Investing in rural people

# Sri Lanka

# Smallholder Agribusiness Partnerships (SAP) Programme

## Final project design report

Main report and appendices

Document Date: 1-Feb 2017
Programme No. 2000000929
Report No. 4870-LK
Asia and the Pacific Division
Programme Management Department

# Contents



**List of Tables**

# Appendices

## Currency equivalents

| | | |
|---|---|---|
| Currency Unit | = | Sri Lankan Rupee (LKR) |
| US$1.0 | = | LKR 150 |

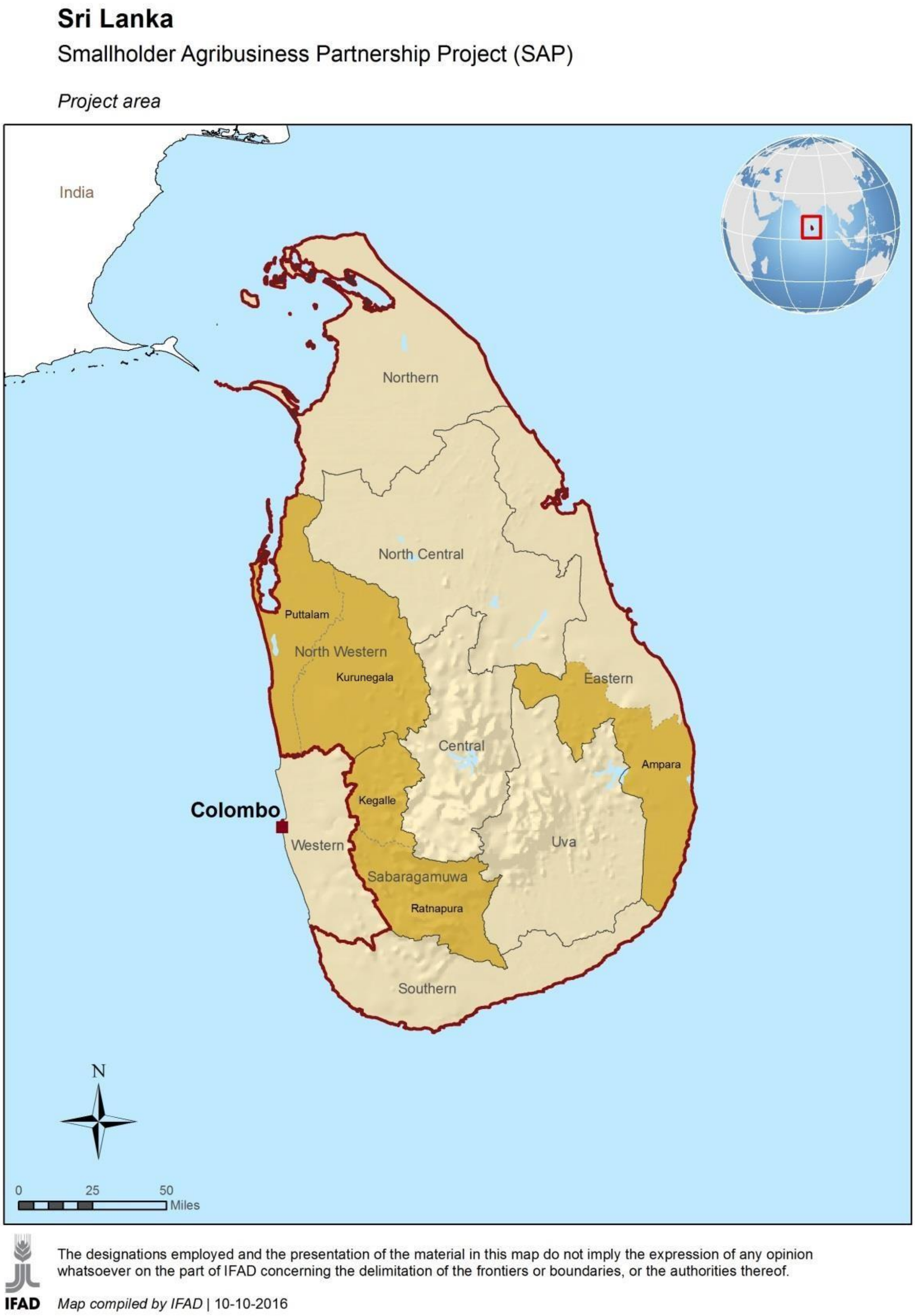
## Weights and measures

| | | |
|---|---|---|
| 1 kilogram | = | 1000 g |
| 1 000 kg | = | 2.204 lb. |
| 1 kilometre (km) | = | 0.62 mile |
| 1 metre | = | 1.09 yards |
| 1 square metre | = | 10.76 square feet |
| 1 acre | = | 0.405 hectare |
| 1 hectare | = | 2.47 acres |

# Abbreviations and acronyms

| | |
|---|---|
| 4P | Public-Private-Producer Partnerships |
| AG | Auditor General |
| AWPB/ PP | Annual Work Plan and Budget/ Procurement Plan |
| BP | Business Plan |
| CBSL | Central Bank of Sri Lanka |
| COSOP | Country Strategic Opportunities Programme |
| CRIB | Credit Referene Information Bureau |
| DA | Designated Account |
| DPM | Deputy Programme Manager |
| EDB | Export Development Board |
| EIRR | Economic Internal Rate of Return |
| FMAQ | Financial Management Assessment Questionnaire |
| FO | Farmer Organization |
| GAP | Good Agricultural Practices |
| GDP | Gross Domestic Product |
| GII | Gender Inequality Index |
| GOSL | Government of Sri Lanka |
| HNB | Hatton National Bank |
| IFAD | International Fund for Agricultural Development |
| KM | Knowledge Management |
| LBW | Low Birth Weight |
| LOC | Line of Credit |
| LPA | Lead Programme Agency |
| LTB | Letter to the Borrower |
| M&E | Monitoring and Evaluation |
| MASL | Mahaweli Authority of Sri Lanka |
| MFI | Microfinance Institution |
| MIS | Management Information System |
| MOF | Ministry of Finance |
| MONLAR | Movement for Land and Agricultural Reform |
| NADEP | National Agribusiness Development Programme |
| NGO | Non-Governmental Organization |
| NPV | Net Present Value |
| NRM | Natural Resource Management |
| NSC | National Steering Committee |
| NSVC | Nutrition-Sensitive Food Value Chains |
| PFI | Participating Financial Institutions |
| PMU | Programme Management Unit |
| RDD | Regional Development Department |
| RIMS | IFAD Results and Impact Monitoring System |
| SAP | Smallholder Agribusiness Partnerships Programme |
| SECAP | IFAD's Social, Environmental and Climate Assessment Procedures |
| SLEDP | Sri Lanka Export Development Board |
| SPENDP | Smallholder Plantations Entrepreneurship Development Programme |
| SUN | Scaling Up Nutrition Movement |
| TA | Technical Assistance |
| TOT | Training of Trainers |
| WB-ASMP | World Bank Agiculture Sector Modernization Programme |

# Map of the programme area




[IFAD maps]

# Executive Summary[1]

**Background.** IFAD's country programme and investments in recent years have been refined and refocused in support of the national priorities, and as outlined in the Sri Lanka 2015-2020 COSOP. On the basis of the partnership experience between IFAD and the Government, in particular recent efforts to promote agribusiness and facilitate private sector and financial sector engagement through the National Agribusiness Development Programme (NADeP), the Government has requested IFAD's support to finance a new programme towards modernization of the agricultural sector, with strengthened engagement of producer/ farmer organizations and the mobilisation of private and financial sector investment; in complement, Government has also requested IFAD support to establish a more conducive and regulatory environment for rural finance.

**Theory of change.** The theory of change of the programme is based on a fundamental premise that a market-driven approach is needed to help smallholder farmers sustainably increase their income and improve their livelihood. This is operationalized by public sector facilitation of *mutually beneficial* (win-win) *Public-Private-Producer Partnerships (4Ps)* between smallholder farmers and private companies in response to clear market opportunities; by strategically combining public and private sector funds and advice to address smallholders' needs in terms of access to market, technology, organization and scale, good agricultural practices, and affordable credit; and by creating a favorable policy and regulatory environment for the agribusiness and financial sector to expand outreach towards rural clients and become overall more competitive.

Subsequently, the development hypothesis and theory of change is that smallholder producers, through tailored support, including for their organization, are primed to benefit (in terms of income, livelihoods, assets and social capital) as key actors in viable 4P arrangements/ models aimed at improved marketing and (quality) product enhancement to meet current market demands, and overall contributes to national agricultural competitiveness. This approach necessarily requires better organization and capacities of smallholder farmers, towards their graduation into functional producer/ farmer organizations, improving their technological and business skills, and linking them to agribusiness partners, markets and financial services. A crucial dimension of sustainability will be to formalize and strengthen these organizations, by improving their outreach, managerial capabilities, services and enhancing their market engagement.

**Rationale and approach.** On the basis of Government's request for IFAD assistance, the SAP programme would serve as a key IFAD and Government instrument to achieve priorities under the national policy framework and in the evolving rural (business) and institutional environment. Vis-à-vis the inclusion of, and benefits to smallholder producers, the justification for the programme lies with the following: (i) it is responsive and aligns itself to the rural development agenda and priorities – i.e. enhancing agricultural/ rural sector competitiveness for inclusive growth; (ii) the institutional environment is increasingly supportive and conducive towards establishing and scaling-up of public-private-producer partnerships (4Ps); (iii) the programme is primed to capture existing and emerging market (and business) opportunities, further demonstrated by the private sector's growing interest in 4Ps – including leveraging and mobilizing financial investment; (iv) the results and lessons learned from NADeP can be applied to make the 4P model more effective and beneficial to the rural poor/ target group; and (v) the programme represents a major opportunity to promote dialogue amongst national stakeholders around the policy environment for smallholder-sourced agribusiness.

[1] Detailed and completion design mission composition: Hubert Boirard, Country Programme Manager; Marco Camagni, Lead Advisor, PTA; Tamara Lampe, Team leader and institutional specialist; Patrick Nugawela, Value chain specialist; Alok Kumar, Rural finance specialist; Michael Marx, Rural finance specialist;l Erkan Özçelik, Economist; Beatrice Gerli, Gender and targeting specialist, PTA; Ed Heinemann, Policy specialist, PTA; Roberto Longo, FO specialist, PTA; Virginia Cameron, Finance officer, FMD; Juliane Friedrich, Nutrition specialist, PMD; Pahan Prasada, Environment and NRM specialist; Bodhi Wanniarchchi, M&E specialist; and the NADeP PMU.

The overarching principles that frame and govern management and coordination of the SAP programme are the following: (i) alignment with, and support for Government policy priorities; (ii) a demand-driven and flexible approach; (iii) adoption of a market-driven and private sector-led approach; (iv) inclusive rural financial services provision; (v) joint financing (cost-sharing) and risk-sharing; (vi) competitive selection of partners and viable business plans; (vii) empowerment, organisation and strengthening of smallholder farmers as business partners; and (viii) complementary support to market-driven employment (including self-employment) activities for specific segments of the rural population (i.e. landless youth).

Financing of the 4P business plan (i.e. investment plan) will be under a co-financing/ cost-sharing arrangement that includes: (i) matching grants provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of beneficiary contribution; and (iii) private sector (agribusiness) contribution. Whilst the total investment per beneficiary of the 4P business plan will vary, it is expected to be USD 1500 on average, shared approximately on a one-third co-financing basis, though allowing for some flexibility in this arrangement.

**Programme area and target group.** The programme will have national coverage, though special attention and preference will be given through an evaluation/ selection process, to low income districts and where agri-production potential is high. The programme is demand-driven and the willingness and commitment by stakeholders (agribusiness and value chain actors including the private sector and farmer/ producer organizations) will be critical. The SAP programme will, with respect to the support to develop farmer organizations, adopt a two-phased approach over six years (pilot phase from programme years 1-3, and expansion phase from years 4-6), which is requisite for obtaining results and emerging lessons which can be utilised for scaling up approaches in line with Government's policy and development agenda, and to ensure sustainability of supported FOs within 4P partnerships.

The programme target group comprises 57,500 poor rural *households* (representing 230,000 individuals) with the potential to become active economic players in a diverse array of value chains; essentially, there are three target sub-groups: (i) 35,000 new rural household producers (owning less than 1 ha of land; rely on agriculture for at least 50% of their household income; monthly incomes average USD 150-200 or below) that will benefit from increased livelihood opportunities by virtue of their engagement within 4P schemes – this includes 4,000 households organized in 70 producer/ farmer organizations (FOs); (ii) 20,000 households already participating in 4P schemes already established under the NADeP programme, who will benefit from SAP support in the form of access to seasonal working capital loans to ensure sustainability of their production systems; and (iii) 2,500 poor young women and men who will be supported to become entrepreneurs responding to the demand for products or services generated along the value chain and in complement to the 4Ps (they are either unemployed, landless, or own less than 1 ha of land; monthly incomes range from USD 130-150). In the expansion phase (years 4-6), the programme expects to increase outreach to producer/ farmers with additional financing to the 70 producer/ farmer organizations (FOs) supported during the pilot phase, but with the expectation that their membership will increase, or to new FOs, particularly FOs under the Mahaweli Authority.

**Programme goal and objective.** The overall goal of SAP is to contribute to Sri Lanka's smallholders' poverty reduction and competitiveness. The programme development objective is to sustainably increase the income and quality of diet of (initially) 57,500 smallholder households involved in commercially-oriented production and marketing systems.

**Programme description**

**Component 1: Access to commercial partnerships (USD 51.2 million)**. This component includes two sub-components: (1.1) Establishing 4Ps; and (1.2) Institutional strengthening and capacity building of producer groups (within a market-driven model). A total of 35,000 households will be directly reached through 4P schemes and institutional strengthening interventions. A further 2,500 poor young women and men will be supported to become entrepreneurs responding to demand for products or services generated by the 4Ps.

**Under sub-component 1.1**, the programme will support the establishment of market-driven 4Ps under three categories: (i) new 4P schemes led by private companies (21,000 hhs); (ii) geographical/ outreach expansion or scaling-up of NADEP-supported 4P schemes (10,000 hhs); and (iii) new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the 4P business schemes (4,000 hhs). This implies that the ‘promoter’ (originator) of the 4P schemes will be either a private-sector company or a farmer organization that can show evidence of a confirmed commercial arrangement with a private-sector company or commitment of a market buyer.

For the overall purposes of promoting agricultural modernization and reducing producer/ farmers’ risks related to uptake of new technologies and activities (especially those that promote sustainable natural resource management and climate change adaptation), SAP will provide some start-up funds as complementary to term loans to farmers and private sector investment, on a one-third cost-sharing arrangement to the overall business investment proposed under the 4P scheme; these start-up funds are strictly targeted at smallholder farmers only (in the form of a matching grant).

For the new 4P schemes explicitly working with producer/ farmer organizations, the programme will provide an additional support, in the form of start-up funding at group level up to USD 50,000 per FO for seed capital (such as acquisition of small to medium-sized equipment) and initial working capital needs and that will enable the group to run its business in partnership with the 4P stakeholders.

