs: Equity capital CBOs: Equity capital PFIs: Loan
Contribution of borrower:	US$1.0 million
Contribution of beneficiaries:	US$0.56 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised

Proposed loan to the Democratic Socialist Republic of Sri Lanka for the National Agribusiness Development Programme

I. The programme

A. Main development opportunity addressed by the programme

1. Sri Lanka's agricultural sector is growing more slowly than its industrial and service sectors. Consequently, the incidence of poverty is higher in that sector than in the other two. Government policy promotes public-private partnerships in agribusiness development to stimulate agricultural growth. However, efforts have been largely limited to facilitating contract farming arrangements aimed at enabling companies to obtain their supplies. Although such contracts allow a few small farmers to increase their incomes, the direct involvement of farmers in upstream processing and marketing would bring even greater benefits to a larger number of farmers. The proposed programme will provide small farmers with the necessary financial and technological assistance to enable them to engage actively in agricultural value chains as equal partners.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Democratic Socialist Republic of Sri Lanka in the amount of SDR 15.55 million (equivalent to approximately US$25.0 million) on highly concessional terms to help finance the National Agribusiness Development Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Sri Lanka under the current 2007-2009 PBAS cycle is US$25.0 million. This will be fully committed under the programme, ensuring that Sri Lanka benefits from its full allocation.

Relationship to national medium-term expenditure framework criteria

4. The programme will contribute to the Government's medium-term (2010-2016) investment plan in the agriculture sector, estimated at US$1.02 billion.

Relationship to national sector-wide approaches or other joint funding instruments

5. The programme contributes to the Government's 10-year development framework, the *Mahinda Chinthana*, in which agribusiness development is a key pillar.

Country debt burden and absorptive capacity of the State

6. The capacity of Sri Lanka to service its external debt is good. Its repayment of IFAD loans is exemplary.

Flow of funds

7. IFAD loan proceeds will be disbursed into a designated account, managed by the programme management unit (PMU) in the Regional Development Department of the Central Bank of Sri Lanka. The PMU will draw funds from this account into a programme account in local currency, based on approved annual workplans and budgets (AWPBs).

Supervision arrangements

8. IFAD will directly supervise the programme, in close coordination with cofinanciers and concerned government oversight agencies.

Governance

9. The following planned measures are intended to enhance governance of the IFAD loan: (i) binding memoranda of agreement will be signed with companies and community-based organizations (CBOs) promoting each business plan, the implementation of which will be supervised by the PMU; (ii) a programme steering committee, chaired by the Ministry of Finance and Planning, will provide policy direction, and approve AWPBs and arrangements for holding farmers' shares in trust; (iii) strict eligibility criteria have been agreed for selecting companies and CBOs, and approving business plans; (iv) regular reviews and performance surveys are foreseen; and (v) annual independent audits will be carried out of the programme and individual chains.

C. Target group and participation

Target group

10. The target group will comprise small farmers, producers, women, landless households and young people. The marketing chain development and linkages component will be almost national in scope (excluding only the Western Province and urban areas). The microfinance and youth training component will specifically target five of the poorest districts, namely Ampara, Kegalle, Kurunegala, Puttalam and Ratnapura.

Targeting approach

11. The programme's targeting approach is in accordance with the IFAD Policy on Targeting. Under its marketing chain development and linkage component, the programme will identify the poorest villages and subsequently select poor people within each village through a wealth-ranking survey. At least 80 per cent of the targeted smallholders will have holdings below one hectare and earn at least 50 per cent of their income from agricultural activities. However, farmer leaders will not be excluded. The microfinance and youth training component will specifically target women, landless households and young people.

Participation

12. Poor producers will be organized and strengthened to form companies, own shares in fully or jointly owned processing centres, and engage gainfully in contract farming with private companies and CBOs. Their farms will be improved with investments to secure and increase productivity. Companies and CBOs will cofinance investments in processing and marketing under approved business plans. The participating financing institutions (PFIs) will implement the microfinance component and supplement available resources with their own to ensure sustainability. Public extension services and research institutes will impart technical knowledge as a complement to expertise provided by the companies and CBOs.

D. Development objectives

Key programme objectives

13. The overall development goal is rural poverty reduction and sustainable livelihood improvement in the programme areas. The programme's objectives are to assist small producers, women, landless workers and young people in increasing their incomes.

Policy and institutional objectives

14. The programme will contribute to production improvement and commercial agriculture by fostering joint ventures between farmers and companies as

equal partners. It will strengthen public-private sector partnerships and co-ownership arrangements in line with IFAD's Private-Sector Development and Partnership Strategy.

