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Investing in rural people

President's memorandum

Proposal for additional financing to the
Democratic Socialist Republic of Sri Lanka for
the Smallholder Agribusiness Partnerships
Programme

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing in the form of a loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme, as contained in paragraph 15.

Proposed additional financing to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme

I. Background

1. This memorandum seeks approval for additional financing in the form of a loan of US\$6.18 million for the Smallholder Agribusiness Partnerships Programme (SAP), approved by the Executive Board in April 2017 (EB 2017/120/R.13/Rev.1). The additional financing will be used to fund component 1 (access to commercial partnerships) and component 3 (programme management and policy dialogue).
2. The programme financing plan as originally appraised totals US\$105 million. Towards this, IFAD will provide a loan of US\$33.7 million; the contribution of the Government amounts to US\$19.4 million. Beneficiaries will contribute US\$4.5 million; participating financing institutions US\$9.8 million; and the private sector US\$17 million. There is a financing gap of US\$20.7 million.
3. In May 2017, shortly after Executive Board approval of the SAP, the performance-based allocation system (PBAS) allocation for Sri Lanka was revised upwards with an additional US\$6.18 million, for a total PBAS allocation of US\$39.88 million as part of the measures taken to enhance the 2017 IFAD lending programme. This immediately presents an opportunity to apportion the total remaining funds of US\$6.18 million towards partially filling the financing gap for the approved SAP.

II. Justification and rationale

4. The SAP, as mentioned in the original report, serves as a key IFAD and government instrument to achieve priorities under the national policy framework and in the evolving rural (business) and institutional environment. It offers a major opportunity to promote dialogue among national stakeholders on the policy environment for smallholder-sourced agribusiness.
5. The programme has national coverage. However, through an evaluation process, special attention is paid and preference given to low-income districts and areas in which agroproduction potential is high. The programme is demand-driven and the willingness and commitment of stakeholders will be critical (agribusiness and value chain actors, including the private sector and farmer/producer organizations).
6. The programme target group is unchanged: 57,500 poor rural households (representing 230,000 individuals), with the potential to become active economic players in a diverse array of value chains. The development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder households (initially) involved in commercially oriented production and marketing systems.

III. Programme costs and financing

7. Total investment and recurrent costs over the six-year implementation period, including physical and price contingencies, are estimated at US\$105 million (17 billion Sri Lanka rupees). Indicative costs by component and financier are

detailed in table 1; indicative costs by expenditure category and financier are provided in table 2.

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

Component	IFAD loan		Financing gap		Participating financial institutions		Private-sector partners		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Access to commercial partnerships	18 233	34	18 079	33	-	-	16 967	31	-	-	184	2	53 463
2. Access to rural finance	13 416	29	-	-	9 821	21	-	-	4 494	10	18 470	40	46 201
3. Programme management and policy dialogue	2 051	38	2 621	49	-	-	-	-	-	-	705	12	5 377
Total	33 700	32	20 700	20	9 821	9	16 967	16	4 494	4	19 359	19	105 041

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

Expenditure category	IFAD loan		Financing gap		Participating financial institutions		Private-sector partners		Beneficiaries		Borrower/ counterpart		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Consultancies	1 957	31	4 043	65	100	2	-	-	-	-	106	2	6 206
2. Equipment and materials	336	41	375	45	-	-	-	-	-	-	107	14	818
3. Credit	13 097	29	-	-	9 505	21	-	-	4 494	10	18 372	40	45 468
4. Grants and subsidies	16 050	36	12 121	27	-	-	16 967	37	-	-	-	-	45 138
5. Workshops	283	37	417	55	8	2	-	-	-	-	49	6	757
6. Training	904	26	1 995	59	208	7	-	-	-	-	260	8	3 367
7. Vehicles	246	86	-	-	-	-	-	-	-	-	37	14	283
8. Salaries and allowances	650	28	1 371	58	-	-	-	-	-	-	345	14	2 366
9. Operating costs	177	28	378	59	-	-	-	-	-	-	83	13	638
Total	33 700		20 700		9 821		16 967		4 494		19 359		105 041

8. The financing gap of US\$20.7 million may be sourced by subsequent PBAS cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation. However, following the increase in the PBAS allocation for Sri Lanka, the remaining available funds in the amount of US\$6.18 million will be apportioned to the SAP as additional financing to partially fill the financing gap.
9. The apportioning of the US\$6.18 million additional financing is summarized in tables 3 and 4.