Finally, SAP will also provide targeted support to rural youth, in order to enhance their employability or to become entrepreneurs, responding to the demand for products/ services generated along the value chain and in complement to the 4Ps. An initial 2,500 youth will be supported with start-up financing for their business plans, averaging USD 2000 in the form of credit and start-up funds (matching grant). However, a youth strategy will also be developed, which will identify other opportunities to support the needs of youth, and can include training and mentoring programmes, internships and placements.

**Under sub-component 1.2**, the programme intends to support capacity building of producer/ farmer organizations (FOs), with the rationale that strengthening of FOs will empower the group to become an effective partner under 4P schemes as well as their capacity to take informed decisions about their business. The start-up funding at group (FO) level will be complemented with support in the form of business mentoring, training, exchange visits and digressive support to FOs for their management.

For the new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the business 4P schemes (4,000 hhs), SAP will promote a three pronged approach taking into account both the degree of FOs’ development and the means by which FOs and farmers groups will enter as stakeholders into the 4Ps; three models engaging and providing support to 70 FOs are envisaged: (i) private-sector led 4Ps with 20 FOs; (ii) mature FOs or farmer cooperatives (10) already managing sizable businesses; and (iii) incipient FOs (40), mainly under the Mahaweli Authority of Sri Lanka (MASL) areas. Under the first model, SAP will encourage private sector companies to lead the development of partnerships with farmer groups; under the second model, the relatively more mature FOs will already be engaged in the business of processing and/ or value addition, and the provision of seed and working capital financing will support them to expand their business to the benefit of their farmer members; and under the third model, the specific attention will be given towards supporting the FOs to develop their bankable business plans and gradually evolve into functional business-oriented entities (with financial support also provided on a gradual basis to ensure management and absorption capacity).

**Component 2: Access to rural finance (USD 43.6 million)**. This component shall have two sub-components: (2.1) Financing of 4Ps; and (2.2) Institutional strengthening for the financial services sector. The component follows the strategies, modes of intervention and investment opportunities that emerge under component 1, and aims at facilitating access to rural financial services in a sustainable manner and at affordable rates.

**Under component 2.1**, SAP shall collaborate with participating financial institutions (PFIs) that are capable and interested to expand their services into the rural sector, in particular to serve the target groups supported under SAP and co-finance the programme; these target groups include: (i) the 35,000 households taking part in the new 4Ps; (ii) an additional 20,000 households already engaged under 4Ps (through NADEP) who will be supported with access to seasonal working capital; and (iii) 2,500 rural youth. This shall be done through three products: (i) working capital (WC) loans for farmers; (ii) term loans for farmers (for investment); and (iii) youth loans.

The main justification for these products offered through a line of credit is that the financing needs of farmers, including working capital and term finance, are not likely to be financed by banks or MFIs, unless the liquidity is provided externally. To encourage PFIs to provide their lending services to the rural poor, and bear the full risk of default, additional capital will therefore have to be provided. However, a major emphasis will be laid on the mobilization of savings among farmers and the youth, facilitating their capital build-up over time. Through their savings, they will gradually increase their collateral, reduce their risk exposure vis-a-vis the PFI and also reduce their interest expense. Savings will be promoted as a habit, following the different products offered in the formal and informal sectors.

**Under component 2.2**, the CBSL will be supported in the elaboration and dissemination of new regulations for the microfinance sector, thus ensuring adequate participation opportunities for rural communities, and in-training of licensed MFIs on these new regulations. Furthermore, some critical support to PFIs, including commercial banks and deposit-taking MFIs, will be provided to enhance their capacity in rural, micro and agricultural finance for low income groups, mostly through training and technical assistance.

**Component 3: Programme management and policy dialogue (USD 5.8 million).** This component comprises two sub-components: (3.1) Programme and knowledge management; and (3.2) Policy dialogue.

**Under sub-component 3.1**, the existing NADeP PMU will be restructured and strengthened with additional capacity to evolve into the SAP PMU, and effectively carry out its key responsibilities of planning, coordination, facilitation and brokerage, and monitoring and evaluation. In view of the policy agenda to promote pro-poor partnerships with the private sector, and given the multitude of SAP programme stakeholders comprising multiple ministries and public agencies, private sector companies, business associations, financial institutions, producers and their organizations, the element of learning and knowledge dissemination and management is critical to sustainability of the programme interventions and future uptake and up-scaling of the model and approaches tested and promoted by SAP. In addition, priority cross-cutting issues such as nutrition and natural resources management/ climate change adaptation will be pursued at a high-level, to inform and feed into programme operations on the one hand, and to as well be informed by the findings and results arising from programme interventions.

**Under sub-component 3.2**, the activities to be supported will aim at improving the policy environment for equitable and sustainable smallholder farmer–sourced agribusiness development. To achieve this, the policy dialogue agenda will be built on two broad thrusts. First, the programme will bring together the key stakeholders – government, agribusiness, financial service providers and smallholder farmers, to enable them to collectively identify the policy constraints they face, and promote consensus as to the need for policy change where appropriate. Second, it will draw out the key lessons and successes emerging from the implementation experience, and feed these back to Government for reflection in national policies, strategies and programmes as appropriate. In both cases, the programme will also look to turn relevant policy analysis into policy change. This will require the development of strategies tailored to the topic or issue in question, and may involve the preparation of policy briefs, video films etc; advocacy activities; and exposure visits for senior policy makers and other stakeholders; and support for drafting policy documents or regulations; for public consultations; or kickstarting the operationalisation of new policies.

**Programme cost and financing.** The total investment and recurrent costs over the six-year implementation period, including physical and price contingences, is estimated at USD 105 million (LKR 17 billion), including IFAD financing (blend terms) of USD 54.4 million. The contribution by the Government of Sri Lanka amounts to USD 19.3 million; this however comprises USD 0.7 million in the form of forgone taxes and duties, and USD 18.5 million in reflows from previous IFAD-financed lines of credit (i.e. this is not 'new' financing or investment) – these funds will go towards the SAP line of credit for on-lending to beneficiary smallholder producers/ farmers (core target group). The contribution of the PFIs amounts to USD 9.8 million, which is in line with the strategy leveraging PFI own-funds for use under the line of credit (LoC). The co-financing by the private sector partners under the 4P schemes is estimated at USD 17 million, which can take the form of contributions in cash, in-kind and working capital. Beneficiary contributions from farmers and farmers' organisations are estimated at USD 4.5 million.

**Benefits.** In terms of financial analysis, six combination crop and activity models illustrate the mix of crops at the household level and community level; in summary, the programme is expected to increase household incomes by 63% on average. Taking into consideration the benefit and cost streams, the overall programme analysis suggests an EIRR of 52% and an NPV of USD 349,708,192 over a twenty-year period. The gross value of production increases approximately by 56% from the without situation, while outflows increase 65%, including labour. Sensitivity analysis for a number of negative scenarios found the EIRR to remain robust with no negative returns.

**Organisational framework.** In general, SAP will largely replicate the institutional and implementation structure of NADeP. The executing agency or lead programme agency (LPA) is the Presidential Secretariat, which by virtue of its high-level status, is best placed to ensure effective mobilisation and coordination amongst the various public agencies (including the Central Bank) and with private sector partners (including financial institutions, companies, associations, etc.) who have either direct implementation responsibilities, or a supporting role (e.g. research, training, mobilisation of farmer organizations, complementary extension services, etc.). In support of farmer organizations and 4Ps covering a range of value chains/ sub-sectors, the key agencies implicated in the programme include: the Mahaweli Authority (especially its well-developed network and organizational structure); Ministry of Agriculture; Department of Export Agriculture; Department of Agriculture; and Exports Development Board.

Through the LPA, responsibility for programme management is delegated to the Programme Management Unit (PMU) based in Colombo, which will evolve from, and leverage the experience and strong human resources of the current NADeP PMU. The PMU will work under the guidance of a National Steering Committee, chaired by the Secretary to the President or his representative.

**Sustainability.** Through the mechanism of the 4P partnerships, sustainability is implicitly embedded into the programme; the sustainability of the 4P arrangement is further reinforced by the enhanced linkages to the formal financial sector (commercial banks) for rural/ microfinance. It is reasonably expected that the process of dialogue and negotiation between producers, their representatives and the private sector in finalizing the proposed BPs and in its implementation, is serving to build a culture of trust and normalize working relationships. As mutually beneficial arrangements, the mechanisms of the partnership will continue beyond the programme lifetime. As well, the arrangements facilitated under the 4P investment plans are entirely geared at facilitating access to affordable financial sevices for farmers, and at maintaining good business relationships between farmers, agribusinesses and financial institutions. The ties are further strengthened through the continuous savings process of farmers. Furthermore, the interventions at the meso and macro level thorugh capacity building support to CBSL and PFIs will serve to improve financial inclusion over the long-term.

**Adherence to IFAD policies.** The SAP programme is fully aligned with IFAD's Strategic Framework 2016-2025, in pursuit of the mutually reinforcing strategic objectives, especially by way of promoting investment in productive capacities and encouraging better and deeper market participation (and benefits) through the vehicle of 4Ps. The principles of engagement (targeting; empowerment; gender equality; innovation, learning and scaling up; and partnerships) are furthermore, fully embedded in the programme, through the 4P and institutional strengthening approach, and operating modalities. The programme design also adheres to IFAD policies and strategies as regards to partnerships, rural finance, targeting and gender mainstreaming, environment and natural resource management, climate change and social, environmental and climate assessment, and scaling up (see Appendix 12). The environmental and social category is considered to be B, while the climate risk classification is deemed to be Medium Risk.

**Scaling up.** The programme will build on lessons learned and experience of past and ongoing IFAD-financed programmes, including the 4P models developed under NADeP; further emphasis will however be given to strengthening producer/ farmer voice and encouraging more farmer-led business proposals (i.e. the ‘promotors’ of the proposed 4Ps is open to companies, organizations, etc.). Some opportunities that could be captured and integrated into the new programme include: (i) geographical expansion of existing 4Ps, where private companies are committed to expanding outreach in terms of additional smallholders involved and geographic coverage with matching investment; (ii) identification and support of new 4Ps led by private companies; and (iii) an evolved model with producer/ farmer organizations taking responsibility for coming up with the initial 4P concept and then supported by the programme to develop it. Farmer/ producers will be supported with capacity building and technical assistance, to form more cohesive common interest groups, eventually graduating to a more mature and evolved organization; based on regular maturity self-assessments, the eventual formation of sustainable producer companies is envisaged.

Scaling-up will also take place at the rural financial sector level by: (i) deepening the engagement with commercial banks and other financial institutions and leveraging their own funds; (ii) leveraging existing credit line facilities, previously financed by IFAD; (iii) introduction/ inclusion of microfinance institutions in the overall 4P model and approach; (iv) testing and rolling out specific and tailored financial products (e.g. youth start-up capital, agricultural seasonal credit, etc.); (v) supporting enhanced financial literacy of individuals and producer organizations; and (vi) developing and rolling out operational guidelines as part of the regulatory framework for microfinance.

## Logical Framework

| Results Hierarchy | Indicators[2] | | | | | Means of Verification | | | Assumptions (A) / Risks (R) |
|---|---|---|---|---|---|---|---|---|---|
| | **Name** | **Baseline** | **YR1** | **Mid-Term** | **End Target** | **Source** | **Frequency** | **Responsibility** | |
| ***Goal***: Contribute to Sri Lanka's smallholders poverty reduction and competitiveness | ▪ % of households with improvements in asset ownership (RIMS 3rd level)<br>▪ Prevalence of childhood malnutrition in the programme area reduced | 0<br>0 | | 30%<br>5% | 70%<br>10% | RIMS; Impact surveys; National database | Yearly; baseline/ completion | LPA; Programme | ▪ Political commitment<br>▪ Stable macro-economic conditions |
| ***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) | 0 | | 40% | 70% | RIMS; AOS; IP reports | Yearly | Programme; IPs | ▪ Availability and uptake of GAP and technologies<br>▪ Steady market demand and conditions |
| **Outcomes/ Components**:<br>**Outcome 1:**<br>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) | 0 | | 50% | 75% | Progress reports; IP reports; | Yearly | Programme | ▪ Willingness and mutual benefits to producers and companies |
| | ▪ % increase in average volume and value of sales through 4P agreements | 0 | | 15% | 40% | AOS; market studies | Bi-annually | IPs; Programme | ▪ Steady market demand and conditions |
| **Outputs:**<br>1.1 4P business arrangements in place | ▪ No. of farming households engaged in 4Ps implemented | 20,000 | 30,000 | 45,000 | 57,500 | Progress reports | Bi-annually | Programme | ▪ Willingness and mutual benefits to producers and companies<br>▪ Mature institutions |
| 1.2 Organisational strengthening and capacity development of producer organizations and their members | ▪ % of supported rural producers members of rural producers organizations reporting new or improved services provided by their organization (disaggregated by sex and age)*<br>▪ % of programme-supported producer groups registered<br>▪ Number of female and male members trained in nutrition | 0<br>0 | | 33%<br>40% | 50%<br>70% | AOS; partcip. Surveys; Progress reports | Yearly | Programme | ▪ Commitment and willingness of beneficiaries and their institutions<br>▪ Favourable and stable market conditions and demand |

[2] Baseline will be defined during programme design.

| Results Hierarchy | Indicators[2] | | | | | Means of Verification | | | Assumptions (A) / Risks (R) |
|---|---|---|---|---|---|---|---|---|---|
| | Name | Baseline | YR1 | Mid-Term | End Target | Source | Frequency | Responsibility | |
| **Outcome 2:** 57,500 households supported under SAP have access to rural financial services in a sustainable manner and at affordable rates | ▪ Number of programme beneficiaries (40% female) in rural areas accessing targeted and pro-poor financial services (disaggregated by sex and age)* | 6,000 | 38,000 | 45,000 | 57,500 | CBSL and PFI reports; Progress reports | Yearly | Programme; CBSL; PFIs | ▪ CBSL and PFI commitment |
| **Outputs:** 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)<br>▪ Number of rural youth (40% female) receiving credit to finance their income generating activity (disaggregated by sex and age)* | 0<br>0 | | 25%<br>1000 | 45%<br>2500 | Progress reports | Bi-annually | Programme | ▪ Willingness of PFIs and enabling regulatory framework |
| 2.2 Institutional strengthening and capacity building of Central Bank and PFIs | ▪ PAR <30 days of PFIs<br>▪ Share of agricultural loans in total loan portfolio | N.A | | 5%<br>+1% point | 3%<br>+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 | ▪ No. of existing/ new laws, regulations, policies or strategies to which SAP has contributed to that are proposed for approval, ratification, or amendment to policy makers | 0 | | 3 | 6 | Progress reports | Yearly | Programme; CCC | ▪ Quality, relevance and acceptability of recommendations of analysis |
| **Output:** 3.1 Analysis conducted on prioritised policy issues/constraints and programme models/lessons learned | ▪ No. of studies carried out | 0 | 2 | 8 | 18 | Progress reports | Yearly | Programme | ▪ Focus of PMU on policy agenda maintained |

# I. Strategic context and rationale

## A. Country and rural development context

1. **Economy and poverty**. In recent years, and following the end of the 26-year civil war in 2009, the Sri Lankan economy has continued to grow at a steady rate, averaging 6-7 percent up to the present day. Sri Lanka is now a lower middle-income country with a population of 20.5 million and per capita GDP of US$ 3,811, compared with US$ 2,400 in 2010. Whilst growth has contributed to poverty reduction, 32% of the population remain 'nearly' poor or 'poor' (25% of the population are 'nearly' poor, whilst almost 7% are defined 'poor'). Poverty headcount in 1990 was 24%, progressively declining to 8.9% in 2009/10 and 6.7% in 2012/13. The vast majority of poor (86.6% of the total) live [3]in rural areas and estates, with high dependency on the agricultural sector. Population groups most affected by poverty are agricultural smallholders, plantation workers, underemployed and landless labourers, particularly youth and women, and people engaged in micro-enterprise. In terms of the youth, they represent approximately 24% of the total population, and are the group with the highest unemployment rate, particularly among young women. Rural women in Sri Lanka enjoy better status and rights compared to other countries in the region but they are however confronted with limited economic opportunities. Women comprise 53% of the agricultural labour force often as unpaid family labour, yet traditional norms are biased in favour of men, resulting in obstacles to women's equitable access to resources (land, capital – including credit) and markets, and the control of assets.