IFAD policy and strategy alignment

15. The programme is in line with the country strategic opportunities programme for Sri Lanka, which underscores the need to promote partnerships between the rural poor and private sector/civil society. It is also consistent with the IFAD Strategic Framework 2007-2010 in that it will enable the rural poor to access improved agricultural technologies, transparent and competitive markets, and rural financial services. It will, in addition, build the capacity of poor rural young people, landless households and women to seize opportunities for off-farm employment and small enterprise development.

E. Harmonization and alignment

Alignment with national priorities

16. The programme is aligned with the agribusiness thrust of the Government's 10-year development plan and with its agriculture policy statement, which is aimed at fostering public-private sector partnerships in commercial agriculture and strengthening rural financing services for agriculture.

Harmonization with development partners

17. Efforts have been initiated to harmonize the institutional arrangements for the programme with a World Bank-initiated agricultural competitiveness project, currently at an early stage of design. If the Government's concurrence is obtained, the World Bank project will use the programme's PMU, which will then be appropriately strengthened. The programme's design foresees synergies with the Connecting Regional Economies (CORE) Program financed by the United States Agency for International Development; the Vocational Training for Women and Youth project funded by the German Technical Cooperation Agency (GTZ); and the Poverty Alleviation Micro Finance Project funded by the Japan International Cooperation Agency (JICA).[1]

F. Components and expenditure categories

Main components

18. The programme has three components: (a) marketing chain development and linkages; (b) microfinance and youth training; and (b) programme management and policy support.

Expenditure categories

19. There are ten expenditure categories: vehicles (2 per cent); civil works (11 per cent); equipment and goods (10 per cent); technical advice and studies (4 per cent); training and workshops (12 per cent); service provider contracts (9 per cent); credit (27 per cent); long-term financing facility (21 per cent); salaries and allowances (3 per cent); and operation and maintenance (1 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. The lead programme agency is the Central Bank of Sri Lanka. Other implementing partners include: producers and their associations; CBOs; private companies, including, in particular, those that submitted the first nine business plans reviewed and approved during the design missions; PFIs; public and private service providers; ministries in charge of agriculture, livestock, supplementary crops, and nation-building; chambers of commerce; and the

[1] The Japan Bank for International Cooperation has been merged with the Japan International Cooperation Agency (JICA).

export development board. The legislative authority for the programme will lie with a national steering committee.

Implementation responsibilities

21. The national steering committee will review/approve programme AWPBs, business plans and related investments. The PMU will identify through a competitive process, conduct eligibility assessments of and eventually recruit selected business partners (companies, CBOs, PFIs, and producers' groups); supervise the implementation of approved business plans; establish a monitoring and evaluation system and a knowledge management plan; and carry out all other procurement. Companies, CBOs and PFIs, will prepare concept notes and business plans for approval with the support of the PMU where needed. Once plans are approved, CBOs and PFIs will implement them in partnership with producers. Policy issues will be investigated by concerned government departments, who will make recommendations for approval and dissemination of policies. All programme parties will implement a gender action plan and good agricultural practices.

Role of technical assistance

22. Technical assistance will be provided through service providers for preparing implementation manuals, undertaking impact surveys, preparing (where needed) technical reviews of business plans, and carrying out gender and environmental sensitization and training. Production improvement technologies and skills improvement of producers will also be introduced by technical assistance from government departments and companies.

Status of key implementation agreements

23. Agreement has been reached that: (a) a Memorandum of Agreement, acceptable to IFAD, will be signed with each business partner; (b) a board of trustees will be established to hold shares on behalf of producers and/or small farmers until they are redeemed; (c) three revolving funds will be established to recycle reflows (the equity fund, the medium- to long-term loan fund and the microfinance fund); (d) three key PMU staff will be selected, including the manager, deputy manager and the monitoring and evaluation expert; (e) the PMU will be absorbed by the Central Bank of Sri Lanka and continue to promote partnerships between the private sector and poor producers; and (f) subsidiary loan agreements between the Central Bank of Sri Lanka and PFIs, acceptable to IFAD, will be formulated to operate the credit lines under the programme.

Key financing partners and amounts committed

24. The total programme cost will be US$32.96 million over five years, or any other period notified by IFAD to the borrower. The sources of financing are IFAD (75.8 per cent); private companies (15.9 per cent); CBOs (2.3 per cent); PFIs (1.2 per cent); producers (1.7 per cent); and the Government (3 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

25. The main benefits of the programme will be derived from greater net margins on the sale of farm products, higher farm productivity, employment generation and increased incomes. This will be achieved through improved technologies; processing of, and better access to markets for, agricultural products, including fruits (passion fruits and pineapple), vegetables (gherkin and jalapeño pepper), spices (pepper and cinnamon), cereal (paddy and maize), milk and dry fish; and possibilities for income-generating activities.