Table 3
IFAD additional financing by component
(Thousands of United States dollars)

Component	Original financing gap		Additional financing		Remaining financing gap	
	Amount	%	Amount	%	Amount	%
1. Access to commercial partnerships	18 079	87	5 182	25	12 897	62
2. Access to rural finance	-	-	-	-	-	-
3. Programme management and policy dialogue	2 621	13	996	5	1 625	8
Total	20 700	100	6 178	30	14 522	70

Table 4
IFAD additional financing by expenditure category
 (Thousands of United States dollars)

Expenditure category	Original financing gap		Additional financing		Remaining financing gap	
	Amount	%	Amount	%	Amount	%
1. Consultancies	4 043	19	1 174	5	2 869	14
2. Equipment and materials	375	2	123	1	252	1
3. Grants and subsidies	12 121	58	3 583	17	8 538	41
4. Workshops	417	2	124	1	293	1
5. Training	1 995	10	618	3	1 377	7
6. Salaries and allowances	1 371	7	432	2	939	5
7. Operating costs	378	2	124	1	254	1
Total	20 700	100	6 178	30	14 522	70

IV. Financial management

10. Arrangements for financial management, flow of funds, governance, procurement and audit remain unchanged with respect to section III part D of the original SAP proposal.

V. Proposed modifications to the programme loan agreement

11. Upon approval by the Executive Board, the SAP financing agreement will be amended to include the provisions of the additional financing, which will become effective as of the date of the countersignature of the amendment letter by the borrower.
12. The additional financing does not involve any modification to the programme description.
13. The Democratic Socialist Republic of Sri Lanka is empowered under its laws to borrow from IFAD.
14. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

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

RESOLVED: that the Fund shall provide an additional loan on blend terms to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme in an amount equivalent to six million one hundred and eighty thousand United States dollars (US\$6,180,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
 President

Logical Framework

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	Year 1	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	Number of persons receiving services promoted or supported by the project (C, S, Lead, Y, IND.)				230000				
	Corresponding number of households reached (C, S, Lead, Y, IND.)				57500				
Project Goal: Contribute to Sri Lanka's smallholders poverty reduction and competitiveness	% of households with improvements in asset ownership (RIMS 3rd level)			30%	70%	RIMS; Impact surveys; National database	baseline/ completion	LPA; Programme	Political commitment Stable macro-economic conditions
	Prevalence of childhood malnutrition in the programme area reduced			5%	10%				
Development Objective: Sustainably increase the income and quality of diet of smallholders (57,500 hhs) involved in commercially-oriented production and marketing systems	% of supported households reporting an increase in income (60% on average) (RIMS 2nd level)			40%	70%	RIMS; AOS; IP reports	Yearly	Programme; IPs	Availability and uptake of GAP and technologies Steady market demand and conditions
Outcome 1: Improved access of smallholder farmers and their organizations to markets in partnership with the private sector	% of 4P partnerships/ agreements in operation after 3 years (RIMS 2nd level)			50%	75%				
	Percentage of persons/households reporting an increase in production (S, Y, IND)			40%	70%				
	Percentage of supported rural producers' organization members reporting new or improved services provided by their organization (S, Y, Lead, IND)			33%	55%				Commitment and willingness of beneficiaries and their institutions
	% increase in average volume and value of sales through 4P agreements			15%	40%	AOS; market studies	bi-annually	IPs; Programme	Steady market demand and conditions
Output 1.1: 4P business arrangements in place	No. of farming households engaged in 4Ps implemented	20000	3000 0	45000	57500	Progress reports	bi-annually	Programme	Willingness and mutual benefits to producers and companies Mature institutions

Output 1.2: Organizational strengthening and capacity development of producer organizations and their members	% of programme-supported producer groups registered			40%	70%	AOS; particip. Surveys; Progress reports	Yearly	Programme	Favourable and stable market conditions and demand
	Number of rural producers accessing production inputs and/or technological packages			45000	57500				
Outcome 2: 57,500 households supported under SAP have access to rural financial services in a sustainable manner and at affordable rates	Percentage of partner financial service providers with portfolio-at-risk 30 days below 5% (S, Y, Lead, IND, P)			3%	5%	CBSL/ PFI reports	bi-annually	CBSL; PFIs	Stable macro-economic conditions
	Percentage of persons/households reporting using rural financial services (S, Y, Lead, IND, P)			70%	100%				
Output 2.1: Small producers access targeted and pro-poor financial products	Funds leveraged through PFI own-resources (as % of total loans outstanding funded from the LOC)			25%	45%	CBSL and PFI reports; Progress reports	bi-annually	Programme; CBSL; PFIs	Willingness of PFIs and enabling regulatory framework
	Number of persons in rural areas accessing financial services (savings, credit, insurance, remittances, etc.) (S, Y, IND, P)	6000	3800 0	45000	57500				
	Number of rural youth (40% female) receiving credit to finance their income generating activity (disaggregated by sex and age)*			1000	2500				
Output 2.2: Institutional strengthening and capacity building of Central Bank and PFIs	Share of agricultural loans in total loan portfolio			1% point	2.5% points	CBSL/ PFI reports	Bi-annually	CBSL; PFIs	Stable macro-economic conditions
Outcome 3: Improved policy environment for equitable and sustainable smallholder farmer-sourced agribusiness development	Number of existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment			3	6	Progress reports	Yearly	Programme; CCC	Quality, relevance and acceptability of recommendations of analysis
Output 3: Analysis conducted on prioritised policy issues/constraints and programme models/lessons learned	Number of policy-relevant knowledge products completed		2	8	18	Progress reports	Yearly	Programme	Focus of PMU on policy agenda maintained