2. **Food and nutrition security**. Over the last three decades, the food security situation in Sri Lanka has improved significantly over the years; according to the 2014 Global Hunger Index, Sri Lanka is now ranked 39 out of 76 countries and above all South Asian countries with a score of 15.1. However, whilst availability of food at the national level is secure, this does not necessarily translate to food and nutrition security at household level for all segments of the population, especially socially and nutritionally[4] vulnerable groups[5]. As well, under-nutrition remains a concern in Sri Lanka, reflected by a stunting rate among children under five years of age of 15% and a wasting rate in the same age group of 21%. In particular, the high rate of low birth weight (18%) is crucial as Low Birth Weight (LBW) is a major predictor of undernutrition. The high rate of LBW indicates also issues around gender imbalance and particular challenges with regard to maternal nutrition and nutrition of adolescent girls. In some areas, early marriages and consequently early pregnancies are of concern.

3. In October 2012 Sri Lanka joined the Scaling Up Nutrition Movement (SUN) and has since made considerable effort and progress to mainstream nutrition in a multi-sectoral approach and in partnership with the donor community. Today, there are a number of entry points to partner and engage in nutrition policy and its operationalization[6].

4. **Rural and agricultural sector**. Sri Lanka's agricultural sector is characterised by the plantation (mainly tea, rubber and coconut) and non-plantation cropping sub-sectors (mainly rice, maize, fruits, vegetables and other crops grown in small-holdings), and despite declining share in GDP (11% in 2012), remains the backbone of the economy and an important source of employment, engaging one third of the labour force. Since 2006, the sector has served to contribute to poverty reduction, driven by increasing agricultural wages, increases in domestic food prices, and increasing international price for tea (a major export commodity); subsequently, this has led to higher wages and improved returns to self-employed farm labour. However, the sustainability of these gains are not assured and will remain modest unless there is complementary improved agricultural productivity and modernization of the sector with further diversification, improved commercialization and value addition. With regards to

[3] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf
[4] Nutritionally vulnerable people are the ones with a particular demand on nutrients/nutrition support (e.g. children from 6 to 23 months, pregnant and lactating women)
[5] For example, the most recent comprehensive food security and vulnerability assessment (CFSVA), undertaken by WFP and GoSL in April 2012, determined that 1.3 million persons in the Northern and Eastern Provinces were still food insecure.
[6] See Appendix 1 for detailed discussion of nutrition policy/ institutional environment.

the sector, the Government's primary concerns include: low and declining productivity; misuse of agrochemicals (including fertilizer) which affects water supply and food quality; the practice of inappropriate technologies; poor water management; and lack of market competitiveness due to poor quality products and inadequate food safety measures.

5. **Market opportunities**[7]. Despite some of the challenges faced in shaping the agricultural sector to be more competitive, there is significant market potential for Sri Lankan agricultural products, to serve both the export and local markets. A rapid market analysis as a measure to support the identification of key value chains with high potential, primarily takes into consideration the market 'destination' – i.e. (i) export-oriented value chains/ sub-sectors; and (ii) local (national)-oriented value chains/ sub-sectors. In terms of exports, the value chains for fruits (mango, pineapple, passion fruit and papaya), vegetables (green chili, jalapeno pepper, low-country vegetable such as bitter and snake gourd), protected vegetables (gherkins, bell pepper, cucumber and tomato), spices (pepper, cinnamon, clove and nutmeg), and other sub-sectors such as seaweed, honey and sesame seeds, offer high potential to meet export market demand. Per 2015-2016 data, the key export markets for Sri Lankan produce are the EU, Middle East and Maldives (in recent years, Sri Lanka annually exports more than USD 6 million in fruits and USD 1 million in vegetables); as well, the spice sub-sector has an export market that includes Japan, the United States and Middle East countries (USD 630,000 in annual exports). These export markets are capable of absorbing more Sri Lankan produce.

6. For the local market, in addition to fruits and vegetables, seeds, maize, soya bean, treacle, protected vegetables such as bell pepper, cherry tomato and cucumber, dairy (mainly milk, though some processed), pulses (black and green gram), millet and groundnuts have high local market potential. At present, today's local production is insufficient to cover the market demand (e.g. for maize, Sri Lankan annual production in 2015 was around 390,000 MT, with maize imports of more than 100,000 MT at a value of USD 24 million; in dairy, only 350,000 MT of milk was produced nationally, whilst 71,000 MT of milk products were imported at a value of USD 400 million).

7. The private sector is well cognizant of the market potential, and demonstrates willingness to partner with smallholder farmer/ producers in order to effectively respond to the market opportunities; the majority of these private sector companies are large enterprises, including supermarket chains, processors and exporters. Promoting partnerships between smallholder producers and the private sector is primarily based on market potential/ opportunities (economic criteria) as a key factor, which is further strengthened by social and environmental considerations.

8. **Producer/ farmer organizations**. The rural landscape in terms of the organization, organizational structure and cohesion amongst farmer/ producers is mixed. Officially, more than 15,000 farmer organizations (FOs) have been established nationally, registered under the Agrarian Development Act No. 46 of 2000 and falling under the mandate of the Department of Agrarian Development; a further 1007 organizations have been established under the Mahaweli irrigation scheme (which covers more than 450,000 ha or 30% of Sri Lanka's land mass), initially with the primary purpose of managing water-use, and are registered by the Mahaweli Authority of Sri Lanka (MASL). There are several other organizations registered under the Companies Act No. 7 of 2007 as limited liability companies and farmers' / traders' associations. Also there are few farmers / traders co-operatives registered under the Co-operative Societies Act. As well, there exist countless forms of 'groups' or 'societies' at village and community levels, some of whom are registered under the Voluntary Social Service Organizations (Registration and Supervision) Act No. 31 of 1980 (amended Act No. 8 of 1998), though many of whom remain informal and un-registered. Whilst no comprehensive maturity assessment of these various organizations / institutions (both formally registered and informal) has been undertaken, in terms of their functions and services to members, and vis-à-vis their marketing capacities and strategies, the overwhelming majority are relatively immature or nascent. Furthermore, the process of registration of rural organizations is cumbersome and lacks clarity, and once registered, these rural organizations do not benefit from regular monitoring

[7] See Appendix 4, Annex 3 for the detailed market analysis of each potential value chain and list of private sector companies.

and support. The exception are those FOs registered by MASL, who are being monitored by MASL field officers; whilst this monitoring has mainly been related to their water management capacities, the MASL has recently strengthened its monitoring of FO economic activities and member services performed. MASL's annual performance rewards scheme, presents a tool to screen better-performing FOs and to assess their maturity and financial status. As for farmer companies / co-operatives, there are several organizations engaged in agribusiness currently. Products handled by these organizations include foliage, cut flowers, fruits & vegetable, seed paddy, virgin coconut oil, dairy and dry fish, all as producers/manufacturers and most as marketers in the local market with a few catering to export markets through established exporting companies. There are about 15 such organizations currently in operation, membership of them varies from 100 – 500. Some of these organizations have been in business for more than five years with reasonable financial standing.

9. **Climate change and environmental considerations**. Climate change has impact on Sri Lankan rural agriculture mainly through the changes in seasonality of precipitation. The monsoon rains occur in a bi-modal pattern every year; in between the two main monsoons, there is inter-monsoon precipitation which occurs in all the coastal regions and of sporadic intensity. Precipitation replenishes the extensive river and reservoir system which serves as the backbone for agricultural water requirement in the dry periods island-wide. Based on field observations, cropping patterns and decisions do not incorporate alternatives that could be attributed to climate change. However, there is increasing evidence of delays in planting decisions (sometimes as long as for four weeks in the life of a 12-week crop) due to variations in the precipitation pattern. Climate change introduces a substantial variability in the annual precipitation ranging from 800 to 5000 mm.

10. Drought tolerant and flood/salinity resistant varietal development has been an agronomic priority for crop development at the national policy and institutional research level (especially at Rice Research and Development Institute and Field crop research and development institute). For rice and field crops, there had been development of drought-tolerant varietal development in terms of the water requirement and the length of the crop cycle. It should be further noted that prolonged droughts have implications for livestock husbandry in terms of direct water requirement, ambient temperature and water for fodder establishment.

11. The agricultural sector in Sri Lanka contributes to carbon emissions through deforestation for agricultural land use and land management practices (i.e. fertiliser, soil carbon stocks) mainly. The poor transport logistics and poor road infrastructure contribute to agriculture-related emissions indirectly.

12. **Main challenges faced by smallholder farmer/ producers**. IFAD has historically targeted rural households with low income levels equivalent to approximately USD 70 - 150 per month, per household. Within the rural sector, this group face multiple challenges which overwhelmingly includes limited access to the following: land, technologies, extension services, markets and access to credit through formal systems; this subsequently leads them to be characterised by indebtedness to moneylenders and further exacerbates the lack of access to land in terms of forgone rights to farm their land (used as 'collateral').

13. **Policy direction and institutional issues**. Following the 2015 elections, the newly established Ministry of Policy Planning and Economic Affairs coordinates official development assistance in the country, ensuring alignment with the national priorities for development. The Government of Sri Lanka (GoSL) in its recent budget speeches, including the Prime Minister's Economic Statement of October 2016, have set key targets related to poverty reduction, including the creation of 1 million job opportunities and raising per capita income to US$ 4,000, and the importance of improved financial inclusion. For the agricultural sector in particular, the strategic orientation is to achieve agricultural modernisation, sustainable improvements in production through increased productivity, sustained incomes for producers and enhanced market competitiveness. This calls for development assistance to promote increased productivity, adoption of good agricultural practices, diversifying products and markets, and enhancing linkages to the private sector. As part of these efforts, the Government has indicated a keen interest to build capacity of existing produce/ farmer organizations such as those

established under the Mahaweli system, to serve as a key entry point and catalyst for agricultural modernization and transformation.

14. **Financial sector landscape**. There is growing recognition that the shift towards transformation of the rural/ agricultural sector precipitates a need to mobilise investments, notably facilitated by the formal financial sector. Sri Lanka's financial sector system is relatively diverse, and consists of a wide range of service providers, including: (i) formal financial institutions, comprising 25 licensed commercial banks (LCBs); 7 licensed specialized banks (LSBs); 46 licensed finance companies (LFCs) and 7 specialist leasing companies (SLCs); (ii) semi-formal institutions (co-operatives, NGO–MFIs, CBOs, and state programmes such as Samurdhi); and (iii) informal sources of finance such as money lenders and rotating savings and credit associations.

15. The NPLs of the banking sector stood at 3.4% and the total capital adequacy ratio (CAR) declined from 16.6% to 14.2% in 2015. The Statuary Liquid Asset Ratio (SLAR) of domestic banking units decreased by 566 basis points during the year as a result of increased lending activities in this year. This was also reflected in the loans-to-deposits ratio of the banking sector, which increased to 87.3% at the end of 2015, up from 83.1% in 2014[8]. The average weighted deposit rate (AWDR) stood at 6.4% and the interest spread was in the range of 3.5% to 14% for the lending rate. While the lower krate reflects government or donor initiated and funded programmes with prescribed margins, the latter is the lending rate of clients not well known and without sufficient collateral and/or track records.

16. The number of LFCs and SLCs in Sri Lanka grew at a rapid pace in the last decade, largely backed by high growth momentum and credit demand in the economy. In the last 4-5 years however, many of these institutions grappled with operational and governance problems which had impact on the asset quality and profitability of the financial services sector in Sri Lanka.

17. The informal sector includes thrift and credit societies, moneylenders, credit cooperative societies, micro finance institutions (MFIs), donor-initiated village savings and loan associations and rotating savings associations (chit funds). These institutions are not regulated by the Central Bank (the new Microfinance (MF) Act has not been implemented) and are mostly self-regulated or at times under various government ministries and departments, namely the Department of Divineguma which is a consolidation of the Samrudhi Authority, Southern Development Authority, and the Udararata Development Authority. The department of Divineguma holds 64% of the total informal financial assets, which is estimated to be 1%[9] of the overall financial assets of the country.

18. Non-Banking Financial Institutions (NBFIs) have the largest outreach in terms of number of borrowers and loan outstanding, second to public/ private companies and NGOs. The challenge for NBFIs is to maintain their portfolio quality. The skills gap in terms of loan appraisal, suitability of products and services and high interest rates are some of the reasons for default. The average loan outstanding is LKR 56,943 (USD 320); this loan is mostly for a short term period (6 months), for trading or other enterprises with high turnover.

19. **Regulation and supervision**. The banking sector in Sri Lanka is regulated and supervised by the Central Bank of Sri Lanka (CBSL). LCBs, LSBs, LFCs and SLCs fall under the purview of CBSL. The new Microfinance Act, passed in July 2016, is expected to be operational by 2017. The Act provides for two sets of MFIs, including MF companies which would be regulated by the CBSL, and NGO-type MFIs which are to be regulated by the NGO Secretariat. Thrift and credit societies and cooperative rural banks are under the regulation of the department of cooperative development. In addition, a movable collateral registry law is being drafted and is expected to be passed in 2017.

20. Worker's remittances grew by 9.5% to USD 7,108 million in 2014 compared to USD 6,407 million in 2013[10]. The remittances remained the foremost and stable exchange earner of Sri Lanka. However, due to the decline in oil prices and the increasing budget deficit of gulf economies, it is expected that remittances inflow to Sri Lanka will decline in 2015-2016.

[8] CBSL Annual Report 2015
[9] MF Annual Review 2014
[10] Ministry of Finance annual report

21. Despite the comparatively high penetration of basic financial services, Sri Lanka lags in financial inclusion parameters such as credit penetration, life insurance penetration, pension coverage as well as credit access for small businesses and farm-based activities when compared to India and other south Asian countries. Overall, 79% of the people have bank accounts with FIs but only 29% out of that borrowed and only 3.1% borrowed for farm or business activities11 which is much lower than the south Asian average of 8.6%. The majority of the loans and advances go for consumer credit, which is also validated by the fact that 97%12 of Credit Reference Information Bureau (CRIB) issued reports was on consumer credit.