Economic and financial viability

26. Financial analysis of five of the typical business plans indicate that producers can redeem the share capital provided for passion fruits in the second and third

years, for dried fish in the third and fourth years, and for dairy in the fourth and fifth years. The economic rate of return of the programme is 29 per cent over a period of 15 years. Sensitivity analysis confirmed the programme's strong viability.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

27. In view of the innovative nature of the programme, close supervision and adequate measures for learning will be critical. Six months after the entry into force of the agreement, IFAD and the PMU will agree on a knowledge management strategy to include: holding regular knowledge and learning markets, in which local and international experts will participate; establishing effective management and information systems, supported by university students, to monitor impact and prepare case studies about emerging experiences, issues and policy responses; and posting results on the programme's website, to be established in the first programme year. To ensure progress, business plans and programme activities will be continuously monitored and evaluated.

Development innovations that the programme will promote

28. The programme has four innovative features: it will provide equity finance to encourage long-term investments; it will help poor producers to own a stake in upstream processing; it will train young people from landless households and ensure that they find employment with companies; and it will promote partnerships and co-ownership between companies/CBOs and a large number of producers.

Scaling-up approach

29. The programme will demonstrate the feasibility of implementing public- and private-sector joint ventures in commercial agriculture in partnership with poor producers. Once the results have been assessed and proven efficient, the activities will be scaled up, both by expanding partnerships with existing partner companies, CBOs, and PFIs, and by engaging additional partners. Three revolving funds will be established for this purpose using the reflows from the programme's credit lines and microfinance facility.

J. Main risks

Main risks and mitigation measures

30. The programme faces five main risks: lack of empathy of the companies for the rural poor; breaching of contracts between the companies and producers; erratic supply of produce, both in terms of quality and quantity; inefficient marketing under the CBO-led business plans; and policy reversals on support for public-private partnerships in rural agriculture. The planned mitigation measures include: carefully selecting companies with proven reputations for empathy, and organizing trust-building workshops; carefully negotiating the terms of legally binding contracts, including dispute settlement mechanisms; carrying out land suitability assessments, providing appropriate on-farm investments and training farmers to adopt good practices; supporting market delivery through product differentiation with packaging, product branding, etc.; and creating awareness and ownership within relevant government departments about programme impacts.

Environmental classification

31. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it it is not likely to have any significant negative environmental impact. Nonetheless, provisions have been made to ensure business plans will be screened carefully and specific resources will be provided for training farmers and companies on best practices.

K. Sustainability

32. Sustainability will be enhanced by: (a) establishing three revolving funds, namely an equity fund, a medium- to long-term loan fund, and a microfinance fund, all to be managed by the Central Bank of Sri Lanka after programme completion to continue supporting private sector-poor smallholder partnerships; (b) strengthening producer groups and their primary processing facilities; (c) ensuring that the management of the processing centres is placed in the hands of, or supported by, private companies and CBOs; and (d) applying strict selection criteria in identifying companies, CBOs, and PFIs.

II. Legal instruments and authority

33. A programme financing agreement between the Democratic Socialist Republic of Sri Lanka and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.

34. The Democratic Socialist Republic of Sri Lanka is empowered under its laws to receive financing from IFAD.

35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

> RESOLVED: that the Fund shall make a loan on highly concessional terms to the Democratic Socialist Republic of Sri Lanka in an amount equivalent to fifteen million five hundred and fifty thousand special drawing rights (SDR 15,550,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "National Agribusiness Development Programme"

(Negotiations concluded on 11 December 2009)

Loan Number: _______________

Programme Title: National Agribusiness Development Programme (the “Programme”)

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

and

the Democratic Socialist Republic of Sri Lanka (the “Borrower”)

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

hereby agree as follows:

WHEREAS:

The Borrower has requested a Loan from the Fund for purposes of partially financing the National Agribusiness Development Programme described in Schedule 1 to this Financing Agreement;

NOW THEREFORE, 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, as may be amended 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 SDR 15 550 000.

2 The Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be the US dollar.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge shall be made on each 15 April and 15 October.

6. There shall be a Programme Account for the benefit of the Central Bank of Sri Lanka in the Central Bank of Sri Lanka.

7. The Borrower shall provide counterpart financing for the Programme in the approximate amount equivalent to one million United States dollars (USD 1 000 000), to cover the cost of taxes and staff seconded by the Central Bank of Sri Lanka.

Section C

1. The Lead Programme Agency shall be the Central Bank of Sri Lanka (CBSL).

2. The following are designated as additional Programme Parties:

(i) Producers and their Associations;

(ii) Community Based Organisations (CBOs);

(iii) Private Companies;

(iv) Participating Financing Institutions (PFIs);

(v) Public and Private Service Providers;

(vi) The Borrower's Ministries responsible for Agriculture, Livestock, Supplementary Crops and Nation Building;

(vii) The three Chambers of Commerce; and

(viii) The Export Development Board.