22. As at end 2015, total loans outstanding to agriculture was 9%, of which 5.9% was for short-term lending, 1.9% for medium term and only 1.2% for long term lending[13]. In terms of interest rates, commercial banks are lending at 14-19%. Whilst CBSL requires banks to lend at least 10% of the portfolio to the agriculture sector, the majority of these loans are diverted to large-scale farmers or farm-based agribusiness. The MF sector lending is primarily geared towards lending to small-scale farmers and business. Furthermore, it is estimated that 30%[14] of the lower segment (small-scale farmers) have been flagged by CRIB, due to defaults or having acted as a guarantor to a defaulter. Once flagged under CRIB, any individual future credit becomes virtually impossible to obtain[15] as they become blacklisted.

23. The supply-side constraints to lending to the agriculture sector are due to the risk perception of the banks incurred in agriculture, high transaction costs, liquidity shortages, information asymmetry and ultimately the operational capacity of banks to lend to smallholder famers. With some exceptions, the do not have the physical infrastructure and manpower to handle thousands of small scale loans. The demand-side constraints are primarily related to the perceived high interest rates16, complex credit procedures resulting in delays in disbursement, immovable collateral-based lending and the poor attitude of the banking staff in serving the sector. Some of the more dynamic banks have stated to overcome this by working with supply chains, disbursement of loans in kind to suppliers and the distribution of simple debit cards to farmers, which will receive the net amount of their sales after deduction of loan capital and interest due through their debit cards, The more innovative and dynamic banks are keen to expand their services to the agricultural sector, have trained their staff on good micro and agricultural finance practices and see programmes such as the SAP as good entry points. For these banks, the key constraint is liquidity for lending.

24. The comparatively high interest rates charged by the banks are linked to the high yield on government securities. The median and mean of treasury bills (T-bills) yield rates since 1996 to 2016 are 11.7% and 11.6% respectively. This has been further aggravated by a comparatively high budget deficit, which is seen by many as unsustainable. Sri Lanka's recorded budget deficit was 7.4% of the country's Gross Domestic Product in 2015. The government budget deficit in Sri Lanka averaged -7.6% of GDP from 1990 until 2015, reaching an all-time high of -5.4 percent of GDP in 2013 and a record low of -10.2 percent of GDP in 2001[17]. In the medium term, the T-Bill yields are not expected to decline, as government will keep borrowing to fund the government budget deficit.

**Table 1: Key determinants of the financial sector**

| Key determinants of the financial sector | 2015-16 (%) |
|---|---|
| Inflation rate | 0.9 - 4 |
| Budget Deficit | 7.4 |
| T-Bills Rate | 11.38 |
| AWDR | 6.38 |

[11] World Bank Global FINDEX Indicators 2014 data. All population figures include age 15+ years only
[12] CBSL Annual report 2015
[13] CBSL Annual report 2015
[14] 30% of the NADeP smallholder famers dropped out of the programme due to CRIB report
[15] Commercial banks downgraded their product and services to the lowest segment without the necessary skills to lend to this specific market segment; the misalignment and limited financial education, resulted in increasing defaults by 2010
[16] The lending rate of LCB and LSCs are in between 12-18%, and MFIs interest rate is between 22%- 52%
[17] tradingeconomics.com/sri-lanka/government-budget

| | |
|---|---|
| Commercial lending rate | 14-18 |
| Non-Performing Loan (NPL) rate | 3.4% |

25. The high yield on government securities provides less incentive for FIs to lend money. At this rate, much of the lending to the agriculture sector is not sufficiently profitable to offer good shareholder returns, and even less so if the operating costs of lending are higher than average.

26. **Demand for credit**. As discussed above, the lower income brackets of the population suffer from inadequate access to reliable and sustainable sources of financing. Despite the high credit to deposit ratio, the domestic credit to the private sector as a percentage of GDP is only 40.3% in Sri Lanka, which is lower than in India (53%) and Bangladesh (44%). This indicates that domestic credit is not adequately available to the private sector enterprises, particularly micro, small and medium enterprises (MSMEs). In 2012, the total credit gap for MSMEs in Sri Lanka was estimated at USD 3.5 billion[18], which is likely to have slightly widened since then.

**Table 2: Key determinants of liquidity**

| Key determinants of liquidity | 2015 | 2014 |
|---|---|---|
| Bank Liquid Reserve to Bank Asset Ratio | 5.73 | 10.4 |
| Gross Savings (% of GDP) | 27.9 | 29.4 |
| ***LCBs*** | | |
| Credit to Deposit Ratio | 87 | 83.1 |
| Borrowing to Asset | 21.7 | 20 |
| ***LSBs/LFCs*** | | |
| Credit to Deposit Ratio | 165 | 145.8 |
| Borrowings to Assets | 31 | 26.6 |

27. The banks' liquid reserve to bank asset declined to 5.73%, extending further pressure on available cash. Banks' credit to deposit ratio is very high and only just complies with minimum regulatory requirements. Borrowing by the banks are at a moderate level, which is only 21% and 31% of the total asset for LCBs and LSBs/ LFCs respectively. At present, the available deposits clearly cannot drive the loan portfolio growth for the agriculture sector.

28. The gap between demand and supply can primarily be attributed to the inability or unwillingness of FIs to supply additional credit at current interest rates, on the one hand, and the unwillingness of smallholders or entrepreneurs to borrow at the prevailing interest rates. This, in turn, has been perpetuated to a large extent by the high borrowing by the government, mopping up the liquidity and reducing the incentive for FIs to lend to what is perceived as a difficult and risky market.

## B. Rationale

29. **IFAD and GoSL partnership**. IFAD's country programme and investments in recent years have been refined and refocused in support of the national priorities, and as outlined in the latest 2015-2020 COSOP. On the basis of the partnership experience between IFAD and the Government, in particular recent efforts to promote agribusiness and facilitate private sector and financial sector engagement through the National Agribusiness Development Programme (NADeP), the Government has requested IFAD's support to finance a new programme towards modernization of the agricultural sector, with strengthened engagement of producer/ farmer organizations and the mobilisation of private and financial sector investment; in complement, Government has also requested IFAD support to establish a more conducive and regulatory environment for rural finance.

30. **Theory of change**. The theory of change of the programme is based on a fundamental premise that a market-driven approach is needed to help smallholder farmers sustainably increase their income and improve their livelihood. This is operationalized by public sector facilitation of *mutually beneficial* (win-win) *Public-Private-Producer Partnerships (4Ps)* between smallholder farmers and private companies in response to clear market opportunities; by strategically combining public

[18] IFC SME finance Gap for Sri Lanka 2011-12

and private sector funds and advice to address smallholders' needs in terms of access to market, technology, organization and scale, good agricultural practices, and affordable credit; and by creating a favorable policy and regulatory environment for the agribusiness and financial sector to expand outreach towards rural clients and become overall more competitive.

31. Subsequently, the development hypothesis and theory of change is that smallholder producers, through tailored support, including for their organization, are primed to benefit (in terms of income, livelihoods, assets and social capital) as key actors in viable 4P arrangements/ models aimed at improved marketing and (quality) product enhancement to meet current market demands, and overall contributes to national agricultural competitiveness. This approach necessarily requires better organization and capacities of smallholder farmers, towards their graduation into functional producer/ farmer organizations, improving their technological and business skills, and linking them to agribusiness partners, markets and financial services. A crucial dimension of sustainability will be to formalize and strengthen these organizations, by improving their outreach, managerial capabilities, services and enhancing their market engagement.

32. Special attention will also be given to capacity building and income generating activities in which youth, in particular those who do not have land and other assets to be involved in farming, can be involved. These opportunities will be explored primarily in the value chains supported by the programme offering products or services to meet the demand generated by the development of 4Ps.

33. **IFAD comparative advantage** lies in its experience in promoting the 4P approach worldwide as well as its long-lasting experience in Sri Lanka promoting rural development. The Government of Sri Lanka recognizes IFAD as a key partner in helping the country to move towards a more competitive and market-driven agriculture sector taking advantage of market opportunities at the national and international level which can drive a change among smallholders and their households in terms of seeing farming as a profitable and sustainable business.

34. **Scaling-up**. The programme will build on lessons learned and experience of past and ongoing IFAD-financed programmes, including the 4P models developed under NADeP; further emphasis will however be given to strengthening producer/ farmer voice and encouraging more farmer-led business proposals (i.e. the 'promotors' of the proposed 4Ps is open to companies, organizations, etc.). Some opportunities that could be captured and integrated into the new programme include: (i) geographical expansion of existing 4Ps, where private companies are committed to expanding outreach in terms of additional smallholders involved and geographic coverage with matching investment; (ii) identification and support of new 4Ps led by private companies; and (iii) an evolved model with producer/ farmer organizations taking responsibility for coming up with the initial 4P concept and then supported by the programme to develop it. Farmer/ producers will be supported with capacity building and technical assistance, to form more cohesive common interest groups, eventually graduating to a more mature and evolved organization.

35. Scaling-up will also take place at the rural financial sector level by: (i) deepening the engagement with commercial banks and other financial institutions and leveraging their own funds; (ii) leveraging existing credit line facilities, previously financed by IFAD; (iii) introduction/ inclusion of microfinance institutions in the overall 4P model and approach; (iv) testing and rolling out specific and tailored financial products (e.g. youth loans, seasonal/ working capital credit, etc.); (v) supporting enhanced financial literacy of individuals and producer organizations; and (vi) developing and rolling out operational guidelines as part of the regulatory framework for microfinance.

36. **IFAD and GoSL partnership in promotion of public-private-producer partnerships (4Ps)[19]**. The model of public-private-producer partnerships (4Ps) promoted and tested under NADeP serve as a starting point for ensuring the active participation and integration of women and men smallholder farmers and producers within the framework of the national initiatives to advance agricultural modernization and competitiveness. To-date, NADeP is the first programme financed through public funds, to spearhead the promotion of partnerships with the private sector for value chain and

[19] Further detail and analysis of lessons learned regarding 4Ps, are provided under the Section II D on lessons learned.

agribusiness development. Through the experience of NADeP, the approach and methodology to engage the 4P stakeholders and develop the 4P business plan and arrangements have been tested and refined[20]; the process of evaluation and approval of proposals have been established, including the criteria against which the proposals are reviewed (this includes assurance of the market potential, benefits and income to the target group, gender considerations, sustainability of the proposed activities, impact, etc.); the co-financing mechanisms have been improved; partnerships have been negotiated with 9 commercial banks sensitized to rural sector needs; the market potential of key value chains/ agribusiness activities have been verified; and a technical team with the requisite capacity and skills is in place and is fully operational.

37. The interest by the private sector to engage in these partnerships is also confirmed, with more than 50 proposals received by NADeP from more than 20 companies, and following only two calls for proposals. After application of the rigorous process of evaluation and appraisal, only 17 proposals were approved and finalized, implicating approximately 20,000 beneficiary rural households for a total investment sum of USD 15.4 million, who are engaging in dairy, seaweed, fruit and vegetable (passion fruit, gherkins, etc.) production, as well as bee-keeping and other artisanal undertakings – these 4Ps vary in terms of outreach, from 100 to more than 2400 beneficiary households. In terms of co-financing arrangements, the best practice has been to distribute the total per beneficiary household investment cost of the 4P intervention (USD 1500 on average) in a cost-sharing arrangement through: (i) matching grants provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of beneficiary contribution; and (iii) private sector (agribusiness) contribution. Typically, the matching grants cover investment in both ‘collective’ goods and a percentage of the productive assets; the credit is largely utilized to finance working capital, agricultural inputs, and the remaining balance for investments in productive assets. The private sector company contribution includes the provision of specialized technical assistance and extension services and in some cases in-kind credit to cover production financing needs (e.g. inputs). Although the ongoing 4Ps are still at an early stage, sampling indicates that the 4Ps are on average, yielding incremental income of USD 650 per annum, per household.

38. **Alignment with GoSL (and IFAD) priorities**. The proposed SAP programme is aligned with Government’s development policy framework, as outlined in the 2015 election manifesto, budget statements and the recently established 2016-2018 National Food Production Programme. Critical national priorities and strategic direction identified include: the creation of 1 million jobs; the restoration of people’s livelihoods, reactivation of services and facilities, rehabilitation of infrastructure and development of human capabilities; and promoting the development of enterprises and domestic agriculture as a means for enhancing market competitiveness and promoting inclusive economic growth. As well, SAP responds to the efforts by the Government and CBSL to establish a more conducive financial sector environment in support of rural/ agricultural sector growth and modernization. IFAD’s particular comparative advantage in support of these national priorities are reflected in the current 2015-2020 COSOP and its two development 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.

39. Today, the rural smallholder landscape is evolving. Notably, linkages between smallholder producers and the private sector, as well as the financial sector, have recently become more ‘institutionalized’, evidenced by the current Government’s recognition and promotion of said partnerships and with the policy narrative encouraging small and medium rural entrepreneurship. Correspondingly, various development partners (including the World Bank through its Agriculture Sector Modernization Programme) have also started to mobilise their support in favour of promoting agribusiness initiatives. In this changing environment however, it will be critical to leverage and capture the opportunities to fully integrate and meet the interests of small producers, ensuring that this target group are not overlooked. This presents an opportunity for IFAD-supported programmes, to

[20] See Appendix 4 annexes for detailed overview of the 4P methodology.

ensure that small producers voice and representation are part and parcel to the overall modernization efforts.

40. **Promoting dialogue to strengthen the policy framework for inclusive and sustainable smallholder-sourced agribusiness development**. IFAD's support for the establishment of 4P partnerships involving Government, smallholder farmers and agribusiness – both under the current NADeP and the planned SAP – has on one hand responded to the key policy priorities of the Sri Lankan Government, and on the other located IFAD as a trusted partner of the Government in this area. This context now offers SAP an important opportunity to support Government in responding to the challenges of the sector: the resources it offers, the experiences it gains, and the constituency of national stakeholders it builds, can all combine to bring lessons, evidence and support to nationally-owned policy processes; while the programme's location in the Presidential Secretariat can facilitate the transition from analysis to concrete policy contribution.

41. The programme will focus explicitly on supporting Government to strengthen the policy framework for smallholder farmer–agribusiness relations, (as well as for other priority policy issues such as rural youth employment, smallholder farmer organization, food safety and climate-resilient technologies). In doing so, the programme can expand its development impact beyond the immediate and direct target group of the programme, and support the development of equitable and sustainable smallholder-sourced agribusiness in Sri Lanka as a whole. To achieve this, the policy agenda under the programme will be realistic in scope, and shaped by the specific focus of the programme and the resources IFAD brings to the table. Its success will be at least in part dependent on the effective implementation of the programme and the achievement of development results.

42. **Capturing market and business opportunities**. Effectively seizing the emerging market opportunities requires a multi-pronged approach which includes addressing production and marketing constraints on the one hand, whilst also capturing opportunities presented by the increasingly conducive business and institutional environment, particularly to mobilize and leverage investments. With respect to market considerations, the high unmet market demand for high-value cash crops (both local and export markets) is driving the private sector (agribusiness companies notably) to seek partnerships with primary small producers to meet the volume, scale and quality requirements necessary for Sri Lankan products to be competitive on the market. Subsequently, existing supply-side constraints which include post-harvest losses, limited technological know-how, limited extension services and lack of access to finance/ credit, need to be addressed in order to scale-up farming for increased production and productivity; enhancing farmer/ producer market knowledge and information (regarding specific 'demands' of the market, pricing and quality) will also be important to improve marketing and commercialization.

43. Under the principle that the market opportunities should inform investment, the proposed SAP programme will not pre-determine the geographic areas of intervention, nor the specific sub-sectors and products to be supported. However, through a process of market analysis and considering social and environmental dimensions, value chains/ sub-sectors have been 'prioritised' and for each sector a list of private companies interested in sourcing these products has been prepared. The value chains/ sub-sectors within the prioritized list, in general implicate large numbers of the target group, i.e. smallholder producer households[21]. The aim of the exercise has been to confirm the "market pull" behind the NADeP approach and its potential for replication and scaling up under the SAP programme, hence the list of prioritized sectors remains indicative and by no means excludes other potential sub-sectors or products which would be identified during programme implementation by 4P partners.

44. **Results and emerging lessons from the promotion of 4Ps**. Although the 17 4Ps under NADeP are still ongoing and at various stages of implementation, they are starting to yield good results which can be captured and built upon. In addition to the matching grant provided by the programme, co-financing plays a critical role to augment ownership, both from the company (capital

[21] See Appendix 4, Annex 3 for more detail about the analysis of sectors and products, and the prioritisation process.

contribution, services, etc.) and producers (through credit and in-kind). Under the 4Ps, the programme, company and beneficiary (through facilitated access to credit from PFIs) are contributing on average, to one-third of the total investment cost. Today, the 4Ps cover a range of sectors, including: dairy, fruits and vegetables, gherkin production, seaweed production, bee-keeping and maize.

45. Under ongoing 4P BPs, estimated incremental income arising from the BP investments averages to USD 650 (LKR 92,000) per annum or USD 54 (LKR 7,700) per month. This additional income is significant when considering that the majority of households in the target group report a monthly income of LKR 10,000 (USD 70)[22]. Through the provision of equipment, machineries and technologies, important results are expected; amongst others, key benefits have included improved water availability and water-use efficiency; improved pest management; reduced women's workload; increased yields and quality of produce.

46. Despite there are multiple options or models of 4Ps, the Sri Lanka NADeP model largely follows an integrated model, such as the outgrower scheme. Under this modality, ownership and responsibility is enhanced for the small producer, and the private sector (company) is encouraged to meaningfully commit resources and investment in the business proposal (in the case of NADeP, companies are providing technical assistance, extension services, and inputs in addition to the committed investment). Similarly, the financial sector has growing cognizance of the viability of investing in small producers and small-scale agri-business. Presently, the programme management unit (PMU), serves as a facilitator and broker for promotion of 4Ps and change. Through the programme's brokerage role, the constraints, potential opportunities, and overall objectives are defined (i.e. collectively providing the rationale for a 4P arrangement) and all potential partner actors are sensitized on these issues. This allows for detailed evaluation and subsequent negotiation to finalize the 4P business proposal.

47. In IFAD's Sri Lanka experience, deepening the engagement between small producers and the private and financial sectors is a long-term process, which requires investing time in building trust amongst the actors; under NADeP, 5 years of sensitization, negotiation and networking were required to result in finalizing viable 4P arrangements/ partnerships (mainly in outgrower schemes). These 4Ps should continue to be promoted; it is well recognized that partnership with the private-sector (i.e. a public-private partnership) offers a means to potentially mobilize additional resources in terms of investment capital, know-how, technology (including its dissemination) and even other inputs, towards the productive activities of small producers. Not least, these partnerships also offer a ready market or access to markets. The relevance and effectiveness of these partnerships is however enhanced with attention to the role and strengthened voice of the small producer within the partnership, calling for the 4th 'P'. Under an overall framework of agricultural modernization and rural transformation, adoption of a 4P model offers an opportunity for small producers to be contributing actors, simultaneously benefitting from increased incomes and improved livelihood conditions.

# II. Programme description

## A. Programme area and target group

48. **Geographic targeting**. The programme will have national coverage, though special attention and preference will be given through an evaluation/ selection process, to low income districts and where agri-production potential is high. The programme is demand-driven and the willingness and commitment by stakeholders (agribusiness and value chain actors including the private sector and farmer/ producer organizations) will be critical. To the extent feasible, the programme will also give preference to invest in activities that are geographically within a 'cluster' of farmers (500 – 1000 farmers), in order to achieve economies of scale and efficiency.

[22] This is on the basis of sampling undertaken in 8 ongoing 4P sub-projects.

49. **Target group and outreach**. The SAP programme is premised on ensuring inclusiveness of smallholder producers in a market-driven model through 4P business partnerships and other interventions aimed at building producer/ farmer organization capacity and enhancing access to rural finance. The programme target group comprises 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 targeting strategy is based on leveraging existing mechanisms for change and rural transformation, building on synergies and (NADeP) scaling up potential.

- The first target subgroup are 35,000 rural household producers that will benefit from increased livelihood opportunities by virtue of their engagement within 4P schemes – this includes 4,000 households organized in 70 producer/ farmer organizations (FOs). Although the programme is demand driven and the willingness and commitment of all 4P parties is critical, the same set of targeting criteria as in NADeP, ensures the pro-poor nature of these partnerships. Producer/ farmers implicated in the 4P arrangements own less than 1 ha of land, rely on agriculture for at least 50% of their household income and have monthly incomes averaging LKR 25-30,000 (USD 150-200) or below. With respect to the support to develop farmer organizations, SAP adopts a two-phased approach over six years (pilot phase from programme years 1-3, and expansion phase from years 4-6), which is requisite for obtaining results and emerging lessons which can be utilised for scaling up approaches in line with Government's policy and development agenda, and to ensure sustainability of supported FOs within 4P partnerships. In the expansion phase (years 4-6), the programme expects to increase outreach to producer/ farmers with additional financing to the 70 producer/ farmer organizations (FOs) supported during the pilot phase, but with the expectation that their membership will increase, or to new FOs, particularly FOs under the Mahaweli Authority.

- The second target subgroup are the 20,000 households participating in 4P schemes already established under the NADeP programme, who will benefit from SAP support through access to credit for seasonal/ working capital needs.

- The last target subgroup is represented by 2,500 poor young women and men who will be supported to enhance their employability or become entrepreneurs, responding to the demand for products or services generated along the value chain and in complement to the 4Ps. This youth represent a particularly vulnerable target group as they are generally unemployed, have low monthly incomes (less than LKR 20-25,000), and are either landless (70%) or own less than 1 ha of land (30%).

50. **Farmers' organizations**. In Sri Lanka, the producer/farmer organization structure has historically been focused on maintenance of irrigation systems and water management, primarily for paddy farming, whilst also addressing social and welfare needs of the community. Today, producer organizations are gradually evolving to take up more 'economic' responsibilities, and are exploring new opportunities beyond traditional paddy farming. The Mahaweli System FOs in particular, after 35 years in existence, are now able to produce non-paddy-crops with a significant contribution to the national economy, and which has enormous potential for development; business linkages along the agricultural value chains and buyer/seller contracts (forward sales agreements) are being increasingly practiced.

51. These producer organizations will be supported (in response to the demand) to progressively provide relevant and adequate services to meet member needs (e.g. procurement of inputs, marketing and commercialisation). This may also include taking responsibility for management of post-harvest handling and processing facilities to increase value addition and margins as part of a viable business plan. It is expected that with SAP support a large number of these organizations will be able to "graduate" over time in order to reach a mature and self-sufficient level and become business-oriented producer/ farmer companies. To this end the programme will help prepare maturity/ capacity self-assessments and capacity building plans to upscale activities and towards their graduation.

52. The SAP approach will then be modular and providing support to FOs and producers' organizations at different stages of their business development. The few existing cooperatives already in business will be further supported to enlarge their business, to make it sustainable and promoting women and youth leadership. The less organized FOs will be in turn supported to start up their business either under 4P partnerhsips led by private companies or through 4P schemes led by FOs.

53. A **gender strategy** will ensure women's inclusion across the three target subgroups, promoting their economic empowerment through their inclusion in productive activities; the use of labor-saving technologies to free up time and support to give voice and enhance women's leadership within their communities and rural organizations will also be pursued. At least 40% of SAP beneficiaries will be women. The overall responsibility for implementation of the strategy rests with the programme director, supported by specialist technical assistance, and delivered through social mobilisers. Programme staff with oversight for 4P sub-projects and youth activities will supervise delivery on gender activities by the field agents and service providers dealing in capacity development activities and social mobilization.

54. Rural women in Sri Lanka enjoy better status and rights compared to other countries in South Asia; literacy rates are high and similar to men's (98.6% and 97.7% respectively); they have relatively better access to services (maternal mortality ratio is 35 in 100,000) and the gender inequality index (GII) is 0,370[23], ranking among high human development countries. However, availability of economic opportunities in rural areas represent a key challenge for rural women, who face severe discrimination with regards to owning land and accessing credit. The most vulnerable women are those in post-conflict areas in the north of the country, those affected by the tsunami on the east coast, and female heads of households (generally widows and/ or elderly).

55. The SAP gender strategy aims at addressing the challenges to women by: i) promoting women's inclusion in economic opportunities through the 4Ps schemes; ii) supporting their leadership and decision-making capacity to undertake economic activities, and within their groups and their communities; and iii) supporting the management of their workload. The entry points to intervene will be through 4P partnerships, rural organizations and (youth) entrepreneurial activities.

56. In order to support women's inclusion in economic opportunities under the 4Ps, gender considerations will be incorporated amongst the evaluation/ assessment criteria in review of proposals, and trained field staff will assess women's specific needs. Particular attention will be placed on exposing both women and men in the household to trainings and capacity development opportunities. Although the 4Ps are market-driven partnerships, preference will be given to value chains/ sub-sectors that have a high degree of women's participation (e.g. papaya, green chili, bell pepper and maize sub-sectors). Skills upgrading and labor saving technologies will be actively promoted in the context of these partnerships, which has been demonstrated in NADeP with the reduced workload of female beneficiaries.

57. The promotion of youth and women's active participation in rural organizations is part of the SAP strategy to empower all producers/ farmers under 4P schemes. Women's role and participation in rural organizations varies enormously across the rural landscape, with no clear correlation with type of organization, size and structure. For this, rural organization members will gauge their levels of inclusiveness and gender sensitivity as a central dimension of their overall maturity self-assessment, developing a related capacity building plan for their progressive strengthening.

58. Lastly, business and entrepreneurial activities promoted by SAP for landless youth will build on the experience of NADeP and the evidence of their very positive impact (where 79% of beneficiaries were young women). Improved access to credit and a package of entrepreneurial and vocational training, with business mentorship, will support young women in particular, to take advantage of

[23]The GII is a composite measure that reflects inequality in achievements between women and men in reproductive health, empowerment and the labour market. The index ranges between "0", which means women fare equally well, to "1.0", which indicates that women fare as poorly as possible in all dimensions measured.
http://hdr.undp.org/sites/default/files/hdr_2015_statistical_annex.pdf

economic opportunities arising from 4P schemes (e.g. engaging in post-production activities such as drying fish and fruit, fodder production to accompany dairy development, etc.).

59. SAP will also promote policy engagement for the removal of gender-based constraints in access to credit by interacting with key stakeholders and supporting the development of gender-sensitive operational guidelines of the microfinance department in the Central Bank of Sri Lanka.

60. **Rural youth**. In Sri Lanka, youth between the ages of 15-29, represent 24% of the population; they face challenges related to education, civic engagement, political participation and employment in particular. Young people's unemployment stands at 20.8% for those aged 15-24, and 9.4% aged 25-29; the challenges of young women’s participation in the labour force is even more pronounced with an unemployment rate of 27.4% and 17.5% for the two age brackets respectively. Youth unemployment as a proportion of total unemployment is high at 61.6% for young men and 45% for young women, which indicates an unequal distribution of the problem of unemployment, and is a significant and persistent issue for the country. Furthermore, a noticable feature about Sri Lanka’s youth unemployment is that *educated* young people make up a significant proportion of Sri Lanka’s unemployed; nearly 50% of youth unemployed have completed their GCE A Levels or above, demonstrating that many of the youth unemployed have in fact, attained a reasonable level of education. Per the Labour Force Survey (2015), provincial disparities also exist, and in 7 out of the 9 provinces, youth unemployment as a proportion of total unemployment is above 50%; it is particularly high in the Central, Eastern and Sabaragamuwa provinces. It can be reasonably assumed that various reasons account for the high rate of unemployment amongst the youth, including geographical disparities, gender, class and status, ethnicity, and cultural norms; especially, differences in the quality of education and challenges in transitioning from (theoretical) education to practical experience and training are constraining factors.

61. The problem of unemployment is therefore showcased as being unequally distributed and as a mismatch of skills and limited economic opportunities, especially for those with highler levels of education; there is a need therefore, for interventions to enable the youth to better enter the labour force and successfully secure employment or self-employment opportunities. As regards self-employment, this too is constrained by the inability of youth to access finance and their lack of business skills and basic financial literacy; in rural areas, youth who are self-employed or choose this option, have little to show in terms of income and market access.

62. Subsequently, within the business and commercial orientation of the programme, special attention will be given to the rural youth. A first target of 2,500 youth (landless and/ or unemployed) will be supported to enhance their employability or become entrepreneurs that can provide services/ products to meet the demand generated by the development of value chains under the 4Ps. In addition, through a 20% quota on the main target group of small producer/ farmers engaged in 4P partnerships, the programme will reach out to a further 7,000 youth. In order to implement effective interventions that may include technical and vocational training, managerial training, financial and business planning (including know-your-numbers training), provision of business start-up capital or other investment/ fixed asset capital, mentorship or apprenticeship/ placement programmes, a more detailed youth strategy will be elaborated within the first six-months of the programme, with the objective to better understand the heterogenous nature and needs of the rural youth, and to elaborate responsive measures. The youth strategy will also define the implementing partners or service providers to implement the activities.

63. Across the youth interventions, the role of agribusiness private sector partners will be critical in helping to identify the needs and opportunities that exist in the agribusiness sector (i.e. the demand for products/ services/ human resource capacity), and which the youth could fulfil with the SAP's support. In order to ensure a close proximity to the youth, guidance and follow-up, the programme envisages a strong role for social mobilisers to provide a quasi-mentoring of the youth, especially in development of their business plans and as first liaison with commercial banks.

64. **Nutrition**. Nutrition and gender are very closely linked and therefore, the gender strategy to include women and young females applies to nutrition as well. Sri Lanka has an exceptional high figure of wasting (acute undernutrition), reaching 21%, low birth weight of 18% and women's (15-49 years) anaemia at 26%. The stunting (chronic undernutrition) rate is reported as 15%. These are alarming figures and need to be addressed in a multi-sectoral manner. The multi-sectoral approach to nutrition in Sri Lanka allows SAP to get engaged directly, or through partnerships with main actors like UNICEF and WFP. Three avenues are suitable for nutrition enhancement:

(a) Promotion of food with high nutrient value (e.g. legumes, fruits and vegetables, animal source protein) through the value chain approach;

(b) Nutrition education targeting the female and male smallholder farmers (incl. female and male youth); and

(c) Capacity building in nutrition targeting all stakeholders and in particular the agricultural extension service.