3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement, or such later date as the Fund may designate by notice to the Borrower.

Section D

The Loan shall be administered and the Programme supervised by the Fund.

Section E

1. The following is designated as an additional ground for suspension of the right of the Borrower to request withdrawals from the Loan Account: the Borrower has failed to ensure the continuity of tenure of Key Programme Personnel and in the opinion of the Fund, this is likely to have a material adverse effect on the Programme.

2. (a) The following is designated as an additional general condition precedent to withdrawal: No withdrawals shall be made from the Loan Account until the Programme Manager shall have been duly seconded by the Central Bank of Sri Lanka.

(b) The following is designated as an additional condition precedent to withdrawal from Category VII (Credit) of the Allocation Table set forth in paragraph

1, Schedule 2 hereto, in respect of each PFI: A Subsidiary Loan Agreement acceptable to the Fund, between the Lead Programme Agency and each such PFI shall have been duly signed, and a copy thereof shall have been provided to the Fund by the Lead Programme Agency.

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

For the Fund:

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

For the Borrower:

Secretary
Ministry of Finance and Planning
Attention: Director General, Department of External Resources
Ministry of Finance and Planning
The Secretariat
Colombo 01
Sri Lanka

This agreement, dated ____________ has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

____
For the Fund

____
For the Borrower

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population*. The Programme shall benefit small farmers, producers, women, the landless and youth throughout the territory of the Borrower, with the exception of the Western Province and Urban Areas (the "Programme Area").

2. *Goal*. The goal of the Programme is to contribute to poverty reduction and sustainable livelihood improvement of poor rural households in the Programme Area.

3. *Objectives*. The objectives of the Programme are to assist smallholder farmers and the landless, especially the youth by: (a) increasing their incomes through participation in the Marketing Chain Development and Linkages component which shall improve farm gate prices, on-farm productivity and add value to processed farm products; and (b) the provision of financing and training to the landless and youth to offer them improved and increased employment opportunities.

4. *Components*. The Programme shall consist of the following Components:

4.1. <u>Component 1: Marketing Chain Development and Linkages</u>

Under this component, the following two approaches shall be pursued: (a) Private sector-led marketing chain development; and (b) Community Based Organisations (CBOs)-led marketing chain development.

(a) <u>Component 1(a): Private Sector-led Marketing Chain Development</u>

Under this component the Programme shall encourage private agri-business companies to work in partnership with small producers for the development of Marketing Chains. To this effect, the Programme shall invite expressions of interest (EOI) from reputable agri-business companies wishing to participate in the component activities. Such companies shall be selected on the basis of parameters and criteria acceptable to the Fund. Short listed companies shall be required to submit detailed Business Plans (BPs) to include both an investment and an implementation plan. The BPs shall be independently reviewed by the Programme Management Unit (PMU) and, if deemed satisfactory thereby, the BPs shall be further negotiated with the relevant Company(ies) before being submitted to the National Steering Committee (NSC) for approval.

(b) <u>Component 1(b): CBO-led Marketing Chain Development</u>

Under this component small producers and farmers shall be majority shareholders in the entire CBO-led marketing chain, and shall play the foremost role in both the management of the chain and the marketing of the products/produce. This component shall initially be implemented on a pilot basis limited to ten (10) BPs, the financing of which shall be acceptable to the Fund. Subject to successful implementation to be assessed either under the Mid-Term Review or other specific impact review(s), the Programme shall reallocate resources from Component 1(a) above to support additional Business Plans.

4.2 Component 2: Microfinance and Training of Youth

This component, which shall focus on the districts of Ampara, Kegalle, Kurunagala, Puttlam and Ratnapura, shall finance two main activities: (a) Micro-Finance; and (b) Youth Training.

(a) Sub-Component 2 (a): Micro-Finance

The Programme shall provide credit resources to PFIs for on-lending to the landless poor, women groups, youth and other marginalised groups for undertaking income-generating activities. The Lead Programme Agency shall select the PFIs based on criteria agreed to by the Fund. Potential PFIs shall include, among others: (i) the Bank of Ceylon; (ii) People's Bank; (iii) Rural Development Bank; and (iv) Hatton National Bank. Social Mobilisers, to be recruited by the PFIs, shall facilitate group formation and mobilisation and encourage group members to save.

(b) Sub-Component 2 (b): Youth Training

The Programme shall finance the training of approximately two thousand two hundred (2 200) youth to provide them with skills that shall enable them find employment with the business partners of the Programme or enable them to start their own business(es) as small-scale rural entrepreneurs. In order to be eligible for training the youth shall be from poor families, in particular poor women-headed households.

4.3 Component 3: Programme Management and Policy Support

This component shall comprise two sub-components: (a) Programme Management; and (b) Policy Support.