65. The promotion of nutrition sensitive value chains through the consumption pathway is feasible in the case of cereals, vegetables, fruits and animal products (here: dairy and poultry). It is less possible in the case of spices in which the income pathway plays a more important role. Nutrition education will enhance informed decision making with regard to quality and quantity of the diet at household level. Increased dietary diversity is key for an improved nutritional outcome. Capacity building in nutrition, in particular for change agents like extension officers and social mobilisers, will increase the outreach of nutrition messaging. Taking into consideration the high percentage of low birthweight babies, the understanding of the intergenerational cycle of malnutrition and its effects also on economic development, is the important information to be transmitted in the context of SAP.

## B. Development objective and impact indicators

66. The overall goal of SAP is to contribute to Sri Lanka's smallholders' poverty reduction and competitiveness. The programme development objective is to sustainably increase the income and quality of diet of 57,500 smallholder households involved in commercially-oriented production and marketing systems. This will be achieved through a process of forming and building capacity of producer groups and organizations (in terms of organizational structure and governance, management and business-orientation; and provision of services to meet producer member's needs), and strengthened networking under partnerships with the private sector. Key indicators at impact-level include the RIMS anchor indicators of household assets and child nutrition. The outcome indicators are the following: (i) % of 4P partnerships/ agreements in operation after 3 years; (ii) % increase in average volume and value of sales through 4P agreements; and (iii) the number of beneficiaries in rural areas accessing targeted and pro-poor financial products.

## C. Outcomes/Components

67. The development objective and expected outcomes and results will be achieved through three components: (i) Access to commercial partnerships; (ii) Access to rural finance; and (iii) Programme management and policy dialogue.

68. The expected outcomes of the programme are the following: (i) improved access of smallholder farmers and their organizations to markets, in partnership with the private sector; (ii) 57,500 households supported under SAP have access to rural financial services in a sustainable manner and at affordable rates; and (iii) improved policy environment for equitable and sustainable smallholder farmer–sourced agribusiness development.

**Component 1: Access to commercial partnerships (USD 51.2 million)**

69. This component includes two sub-components: (1.1) Establishing 4Ps; and (1.2) Institutional strengthening and capacity building of producer groups (within a market-driven model). A total of 35,000 households will be directly reached through 4P schemes and institutional strengthening

interventions. A further 2,500 poor young women and men will be supported to become entrepreneurs responding to demand for products or services generated by the 4Ps.

70. **4P planning, development and appraisal process.** The 4P arrangements (outlined in what will be the 4P business plan) are based on the expectation that they respond to common objectives among the partners and address the major constraints in farm-level production/ productivity and in marketing. The identification of 4P partners and plans will build on the current NADeP procedure based on a call for proposals (expression of interest), and where reputable agribusiness private companies and farmers organisations will be invited to submit proposals.

71. The proposed 4P business plans will be evaluated against multiple criteria, transparently communicated to potential stakeholders through sensitization and consultation workshops and forums in advance of the call for interest. To this end, SAP will prepare 'educational' material as relates to the key social (e.g. gender and youth specificities) and environmental (including climate change adaptation[24]) issues and best practices or approaches which SAP will promote and give preference for in the evaluation of 4P proposals. Following a first appraisal and short-listing (based on a set of criteria including financial strength; business experience (at least 2 years in business with unqualified audited accounting statements); commitment and interest in pro-poor development), the SAP PMU will facilitate, broker and negotiate the final 4P scheme across the partners, shaping and developing the final 4P proposal. The detailed process, including appraisal criteria is provided in Appendix 4 with additional elements with regards to FOs 4P appraisal process in Appendix 5.

72. The 4P appraisal process, as well as a rapid market assessment of potential value chains/ sub-sectors, are elaborated in the appendices. Key criteria reviewed during appraisal include: the market prospects (national/export); expected economic benefits in terms of farmers' incomes increase from participating in the 4P (through a combination of improved farmer gate prices, improved on-farm productivity and participation in upstream value added processing); overall profitability of the investment proposal (internal rate of return, incremental benefit/cost ratio, payback period); as well as social and gender or youth-related and environmental aspects (improvement of sustainable farming practices, use of organic fertilizers, plant protection methods).

73. The planning/ development process and subsequent implementation of 4Ps will be concentrated in the first three years of the programme cycle, with the remaining programme lifetime dedicated to monitoring and consolidation of activities and results for sustainability. The exception relates to support to 4Ps implicating farmer groups/ organizations, which will be implemented over two phases – a pilot phase (programme years 1-3) and an expansion phase (programme years 4-6).

74. **Financing of the 4P business plan**. Financing of the 4P business plan (i.e. investment plan) will be under a co-financing/ cost-sharing arrangement that includes: (i) matching grants/ start-up funds provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of beneficiary contribution; and (iii) private sector (agribusiness) contribution (this will be in the form of extension or other services rendered to the target group (monetized), in-kind contributions, etc.). Whilst the total investment per beneficiary of the 4P business plan will vary, it is expected to be USD 1500 on average, shared approximately on a one-third co-financing basis, though allowing for flexibility in this arrangement - each 4P partnership (and the co-financing arrangement) will be negotiated, taking into consideration the additional net income generated for farmer/ producers and the total cost per beneficiary. The matching grant should be considered as start-up funds, to complement the fixed assets investment financed through credit[25] (and serving as beneficiary contribution).

75. **Under sub-component 1.1**, the programme will support the establishment of market-driven 4Ps under three categories: (i) new 4P schemes led by private companies (21,000 hhs); (ii)

[24] As a first measure, the SAP SECAP Review Note will be streamlined and repackaged as a guideline for 4P stakeholders and for their consideration in preparing the 4P proposals.
[25] See Component 2 for details regarding financial products and credit offered by participating financial institutions (PFIs) through the programme-supported line of credit.

geographical/ outreach expansion or scaling-up of NADEP-supported 4P schemes (10,000 hhs); and (iii) new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the business 4P schemes (4,000 hhs). This implies that the 'promoter' (originator) of the 4P schemes will be either a private-sector company or a farmer organization that can show evidence of a confirmed commercial arrangement with a private-sector company or commitment of a market buyer.

76. **Matching grants and start-up funds**. For the overall purposes of promoting agricultural modernization and reducing producer/ farmers' risks related to uptake of new technologies and innovative activities (especially those that promote sustainable natural resource management and climate change adaptation), SAP will provide some start-up funds as complementary to term loans to farmers and private sector investment, on a flexible one-third cost-sharing arrangement to the overall business investment proposed under the 4P scheme; these start-up funds are strictly targeted at smallholder farmers only (in the form of a matching grant), and can also be used as partial collateral and reduces the cost of borrowing.

77. Equipment or assets which promote health and safety standards, improved climate change adaptation/ natural resource management, or are particularly gender or nutrition-sensitive, may also be eligible for matching grants.

78. **FOs**. For the new 4P schemes explicitly working with producer/ farmer organizations, the programme will provide an additional support, in the form of start-up funding at group level up to USD 50,000 per FO for seed capital needs (such as acquisition of small to medium-sized equipment and post-harvet assets, e.g. collection centres, storage facilities, processing plants) and initial working capital needs that will enable the group to run its business in partnership with the 4P stakeholders.

79. **Youth entrepreneurship initiative**. SAP will also provide targeted support to rural youth, in order to become entrepreneurs, and responding to the demand for services generated along the value chain and in complement to the 4Ps. An initial 2,500 youth will be supported with start-up financing for their business plans, averaging USD 2000 in the form of start-up funds (matching grant) and credit. A basic training curriculum for youth business plan preparation has already been tested under NADeP, and will be refined by SAP, though the business plan training is only the first step in capacity building support for youth and is linked to their ability to apply for the special youth credit (see Component 2). Identification of the youth, and their mobilisation will be a joint responsibility between social mobilisers, private sector partners and community leaders (involved in 4Ps), vis-à-vis the principle that youth businesses would be responsive to the service or product needs around the 4P schemes.

80. A youth strategy will be commissioned as a first starting point to better understand diversity amongst the rural youth, and subsequently their challenges, aspirations, critical needs and the opportunities where SAP can intervene in supporting the youth. This strategy will draw from the consultations with youth in rural communities, the experience and sensitization activities undertaken by the social mobilisers, and via the dialogue with private sector companies.

81. In order to more effectively draw out the demand for products/ services around the 4P, SAP will through its consultation and sensitization activities, encourage the private sector companies to identify the critical product or services gaps along the value chain, and/ or the gaps in human resources capacities. These gaps will be communicated to the youth, to establish their interest and commitment to engage in these particular activities. Social mobilisers, by virtue of their close community-level knowledge and training in the SAP principles and approaches, will communicate SAP's open call for interest for youth to take part in the initiative. To facilitate youth in stepping forward, social mobilisers will provide support to the youth with some initial and basic training on how to develop basic business plans and will work with those youth with potential to finalize their business plans; the social mobilisers will also have the role of connecting the youth to PFIs, who will ultimately appraise the business plan and decide on whether to approve the loan.

82. Once the youth business plan and credit has been approved, the support to youth will also be complemented by capacity building support. A range of topics such as financial literacy, know-your-numbers, and managerial training will be offered, and youth with approved business plans can choose

their priority needs; the specific technical training that will also likely be required, has also been provisioned for.

83. To the extent possible, the programme will also attempt to facilitate or broker a mentorship programme for those youth demonstrating strong leadership and entrepreneurial potential, with established business experts.

84. **Under sub-component 1.2**, the programme intends to support capacity building of producer/ farmer organizations (FOs), with the rationale that strengthening of FOs will empower the group to become an effective partner under 4P schemes as well as their capacity to take informed decisions about their business. The start-up funding at group (FO) level will be complemented with support in the form of business mentoring, training, exchange visits and degressive support to FOs for their management.

85. For the new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the business 4P schemes (4,000 hhs), SAP will promote a multi-pronged approach taking into account both the degree of FOs' development and the means by which FOs and farmers groups will enter as stakeholders into the 4Ps; three models engaging and providing support to 70 FOs are envisaged: (i) private-sector led 4Ps with 20 FOs; (ii) mature FOs or farmer cooperatives (10) already managing sizable businesses; and (iii) incipient FOs (40), mainly under the Mahaweli Authority of Sri Lanka (MASL) areas. Under the first model, SAP will encourage private sector companies to lead the development of partnerships with farmer groups; under the second model, the relatively more mature FOs will already be engaged in the business of processing and/ or value addition, and the provision of seed and working capital financing will support them to expand their business to the benefit of their farmer members; and under the third model, the specific attention will be given towards supporting the FOs to develop their bankable business plans and gradually evolve into functional business-oriented entities (with financial support also provided on a gradual basis to ensure management and absorption capacity). The nascent nature of these FOs requires a stronger field presence to support their institutional strengthening, which is the rationale for collaboration with MASL.

86. Producer/ farmer organizations eligible for support include those registered under the following: (i) Social Services Act; (ii) Agrarian Development Act (this includes organizations registered by, and operating within the remit of the Mahaweli Authority); (iii) Co-operative Socieities Law and (iv) Company's Act. For those groups not yet registered, whenever appropriate, the programme will facilitate their legal registering: awareness building and reflection process with the members to enable them to analyse pros and cons of the four possible registration options and ultimately choose the option that best suits their needs and plans.

87. The package of capacity building support will be flexible depending on needs and audience (by group, organization, individual), though primarily relates to technical assistance/ training; the areas which can be covered include: organizational structure; governance and management; market intelligence and marketing, negotiation skills; basic accounting and finance; business plan development, contract development with other chain stakehodlers, collective/bulk marketing and procurement of inputs, management of common storage facilities and equipment, technology development for agricultural intensification and productivity enhacement, financial literacy and intelligence for linkages with banks. In the latter case, trainings will be promoting savings mobilization, approaches to implement their savings schemes, with a view to satisfy social needs, business expansion and collateral requirements of the banks. Trainings will also promote sustainable adoption of climate resilient crop development that will be accompanied with environmental measures. As relates to promotion of improved environmental/ climate change adaptation best practices, FOs will be sensitized by the TA arm of the PMU and MASL on the SAP priorities, and consultations will take place to determine how best to integrate good practices in the activities of the FOs. Subsequently, the training needs, the access to the technologies and information (sourcing information/ extension services from public and private agencies and the onwards dissemination to members) and the self-monitoring needs will be defined during the FO business plan development process.

88. **Implementation responsibilities under Component 1.** The bulk of interventions and activities under Component 1 relate to: (i) the implementation of 4P schemes; and (ii) capacity building/ institutional strengthening of producer/ farmer organizations. With respect to the 4P schemes, the SAP Programme Management Unit (PMU) will have the first level of responsibility for facilitating and brokering the 4Ps, through sensitization and awareness raising in the lead up to SAP effectiveness and within the first six months of implementation. Today, through NADeP, the private sector is cognizant of the 4P model being promoted, but could benefit from further knowledge of the specificities, principles, expectations, responsibilities, limitations and opportunities of the 4P model, and can be encouraged to expand and deepen their participation. In addition to sensitization, the PMU will be responsible for inviting expressions of interest and will conduct a first and independent assessment of the proposals received. Further to this, in terms of 4P development and appraisal, the PMU will take the lead through its in-house specialists, though will mobilise additional resources or facilitators to broker and cement the 4Ps as required. Once the 4P has been approved, it is expected that in the majority of cases, the implicated private sector company will take the lead in brokering the partnership and support of financial institutions leading to tripartite agreements among smallholder producers, PFIs and the private sector company under a viable 4P scheme, and will implement the 4P sub-projects at the field-level. In terms of capacity building and institutional strengthening, the process of maturity self-assessment and capacity needs assessment will be supported by the PMU (through its specialists and via the social mobilisers) and Mahaweli Authority (for those FOs registered by them); subsequently, the capacity building needs will be consolidated by the PMU, who will also source the necessary service providers to respond and deliver the services required. Detailed implementation responsibilities for component 1 and the process of selecton of FOs under the different models of FOs participation in 4P schemes are presented in Appendix 5.

89. The selection of business ventures (under private-sector and FO-led 4Ps), will follow competitive open selection processes. In the particular case of incipient FOs in the Mahaweli areas, the process of sensitization and competitive selection will be in turn, managed by MASL, who will also benefit from institutional strengthening support from SAP.

**Component 2: Access to rural finance (USD 43.6 million)**

90. The limited lending to agricultural sector activities and the subsequent impact on agricultural development as outlined in Section I, highlights the need to promote and make accessible, agricultural financial products for the smallholder farmers under 4Ps. This component principally follows the strategies, modes of intervention and investment opportunities that emerge under Component 1, and aims at facilitating access to rural financial services in a sustainable manner and at affordable rates. It shall have two sub-components: (2.1) Financing of 4Ps; and (2.2) Institutional strengthening. The component provides the products and liquidity that are needed to serve the target groups and help achieve the overall objectives.

91. **Under sub-component 2.1**, a line of credit (LOC) shall be established under the Regional Development Department of the CBSL. This LOC shall be used exclusively to refinance PFIs which have granted loans to eligible participants under a 4P business/investment plan through the following target groups:

(a) Farmers, engaged in a 4P scheme or activities under the FO;

(b) Youths in the age bracket of 18-30 years, as per the standard government definition.

92. For these two target groups, three different products shall be offered:

(a) Working capital loans for farmers engaged in 4P arrangements supported under component 1, mostly not exceeding USD 350 for about one hectare of cultivation; grace periods may be negotiated, and the duration of loans shall not exceed 11 months;

(b) Term loans for investments in equipment and machinery up to a duration of five years for farmers engaged in 4P arrangements supported under component 1, with grace periods determined in accordance with cash flow; the average loan borrowing amount per individual farmer is USD 500.

(c) Working capital and investment loans for a duration of up to two years for youths, which may be combined with start-up funds as approved under Component 1.

93. PFIs provide their financial services and charge the rates agreed upon under the 4P plan, will bear the full risk of default on repayment, conduct their loan appraisal in conformity with their own standards and procedures, and may accept or reject a loan application. PFIs apply their standard collateral regime, which according to the experience made before does not constitute a barrier for SAP target groups.

94. It is programmeed that 55,000 smallholders and 2,500 landless youths will get access to credit through the SAP-financed line of credit for on-lending by the PFIs. Once the borrowers under the 4P schemes have liquidated their previous loan, they will also be eligible for term loans. Over the six years, the total number of loans is 293,000, representing a loan volume of USD 106 million.

95. Contributions to for working capital purposes will vary over time. In the first year, each group of farmers, or each farmer, will have to pay 10% of the expected loan amount into a blocked savings account at the respective PFI. This contribution will gradually increase to 30% of the loan amount in year, after which it will be constant. Farmers are expected to continue savings, but are no longer required to keep these savings in their savings account that will be blocked by the PFI at the time of disbursement. PFI contributions will start with 20% in year 1, and will then gradually increase to 70% in year 5. Consequently, the amount taken from the LOC will start with 70% in year 1, and will then gradually decrease to zero from the fifth year onwards. This model will apply to all borrowers served under the LOC.

96. The net financing requirements for the LOC have been calculated at USD 12.0 million, including total contributions of PFIs to the tune of USD 9.7 million, of farmers amounting to USD 4.7 million, and of the GOSL of USD 17.4 million, the latter being the reflows of past lines of credit.

97. **Pricing of the LOC facility**. The interest rate of the facility should be cost-recovering. As the Government will have to pay back the loan in foreign currency, the devaluation of the Sri Lankan Rupee (LKR) will be included in the calculation of the costs. The pricing of the LOC shall be the sum of cost of capital for the Government (including the anticipated devaluation of LKR) + administrative cost of the CBSL + interest spread for PFIs to cover administrative/operating cost, cost of funds, loans losses and profit markup. Using present market terms, refinance of PFIs will be made at slightly below 6% p.a., including a 2% points mark-up to cover the devaluation risk. In case PFIs would add about 4% for their costs and risks, the final costs for the end borrower would be slightly below 10% p.a. Interest rates charged under the SAP shall be subject to an annual review conducted during the supervision mission. Rates will then be adjusted where necessary in mutual consent. Given the poor experience in the past with fixing the interest rates, instead of envisaging a flexible mode of adjustment, any changes also do not require the ratification of IFAD and the PSC. For details, see Appendix 4.

98. **Implementation arrangements**. The line of credit shall be administered by the Regional Development Department (RDD) of the CBSL. The RDD is a specialized department managing the lines of credit of various donors and government-run schemes. The subsidiary loan agreement between the GoSL and CBSL and CBSL and PFIs will specify the terms and conditions of the line of credit and sub loans. The SLAs for the existing line of credit will be amended, as will be the operating guidelines to ensure the funds are utilised for the purposes stated above.

99. **Selection of PFIs**. PFIs shall be accredited based on the following criteria: (i) minimum of two years of term-lending operations for which audited accounts are available; (ii) NPL below 5%; (iii) fulfillment of all prudential regulations as required by the CBSL; and (iv) willingness to enter into a tri-partite agreement with smallholder producers and the private sector company under the 4P scheme.

At least four commercial banks and some MFIs would qualify under these terms, which have already been accepted by the four most capable commercial banks.

100. **Exit strategy and post-programme arrangements on the LOC**. By the end of the programme, the exit strategy of the line of credit will be its transformation into a revolving fund, which may be called the Farming System Sustainability Fund. This fund will be endowed from the reflows of this and other LOC as per the mutual agreement of the GOSL and IFAD. The Fund will be dedicated to short, medium and long term loans for agriculture. The RDD of CBSL will continue to manage this Fund for the duration of the Financing Agreement between the GOSL and IFAD. The Fund will become a permanent and strategic tool to stimulate agricultural development through smallholder-oriented farmer credit.

101. **Under sub-component 2.2**, the programme will aim at institutional strengthening of CBSL on the new regulations for the microfinance sector, plus some training for the MF Inspection Department on Monitoring and Prevention of Common Frauds and System Audit and Inspection, and other MFI tools. Procurement of the services required is done by the CBSL in accordance with its existing procurement guidelines on the basis of the current AWPB.

102. Some critical support to PFIs, including commercial banks and deposit-taking MFIs, will be provided to enable these provide more inclusive, effective (specific and targeted) and efficient financial services and products to smallholder farmer/ producers and other target segments of the population. Most of this support comprises technical assistance on value chain financing, micro and small client's credit underwriting skills, and reporting, depending on the expressed needs. PFIs will be encouraged to recruit additional lending officers with backgrounds in agribusiness, as the HNB has done with great success.

103. To simplify operations, procurement of these services shall be made by the PMU in close collaboration with the respective PFIs, to ensure that only that would be procured that what would represent the interest of the PFI. It is important to treat the outcomes of this TA as professional secret, which shall not be distributed to other competing institutions. The eligibility criteria for the support to PFIs shall comprise: (1) Active engagement of a PFI branch in disbursing credit to smallholder farmers using the SAP 4P line of credit, with preference to remote districts; (2) branch serving es can at least 500 smallholder farmers under the 4P line of credit; and (3) regular reporting to the PMU. Selection criteria may comprise the number of farmers served so far, the volume of loans to the target groups, the staffing of branches with lending officers that have agribusiness backgrounds or have received training via the SAP programme, and the NPL situation.

104. All PFIs that partner with SAP will have to adhere to specific reporting obligations as stipulated in the programme implementation manual.

**Component 3: Programme management and policy dialogue (USD 5.8 million)**

105. Component 3 will serve Components 1 and 2. It will comprise a series of activities to manage, facilitate the implementation of, and monitor, report and draw lessons from, the operational activities carried out under the other two components. Component 3 comprises two sub-components: (3.1) Programme and knowledge management; and (3.2) Policy engagement.

106. **Under sub-component 3.1**, programme and knowledge management (including fiduciary management) will be entrusted to SAP Programme Management Unit (PMU), which is an evolved unit comprising the experienced staff of the *existing* NADeP PMU and technical assistance/ consultants. Following some restructuring, the PMU will be strengthened with additional capacity to effectively carry out its key responsibilities of planning, coordination, facilitation and brokerage, and monitoring and evaluation. The programme will establish management, finance and administrative procedures including accounting, auditing and a monitoring and evaluation system in line with IFAD guidelines, and which will feed into relevant national monitoring systems. Given the scope of the proposed programme, key managerial positions within the PMU include a Programme Director, Deputy Programme Director, Agribusiness Manager, Rural Finance Manager and Finance (and Admin)

Manager, heading competent staff within their respective units. Technical assistance in the form of consultants will also continue to bring a higher level of professionalism and expertise to the programme. In order to support specific interventions (e.g. as relates to institutional strengthening, capacity building or 4P facilitation where required), institutional service providers will be contracted.

107. To support the policy agenda to promote pro-poor partnerships with the private sector, and given the multitude of SAP programme stakeholders comprising multiple ministries and public agencies, private sector companies, business associations, financial institutions, producers and their organizations, the element of learning and knowledge dissemination and management is critical to sustainability of the programme interventions and future uptake and up-scaling of the model and approaches tested and promoted by SAP. To facilitate this knowledge management, specialised studies, training manuals and information and communication materials will be developed.

108. As well, the institutional housing of the SAP programme within the Presidential Secretariat as the lead programme agency, presents a very strong opportunity to ensure high-level policy dialogue, coordination with key public institutions, and to promote a multi-sectoral approach and support to the programme. The high-level engagement will also translate to the operational level, with coordinated partnership amongst the key public institutions (the Mahaweli Authority especially). In addition, priority cross-cutting issues such as nutrition and natural resources management/ climate change adaptation will be pursued at a high-level, to inform and feed into programme operations on the one hand, and to as well be informed by the findings and results arising from programme interventions.

109. Further detail on programme management, implementation and institutional arrangements are provided in the appendices.

110. **Under sub-component 3.2 (policy dialogue)**, the activities to be supported will aim at improving the policy environment for equitable and sustainable smallholder farmer–sourced agribusiness development. To achieve this, the policy dialogue agenda will be built on two broad thrusts.

111. Under the first thrust, the programme will create space for policy dialogue between national stakeholders and then support that dialogue. At the national level, **4P multi-stakeholder meetings** will be established, with participation of representatives of relevant government agencies, of producers and their organizations involved in agricultural value chains, of private sector processors and exporters, and of interested banks and MFIs. These 4P multi-stakeholder meetings, which the PMU will convene twice per year, will be professionally facilitated by a partner organization such as the Institute of Policy Studies of Sri Lanka. The meetings will serve as an opportunity for the different actors along the programme-supported agricultural value chains to interact, and specifically, to identify and bring to the attention of Government critical policy and regulatory issues affecting the sector (which may in some cases have been already pre-identified by the PMU); to prioritise these and propose research, where needed, to better analyse the issues and identify solutions; and to validate the findings and advocate for policy change. Commodity-specific or other follow-up meetings involving a sub-set of the participants may also be held, where there is demand to do so. A preliminary and partial scoping exercise has identified a number of possible policy issues for the programme to pursue (see Appendix 4), though these would be validated and prioritised – or replaced by other issues – by the 4P multi-stakeholder meetings before any subsequent work would be undertaken.

112. The process of policy dialogue will be enhanced by strengthening the capacity of smallholder farmer representatives to enable them to participate effectively in the meetings. The capacity building activities under sub-component 1.2 will include support to farmer organizations to develop their policy dialogue and advocacy skills.

113. All policy issues prioritised for follow-up action by the 4P multi-stakeholder meetings will then be presented to the National Steering Committee for its endorsement. While the approach to be taken relative to specific policy issues will vary case-by-case, further policy research/analysis is likely to be required, in order to identify detailed policy options. The programme will support such analysis (a provision has been made for two such studies per year – total 10 – to be carried out), which will be

conducted by contracted research organizations and/or researchers. The research will be subsequently reviewed and the recommendations of that research endorsed by the 4P multi-stakeholder meetings.

114. Under the second thrust, the **lessons of programme implementation experience** will be analysed. The PMU will identify particularly successful approaches and models piloted or developed; analyse these (the programme will support data collection for the analysis, where necessary); and where appropriate promote their adoption / scaling up by government under a national strategy or programme would be promoted. The need for, and scope of, such studies would be identified as a key part of the knowledge management function of the programme. At this stage, a provision for two such studies per year, from 2020 onwards, has been made in the programme cost tables. A number of possible topics for study have been identified in Appendix 4.

115. Under both thrusts, the programme will look to turn relevant policy analysis into policy change.This will require the development of specific strategies tailored to the topic or issue in question, which should be endorsed once again by the NSC, Depending on the needs of the specific policy in question, the PMU may prepare policy briefs, video films etc. It may conduct advocacy activities, including with parliamentarians as necessary; and offer exposure visits to senior policy makers and other stakeholders, to enable them to visit sites both within Sri Lanka and in other countries in Asia and Africa, to view cases where proposed policies have been successfully applies. The programme will also offer support: to the process of drafting policy documents or regulations; for public consultations around specific draft policy documents; or for kickstarting the operationalisation of new policies, where policy change has been effected. In pursuing specific policy agendas, alliances with other advocacy groups and organizations will be developed wherever this can strengthen the scope for achieving policy impact.

116. Overall responsibility for managing sub-component 3.2 will lie with the PMU – specifically, the Programme Director, supported by DPM, M&E and KM, as well as the relevant technical specialists within the PMU. He/she will be responsible for: planning and managing the biannual 4P Business Forum, and ensuring that decisions made there are followed up; managing and supervising the processes of conducting policy research and analysis; facilitating discussion within the PMU, in order to identify approaches and models to be assessed, and managing these assessments; managing the development of issue-specific policy advocacy plans; and presenting both the prioritised policy issues and advocacy plans to the National Steering Committee for its endorsement. Other partners in the implementation of the sub-component would include: (a) relevant government agencies; organizations of smallholder farmers; representatives of agribusiness – aggregators, processors and exporters etc; academia/policy researchers, as participants in the 4P Multistakeholder Meetings; (b) the Institute of Policy Studies, which may be invited to facilitate the 4P Stakeholder Meetings; and (c) universities, policy research institutes and consultants, as contracted service providers to conduct policy analysis.

## D. Lessons learned and adherence to IFAD policies and the SECAP

117. **Lessons learned**. The SAP programme is informed by the lessons learned stemming from past and ongoing programmes/ programmes supported by IFAD in Sri Lanka and other countries in the region; in particular, SAP incorporates detailed lessons of NADeP. These lessons learned cover an array of issues, related to agribusiness and 4Ps, programme management, gender, approaches, etc.; the most relevant lessons to SAP are provided below:

(a) Financing administration and programme management: in the past, IFAD-financed programmes have suffered from delayed loan effectiveness and resulting slow start-up; to the extent possible, new financing should build on existing structures and mechanisms, and early and continuous consultation with Government is essential to mitigate delays; as well the selection and retention of qualified staff is a critical element to ensure timely implementation and performance; when delayed, there is further consequence in terms of long implementation delays.

(b) Factors affecting efficiency of value chains: investment in technology to improve on-farm productivity, primary level processing to reduce product losses and transportation costs, and risk reduction related to farming (and ensuring steady supplies) have bearing on the efficiency of value chains; investing in an integrated package of activities is more conducive to achieving efficiencies.

(c) Marketing margins: programmes seeking to channel improved profit margins to farmer/ producers need to consider supporting their involvement/ uptake in primary processing, in addition to the conventional forms of support to their on-farm production.

118. The detailed lessons learned from NADeP implementation are as follows:

(a) Growing interest by the private sector to enter into 4P arrangements: there is evidence of growing private sector interest in the 4P model, demonstrated by the 50+ business proposals received by NADeP after only two calls for proposal. The appeal of the 4P model from the point of view of the private sector is that the matching grant element of the investment can address non-profit related issues such as improved technologies leading to quality, better organization, etc. As well, the private sector appreciates the linkage between small producers and the financial sector for credit, as this lends itself to the credibility of the small producer's commitment to the investment and production.

(b) Private-sector partner profile: the preferred private sector partner would be experienced and financially secure and established companies, as opposed to small (new) companies or NGOs/ CBOs with limited market experience and capacities. The rationale is that established companies have the capacity to provide extension services, offer a ready market with absorption capacity, and don't require any additional financing for their own operations. In the context of inexperienced farmer/ producers, engaging with inexperienced companies presents a greater risk to achieving good results and increased income for the target group.