(a) Sub-Component 3(a): Programme Management

Under this sub-component the Programme shall: (i) establish a PMU within the Regional Development Department of the Lead Programme Agency; (ii) finance gender sensitization workshops, trust-building campaigns between the companies and the producers, and specific case-studies for knowledge management purposes; (iii) establish a Monitoring and Evaluation system; (iv) carry out a baseline survey; and (v) perform impact assessment surveys before the Mid-Term Review and Programme Completion Date.

(b) Sub-Component 3(b): Policy Support

The PMU, with the assistance of the Programme parties and the National Steering Committee (NSC), shall identify policy issues that may arise during the Programme Implementation Period, carry out research on such policy issues and use the results thereof for policy dialogue. Issues that may be considered shall include, *inter alia*: (i) the differential wages paid to women and how such differentials can be addressed; (ii) increasing the participation of youth in the agricultural sector; (iii) framework conditions for rural infrastructure development; (iv) access to land and water to secure the production base of small producers; and (v) taxation and access to financial services by newly created farmer companies.

II. Implementation Arrangements

5. *Lead Programme Agency*

The Central Bank of Sri Lanka shall be the Lead Programme Agency and shall have overall responsibility for the implementation of the Programme.

6. *National Steering Committee*

6.1. The Borrower shall establish and maintain throughout the entire Programme Implementation Period a National Steering Committee. The NSC shall be chaired by the Secretary of the Ministry of Finance and Planning or his/her representative and shall include, among others:

(a) a representative of the: (i) Ministry responsible for Agriculture; (ii) Ministry responsible for Livestock; (iii) Ministry responsible for Supplementary Crops; (iv) Ministry responsible for Nation Building; (v) Central Bank of Sri Lanka; (vi) each of the three Chambers of Commerce/Private Sector; (vii) Export Development Board; and (viii) Producers' Associations.

(b) representatives of the concerned Departments of the Ministry of Finance and Planning, including the National Planning Department; Public Enterprises Department; External Resources Department, and the Development Finance Department, who shall have observer status within the NSC. The Programme Manager shall act as its Secretary.

6.2. Among other things, the NSC shall review and approve the AWPBs, Business Plans and related investment plans.

7. *Programme Management Unit*

7.1. The Lead Programme Agency shall establish, by Special Order, and maintain throughout the entire Programme Implementation Period a Programme Management Unit (PMU). The PMU shall be headed by the Programme Manager and include the following: (a) an Agri-Business Expert who shall act as Deputy Programme Manager; (b) a Programme Finance Specialist with experience in equity financing; (c) an assistant Business Plan Analyst; (d) a Gender Specialist; (e) a Monitoring and Evaluation/Knowledge Management Specialist; (f) an Accountant; and (g) two secretaries, a data-entry operator and support staff, as required.

7.2. Specifically the PMU shall have the following responsibilities:

(a) Invite Expressions of Interest from companies willing to enter into partnerships with the poor producers or farmers;

(b) conduct independent assessments of submitted BPs to ensure compliance thereof with the Programme's targeting criteria, the provisions of this Agreement and of the Programme Design Report;

(c) ensure that all necessary legal documents and agreements for the Business Plans are drawn-up;

(d) ensure timely flow of funds to the approved BPs;

(e) prepare and provide progress and audit reports to the NSC and the Fund;

(f) facilitate the work of supervision missions from the Fund and the Borrower;

(g) ensure that periodic independent assessments of the financed projects take place;

(h) manage the Programme flow of funds including preparation of withdrawal applications and appropriate documentation in support thereof, and ensure that separate accounts are maintained and audited for Programme operations in a timely manner;

(i) carry out procurement as required;

(j) implement the Programme's Gender Action Plan and ensure that the Programme Parties do so as part of their implementation strategy;

(k) establish and operate an appropriate Monitoring and Evaluation system, including compliance with the Fund's Results and Impact Monitoring Systems (RIMS) requirements, and carry out a Baseline Survey, a Completion Survey, as well as the Mid-Term Review referred to in paragraph 8 below;

(l) implement a Knowledge Management plan; and

(m) conduct periodic independent assessments of the partnerships including independent audits of the proceeds of the Financing received by beneficiaries for their products and of the produce sold to processing centres.

8. *Mid-Term Review*

The Lead Programme Agency and the Fund shall jointly carry out a review of the Programme implementation no later than the end of the thirtieth month of entry into force of this Agreement (the "Mid-Term Review") based on the terms of reference prepared by the Lead Programme Agency and agreed to by the Borrower and the Fund.

9. *Programme Implementation Manual*

The Lead Programme Agency shall prepare a draft Programme Implementation Manual (PIM) acceptable to the Fund as soon as possible after the entry into force of this Agreement. The draft Programme Implementation Manual shall include, among other things:

(a) Terms of reference and implementation responsibilities of all Programme Personnel, consultants, service providers and implementing agencies;

(b) criteria for the performance appraisal of the Programme professional staff and service providers;

(c) Programme operational and financial procedures, participatory planning, implementation and monitoring and evaluation system and procedures including the Fund's Results and Impact Monitoring System (RIMS);

(d) the selection criteria of agri-business companies wishing to participate in the Programme under Component 1(a);

(e) minimum contents of the BPs of companies eligible to participate in the Programme under Component 1(a);

(f) a provision whereby all BPs shall be approved within four (4) months of submission thereof to the NSC by the PMU;

(g) a provision whereby the financing plan of each BP shall be assessed on a case-by-case basis to reduce the financial risk to the processing company;

(h) a requirement whereby companies and CBOs selected under Component 1 shall: (i) organise farmers to form legal entities, (ii) provide technical assistance to improve farm productivity, (iii) coordinate input supply and procure all output through the processing center;

(i) provisions whereby at the instigation of the Lead Programme Agency, the Long Term Financing Facility provided for by the Programme shall be held in trust, for the benefit of the producers, by a Board of Trustees;

(j) provisions whereby any producers' available assets shall be used by the Board of Trustees, *pro-quota*, to transfer title over the shares *inter alia* in the processing facilities, to each producer and/or small farmer that participated in the relevant BP;

(k) a provision whereby assets mentioned under (j) above shall be invested by the Board of Trustees in the equity fund established under the Programme;

(l) provisions whereby the Lead Programme Agency shall establish three revolving funds to recycle reflows respectively from the equity fund, the medium to long-term loan fund, and the micro-finance fund under the Programme (collectively, "revolving funds"), to be managed by CBSL staff;

(m) reference to an independent source from which small producers and farmers shall obtain price and market information;

(n) provisions whereby disbursements of funds under Category VIII (Long Term financing Facility) of the Allocation Table set forth in paragraph 1, Schedule 2 hereto, shall be conditional upon the agri-business companies, CBOs, and producers contributing their share in the BPs;

(o) a detailed description of legal and/or other requirements to be complied with by relevant Programme Parties in the implementation of Component 1 of the Programme; and

(p) a description of the percentages of funding to be borne by the respective financiers of the BPs.

10. *Implementation of Programme components*

10.1 <u>Component 1: Marketing Chain Development and Linkages</u>

10.1.1. <u>Component 1(a): Private Sector-led Marketing Chain Development</u>

(a) The PMU shall invite expressions of interest in standardised format from interested agri-business companies. To be eligible to participate in Programme activities, each such company shall meet, among others, the following criteria:

(i) the company's majority shareholding shall be Sri Lankan or include foreign shareholding arrangements in the form of a joint venture;

(ii) the Company's objectives shall be to specialise in agriculture, processing of agricultural materials and agri-business and/or to deal in agricultural-related products or provide services therefor;

(iii) the company shall have been incorporated and been active in areas directly related to agricultural production and services for a minimum of five (5) years;

(iv) the machinery and equipment used by the company shall be in good condition, reliable and maintained in such form as to support and sustain present production outputs;

(v) the company shall have consistently received unqualified auditor's opinions and have a sound financial position as evidenced by its balance sheets, profit and loss accounts over the last five years and up-to-date audit statements;

(vi) the company shall have a reputation of fair dealing and empathy with smallholders and the poor;

(vii) each of the companies shall possess sound and recognised company management systems with established procedures for quality control, and a marketing structure, with qualified and experienced personnel in managerial positions;

(viii) each of the companies shall demonstrate that procurement from smallholders is a normal feature of the company's procurement processes and supply chain; and

(ix) each of the companies shall comply with the relevant environmental regulations (on preventing water and air pollution) and agricultural practices.

(b) In ranking companies interested to submit BPs for the five focus districts of Ampara, Kegalle, Kurunagala, Puttlam and Ratnapura under Component 1, priority shall be given to those companies willing to employ youth trained under Component 2 of the Programme.

(c) Short-listed companies, whose Expressions of Interest are successful, shall be invited to propose a detailed BP. The PMU shall review the BPs and submit eligible BPs to the NSC for approval. The PMU may be assisted by an *ad hoc* Technical Review Panel for this purpose, as required. BPs shall be appraised against Programme objectives, using economic and multi-criteria analyses acceptable to the Fund.

10.1.2. Component 1(b): CBO-led Marketing Chain Development

(a) The implementation modalities of this component shall be similar to those under Component 1(a). Each of the CBOs, Business Development Service providers (BDS) and NGOs, shall be invited to express their interest in implementing relevant Programme activities and shall be short listed based on the following criteria:

(i) They shall be an established legal entity possessing a transparent management and organisational structure pursuing activities aimed at poverty reduction or working with small farmers;

(ii) they shall possess no less than five (5) years of experience in sensitisation, group formation, market linkages and financing of group enterprises;

(iii) they shall be willing to employ youth trained under Component 2; and

(iv) they shall possess an unqualified audited financial balance sheet over the last five years.

(b) Short listed companies shall be invited to submit proposals for the promotion of market linkages for poor households and women. The proposals shall include producer groups' BPs and investment plans. The PMU shall provide support, as required, for the preparation of the BPs. The PMU shall review submitted BPs and submit successful BPs to the NSC for approval. The PMU may be assisted by an *ad hoc* Technical Review Panel, as required. BPs shall be appraised against Programme objectives, using economic and multi-criteria analyses acceptable to the Fund. Approved proposals shall be implemented under the relevant CBO that promoted the BP in close collaboration with the small producers and/or farmers.

(c) All on-farm investment and investment in infrastructure shall be implemented by the farmers/CBOs, who shall also be required to maintain the financed facilities in good order. It shall be the responsibility of the CBOs to arrange for and provide inputs and quality planting material to the beneficiaries of credit. The Programme shall also finance any marketing support required by the CBO on a grant basis.

10.2. Component 2: Micro-Finance and Training of Youth

10.2.1. Sub-Component 2 (a): Micro-Finance

Under this subcomponent, the Programme shall provide micro-finance for groups of poor women, the landless, and other marginalised groups, for undertaking income-generating activities. The PFIs shall draw funding for the Programme from the micro-finance facility to be established under the Programme. The Lead Programme Agency, in consultation with the Programme Parties, shall select the PFIs whose services shall be used to channel resources to end borrowers. A Subsidiary Loan Agreement acceptable to the Fund, shall be executed between the Lead Programme Agency and each PFI.

10.2.2. Sub-Component 2 (b): Youth Training

The following measures shall be implemented when determining eligible candidates for the training in targeted districts:

(a) The identification of eligible youth shall be done by social mobilisers attached to PFIs, the companies under Component 1(a) and the CBOs under Component 1(b). Upon identification of the eligible youth, the social mobilisers shall prepare a profile indicating *inter alia* the areas of expertise that each youth may wish to pursue;

(b) the training needs of the youth shall be identified based on their profile. The Gender Specialist with the assistance of the Agri-business Specialist shall finalise the training plan for the youth ensuring gender concerns are adequately addressed;

(c) the PMU with the assistance of the companies shall maintain an information data base consisting of different employment needs by different companies. At the end of the training, the social mobilisers, based on information available to the PMU, shall provide necessary assistance to the youth in finding employment.

10.3. Component 3: Programme Management and Policy Support

10.3.1. Sub-Component 3(a): Programme Management

The Programme Manager and the Monitoring Evaluation/Knowledge Management Specialist shall be seconded by the CBSL from amongst its existing staff. The remaining Key Programme Personnel, including the Agri-business Expert, the Programme Finance Specialist with experience in equity financing, the Financial Analyst, the Gender Specialist and the Accountant shall be recruited pursuant to an open, transparent and competitive process.

10.3.2. Sub-Component 3(b): Policy Support

The PMU and the Programme Parties shall decide on relevant policy support activities to be pursued during Programme implementation. To enhance ownership and prospects for subsequent implementation of relevant findings, management of policy studies to be supported shall be entrusted to the relevant line ministries. Such studies shall be limited to subjects related to BPs funded by the Programme.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Percentage of Eligible Expenditures to be Financed
I. Vehicles	170 000	100% net of taxes
II. Civil Works	1 945 000	100% of total expenditures
III. Equipment and Goods	120 000	100% net of taxes
IV. Technical Advice and Studies	790 000	100% net of taxes
V. Training and Workshop	770 000	100% net of taxes
VI. Service Provider Contracts	1 090 000	100% net of taxes
VII. Credit	4 940 000	100% of total expenditures
VIII. Long Term Financing Facility	3 620 000	100% of total expenditures, net of agri-business companies', CBOs' and producers' contributions
IX. Salaries & Allowances	440 000	100% of total expenditures net of PFI and Borrower's contributions
X. Operation & Maintenance	110 000	100% of total expenditures
XI. Unallocated	1 555 000	
TOTAL	**15 550 000**	

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

"Credit" refers to Programme funds for: (a) agri-business companies, CBOs and producers to finance the costs of establishment and operation of processing facilities; and (b) supporting income generating activities.

"Equipment and Goods" means Eligible Expenditures related to office equipment for the PMU.

“Long Term Financing Facility” means funds to be held in trust by a Board of Trustees on behalf of producers and/or small farmers who became partners in the BPs.

“Training and Workshops” means Eligible Expenditures related to the cost of holding workshops at national and regional levels, and the cost of the public extension service officers, to the exclusion of those working for private companies.

Schedule 3

Special Covenants

For the purposes of this Agreement the Borrower shall ensure that the following provisions are complied with:

(a) All non-seconded Programme Personnel shall be recruited pursuant to an open, transparent and competitive process;

(b) all Personnel seconded from within the CBSL shall receive top-up salaries and adequate performance-based incentives;

(c) CBSL Personnel shall continue to work on the revolving funds established under the Programme to build on experience gained and promote private sector-poor farmer partnerships for no less than five years after the Loan Closing Date;

(d) the revolving funds shall continue to promote partnerships between the rural poor and the private sector for no less than five (5) years after the Loan Closing Date;

(e) upon the Programme Completion Date, the PMU shall be integrated within the CBSL structure and continue to promote partnerships between the private sector and poor producers for no less than five (5) years after the Loan Closing Date.

Key reference documents

Country reference documents

Mahinda Chintana : Vision for A New Sri Lanka – A Ten Year Horizon Development Framework 2006 – 2016, Discussion Paper, *Department of National Planning, Ministry of Finance and Planning*.

National Programme for Food Security, Development Strategy, *Ministry of Agriculture Development and Agrarian Services, March 2009*

Annual Report, 2008, Central Bank of Sri Lanka

Poverty reduction strategy paper

IFAD reference documents

Project design document (PDD) and key files

COSOP

Administrative Procedures on Environmental Assessment

IFAD Rural Financing Policy

IFAD Targeting Policy

Other miscellaneous reference documents

DFID (2003), DFID Environment Guide – A guide to Environmental Screening. *Department for International Development. U.K.*

IFAD (2009), Environmental management and sustainable development - IFAD's Environmental and Social Assessment Procedures, *International Fund for Agricultural Development*

Micro Finance Industry Report, Sri Lanka, 2009, *GTZ*

Poverty in Sri Lanka, 2009, *Department of Census and Statistics*

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
	Goal		
Rural poverty reduction and improvement of livelihoods of 57 900 poor households achieved.	**By Programme completion in 2016 (baseline 2010)** -50% of targeted HHs will be raised above the poverty line; -20% increase in household assets ownership index; -25% reduction in prevalence of chronic child malnutrition.	-Poverty incidence; Baseline and impact surveys; -RIMS) surveys.	
	Purpose		
Increased value addition of agricultural produce in selected marketing chains	**By 2016, in target districts & for target chains** -20% to 30% increase in average household incomes; -at least 50% increase in returns per labour (value added) for produce in the targeted marketing chains; -2,800 person years of employment generated.	-RIMS survey data; -Household surveys; Baseline & impact surveys	-Major external shocks or financial & food/financial crises which could weaken project effects do not occur; -Extreme weather conditions will not prevail;
	• **Programme/Component Outputs**		
<u>Component 1(a):</u> Private sector led marketing chain development and linkages	- 21 Business Plans developed and financed - 100 farmer owned processing centres established - 100 rural infrastructure sub-projects financed - 50% of marketing chain participants adopt sustainable agribusiness practices; - 2 000 farmer groups receive credit & extension support; - 2 000 farmer groups get environmental training - 40 000 farmer families get gender sensitization courses -2 000 farmer groups and 500 company staff participate in trust building seminars -Market information system established - 13 000 farmers benefit from on-farm investments	-Annual progress reports; Programme documents; -Annual financial statements; Records of private companies and enterprises; - independent evaluations Audit report -M&E reports; -Supervision reports - Bulletins from HARTI	-Sustained demand for products in agribusinesses main markets; -Natural disasters do not offset gains in productivity from sustainable agricultural practices; -Supportive local government units to introduce and enforce appropriate policy frameworks; -No rapid change in priorities of the government away from agribusiness promotion policies; -Local, regional, national, and international market conditions are favourable to agricultural products from Sri Lanka; Every company will ensure sensitization work per BP to be supported; CBOs will sensitise their farmers.
<u>Component 1(b) CBO led marketing chain development and linkages</u>	- 10 business plans developed and financed - 4 000 farmers get on-farm investment - 60 rural infrastructure sub-projects financed - 12 000 farmers get production credit and extension support - 12 000 farmers get environmental training - 12 000 farmers and their spouses get gender sensitization training - 4 000 farmers benefit from on-farm investments		
<u>Component 2:</u> Micro-finance and youth training	- 2,200 youth from landless and poor households trained - 1,000 of these find employment with the companies - 368 groups (10 members each) start savings and access funds on credit. Average credit size Rs. 50,000 - Recipients of micro-loans increase their incomes by 15%; --Selected group members trained in bookkeeping and accounting in 80% of groups. - Recovery rates and types of activities financed.	Progress reports Independent verification reports PFI reports Evaluation reports	The target group is well identified The micro-enterprises are successful Groups do not break-up