(c) Joint collaboration to develop technical and financial business proposals: the process of developing viable 4P business proposals requires strong negotiation and clarity, to ensure that all actors are aware of the 'rules of engagement' and responsibilities; this refers to the co-financing arrangements and expectations of the commitment and value added of each partner in the 4P; as well, the business model and the final expected income to farmers are important elements of the final proposal. In the case of the private sector specifically, their willingness to provide technical and extension services is critical. The actual process of finalizing a business proposal has been demonstrated to be relatively fast, requiring six months on average.

(d) Graduation approach to avoid complexity: the experience of establishing 4Ps is still relatively nascent in the Sri Lanka context, and building trust across partners is a longer-term process. Subsequently, the partnership to be nurtured should be modest (such as the outgrower scheme) in the first instance. NADeP experience suggests that there is need to first establish 4Ps that are characterized by linking the private sector with individual farmers who are identified and grouped by the company itself; a progressive second level would pursue 4Ps that link the private sector to better organized producer organizations; and finally, the most progressive model would be to promote producer organization-led business proposals. Once the trust has been strengthened, only then is there more flexibility to deepen the scope of the partnership. It is also worth noting that at present, per NADeP's experience, very few farmer organizations have reached a level of maturity to take on 'business' and financial responsibilities/ functions; the assumptions of producer organizations should be reviewed closely.

(e) Rural finance needs: Overwhelmingly, small producers continue to identify the lack of *affordable* short-term working capital to finance their regular agricultural seasonal needs; in general, the financial products on the market are currently often entirely inaccessible, and where credit institutions are ready to provide loans, many farmers feel that the rates are too high, given that even the hypothetically high returns may easily erode as a result of delayed or excessive rains, pests, insect infestations or other mishaps. In an interest rate sensitive society, they often prefer not to borrow if they perceive that the balance between additional costs and additional risks is not in their favor. There is, therefore, scope to promote seasonal agricultural loans (at more feasible interest rates) to meet short-term working capital needs. With this product, small producers would be able to purchase inputs in support of increasing their production/ productivity, and will similarly avoid the risk of indebtedness to moneylenders and loss of their rights to cultivate their own land (where land is used as 'collateral' by moneylenders). The same applies to investments and term finance.

(f) Formal financial sector system capacity: The CBSL, commercial banks and MFIs have all identified capacity constraints as preventing them from being able to service, reach out and meet the needs of the target group (small producers engaged in the rural/ agricultural sector). The capacity constraints relate to human resources in terms of manpower (number of loan officers) and skills set. Subsequently, the complementary trained 'social mobilisers' offered by NADeP, are highly appreciated and the approach should be replicated, as it allows for more efficient pre-screening of potential clients and brings the segment specific needs upfront. The provision of support to the CBSL and performing PFIs is also geared at closing the knowledge and skills gaps. uilt

(g) Savings: Even though some banks and development programmes have in the past adopted the self-help group linkage models with its in-built savings approach, only few banks are at present actively engaged in mobilizing savings from among rural borrowers. However, the PFIs contacted would highly appreciate the creation of a savings habit among their 4P clients, as it would reduce the liquidity constraints, build financial reserves among the clients for any mishaps, and create the basis for more significant investments in machinery and equipment. The planned interventions of the social mobilizers to create a systematic savings process, and savings as a habit, is therefore highly needed.

(h) Line of credit (LOC): Disbursement under the NADeP LOC accelerated by more than 300% in one year, following a re-negotiation of the interest rate from 13.25% to 6.5% to the end borrower. The reasons for the accelerated performance may be attributable to the fact that the new interest rate is much more attractive to the end-borrower, also because the interest rates in the market had overall declined in the meantime. While the available allocation for self-help groups was USD 6 million before, PFIs have fully committed these funds within one year, and have already appraised an additional USD 9 million in demand for loans, which they would have approved if funds were available under the LOC. NADeP has supported and strengthened linkages between the PFIs and target groups through trained social mobilisers; and the PMU chairs joint meetings on a monthly basis with PFIs and CBSL to monitor, follow-up and resolve issues. Whilst national figures show that less than 29% of clients receive credit and that loan outstanding to agriculture is only 9%, in the case of the NADeP LOC, almost 40% of NADeP-linked clients received credit (7,100 out of 18,000 registered through self-help groups; 79% of borrowers are women) of an average loan size of USD 650. About 48% of these loans were used primarily for agriculture-related activities. This confirms the need for a LoC to help rural farmers test the innovations emerging under the 4P investment plans and thereby increase incomes and the stability of income flows.

(i) Role of the 4P broker: appraising the 4P business plans requires specialists who are familiar with the language of business on the one hand, as well as agronomists (with technical and field knowledge of farm production, etc.), in order to ensure that the underlying assumptions and cost-benefit analysis undertaken by the appraisal/

evaluation team is sound. Based on the NADeP experience, the PMU with its in-house Technical Assistance team is the best placed ‘broker’ of 4Ps. The broker team has direct interest and is committed to establishing 4Ps; the team also has demonstrated technical capacity, and has shown this by developing 15 4Ps within one year.

(j) Household monitoring: Farmer/ producers are not fully sensitized on monitoring their income derived from production sales vis-à-vis their expenditure requirements; in general, there is need for producers to monitor their expenditure, production, sales and income at the farm-level to better inform their farming/ production decisions; this kind of household/ farm monitoring also supports testing of assumptions made on cost-benefit analysis of production and farming models that are part of the BP proposals.

(k) Supporting the rural youth: As expressed to social mobilisers with close contact to youth in rural communities, access to finance is one of the key challenges for rural youth. Their financing needs which can help them to start-up small business are in the range of USD 1000-3000, though they require support from social mobilisers who are also interlocuters with PFIs (and know loan officer appraisal priorities), to shape their business plan and request for financing. This model of working with social mobilisers as a go-between the youth and PFIs, works well in mobilizing start-up funds for youth; the specific line of credit dedicated to youth, also supports the approach.

119. **Adherence to IFAD policies and SECAP**. The SAP programme is fully aligned with IFAD's Strategic Framework 2016-2025, in pursuit of the mutually reinforcing strategic objectives, especially by way of promoting investment in productive capacities and encouraging better and deeper market participation (and benefits) through the vehicle of 4Ps. The principles of engagement (targeting; empowerment; gender equality; innovation, learning and scaling up; and partnerships) are furthermore, fully embedded in the programme, through the programme 4P and institutional strengthening approach, and operating modalities. With respect to rural finance, SAP adheres to the IFAD guidelines for value chain financing and for the use of lines of credit.

120. The programme design also adheres to IFAD policies and strategies for targeting and gender mainstreaming, environment and natural resource management, climate change and social, environmental and climate assessment, and scaling up (see Appendix 12). The environmental and social category is considered to be B, while the climate risk classification is deemed to be Medium Risk.

# III. Programme implementation

## A. Approach

121. The overarching principles that frame and govern management and coordination of the SAP programme are the following: (i) alignment with Government priorities (includes collaboration with other development partners and opportunities); (ii) a demand-driven and flexible approach; (iii) adoption of a market-driven and private sector-led approach; (iv) inclusive rural financial services provision; (v) joint financing (cost-sharing) and risk-sharing; (vi) competitive selection of partners and viable business plans; (vii) empowerment, organisation and strengthening of smallholder farmers as business partners; and (viii) complementary support to market-driven self-employment activities for specific segments of the rural population (i.e. landless youth).

122. The mechanism by which these principles are embodied is through the promotion of mutually beneficial (win-win) Public-Private-Producer Partnerships (4Ps) between private companies and smallholder farmers. These 4Ps will build on the lessons learned from the ongoing NADeP programme and adopt some of the good practices identified by IFAD in applying this approach worldwide. This is key to ensure that the 4P partners have incentives to respect the contractual agreements, avoiding for example side-selling, and maintaining fair pricing, which serves to ensure the success and sustainability of the partnership.

123. In the first instance, the decision to support a 4P requires a strong rationale for a 4P. In the process of setting up the partnership, the programme should assess whether the following questions are properly addressed: what is the aim and what are the objectives to be achieved; to what extent are the interests (incentives) of different actors aligned towards a common objective; and is the partnership responding to a sustainable market demand. Secondly, it is important to make a careful selection of the 4P partners both, private companies and producer/ farmers. To this end SAP will adopt a competitive process (based on expressions of interest and call for proposals), well tested under the ongoing NADeP programme; however, special attention will be given in supporting the design of 4Ps initiated by farmers organisations, as they have less capacity compared with private companies. Subsequently, technical assistance through a qualified service provider will be critical to develop a viable and bankable 4P business plan in consultation with the potential commercial partner. A third element is related to the negotiation of the business model proposed in the 4P scheme (whether the model is an integrated outgrower scheme (like some of those supported under NADeP), a simple commercial agreement between two parties, or a more complex co-investment into a post-harvest handling / processing facility) – i.e. how will all the parties profit/benefit from the partnership, ensuring the partnership is truly a win-win arrangement. Fourthly, in the negotiation of the 4P, the partners/ parties must agree on their respective roles and responsibilities, including each partner's share of risks and benefits; as well, unforeseen circumstances (e.g. natural disaster, pest and disease, price drop) which may affect the capacity of one of the parties to honour the agreement need to be considered and discussed. Finally, as currently being applied in NADeP, the 4Ps should be based on cost-sharing arrangements agreed upon by all parties. To this end, it is critical to ensure that the agribusiness sector actually contribute to the partnership with funding and know-how made available to farmers. The same applies to the financial sector which is requested to step in under SAP as full-fledge partner willing to co-finance with its own funds.

124. In complement to the 4Ps, special attention will be given to income generating activities in which youth, in particular those who do not have land and other assets to be involved in farming, can be profitably involved. These opportunities should be explored during the preparation of the 4P business plans by requesting the promoter/ originator(s) to identify, based on the product and value chain, complementary goods and services demanded by 4P partners (e.g. veterinary services, organic compost, maintenance of equipment).

125. Finally, the design of the SAP programme acknowledges the importance of promoting an enabling policy and regulatory environment for the private sector to operate and respond to market opportunities. Therefore, it will facilitate spaces of dialogue and interaction with both the agribusiness/agriculture and the rural finance sector where key policy issues could be identified by programme stakeholders. This will be supported by joint performance monitoring, knowledge dissemination (and management) and specific technical assistance as part of an integrated policy dialogue and engagement process.

## B. Organizational framework

126. In general, SAP will largely replicate the institutional and implementation structure of NADeP, building on the strong leadership in place, and which has helped guide NADeP in its transformation into a well-performing programme.

127. **Executing and key agencies**. The executing agency or lead programme agency (LPA) for SAP is the Presidential Secretariat, which by virtue of its high-level status, is best placed to ensure effective mobilisation and coordination amongst the various public agencies (including the Central Bank) and with private sector partners (including financial institutions, companies, associations, etc.) who either directly have implementation responsibilities, or a supporting role (e.g. research, training, mobilisation of farmer organizations, complementary extension services, etc.). In support of farmer organizations and 4Ps covering a range of value chains/ sub-sectors, the key agencies implicated in the programme include: the Mahaweli Authority (especially its well-developed network and

organizational structure); Ministry of Agriculture; Department of Export Agriculture; Department of Agriculture; and Exports Development Board.

128. A **National Steering Committee (NSC)** will provide programme oversight and direction, chaired by the Secretary to the President or his representative. The SAP NSC will be based on the NSC for NALeP, with minor adjustments made on one hand to allow for adequate representation by non-government programme stakeholders, while on the other to ensure that the committee remains of a size that is manageable. It will be chaired by the Secretary to the President, and will comprise 11 of the current members representing government or government agencies, plus representatives of the Mahaweli Authority and the Department of Export Agriculture of the Ministry of Primary Industries. It will additionally include representation from the Ceylon Chamber of Commerce (in turn representing the interests of agribusiness) plus a representative of the participating financial institutions.(The full membership is shown in Appendix 5). The NSC will meet *at least* twice-yearly to review and approve the SAP Annual Work Plan and Budgets prior to its submission to IFAD for no objection; and to review implementation and financial progress. It will additionally appoint the 4P evaluation committee and endorse the 4P schemes to be submitted to IFAD for no objection; and it will also endorse the policy issues prioritised for follow-up action by the 4P multi-stakeholder meetings and the advocacy strategy developed for each issue policy analysed.

129. **Management structure**. Through the LPA, responsibility for programme management is delegated to the Programme Management Unit (PMU) based in Colombo, which will evolve from, and leverage the experience and strong human resources of the current NADeP PMU; the PMU will be further augmented by technical assistance/ consultants who will bring a higher level of business orientation and professionalism to the programme (in respect of the business-oriented nature of the programme). In terms of overall responsibilities, the PMU is tasked with delivery of the programme and its performance; as well, key functions of the PMU relate to planning, coordination, facilitation and brokerage (amongst 4P stakeholders), and monitoring and evaluation. Given the scope of the proposed programme, key managerial positions within the PMU include a Programme Director, Deputy Programme Director, Agribusiness Manager, Rural Finance Manager and Finance (and Admin) Manager, heading competent staff within their respective units; specialists in areas of M&E and gender and youth will also form part of the PMU (the PMU organigramme is provided in the appendix).

130. In order to support specific interventions (e.g. as relates to institutional strengthening or capacity building or 4P facilitation where required), institutional service providers will be contracted by the PMU.

131. **Other partnerships**. In addition to the direct partnerships to be established under the 4P arrangements and with relevant public agencies, SAP will seek to establish strong and complementary linkages with the recently approved USD 125 million WB-financed Agriculture Sector Modernization Programme (WB-ASMP), under the Ministry of Primary Industries as lead agency. As conceived, SAP's specific target group comprises the rural poor and vulnerable; under the 4P model, these are largely individuals or informal groups/ organizations with limited capacities (in terms of organization, marketing, business and services-orientation). The WB-ASMP on the other hand, is supporting the development of agribusiness companies and eligible producer organizations who are already registered under the Companies Act, and which suggests that these are already mature and business-oriented institutions[26]. Whilst the SAP target group differs from the WB target group, they can however be organized, supported and strengthened to graduate to a level that they then become eligible for the WB support. With representation of the Ministry of Primary Industries in SAP's NSC, effective knowledge sharing between the two programmes and the opportunities to build linkages and synergies is expected. Finally, the SAP programme can also cooperate with the WB-ASMP in the area of policy engagement and dialogue.

[26] It is worth noting that the WB-ASMP matching grant facility is provided on a 50-50 ratio; with a minimum grant in the amount of USD 5000 (up to USD 75,000), the expectation is that the PO can mobilise an additional USD 5000 through own profits or credit; in either case, this suggests that the POs have a much greater capacity then the IFAD target group.

## C. Planning, M&E, learning and knowledge management

132. Extensive early planning and preparation by stakeholders, and subsequent rigorous assessment is part and parcel of programme implementation, as a means to promote sustainability in the financing of 4P business plans and towards building capacity of farmer groups for eventual transformation into farmer organizations and companies. As the model of 4Ps is still relatively innovative, a solid M&E system will be put in place to facilitate timely and responsive monitoring and decision-making, as well as learning for broader dissemination.

### Planning

133. The Annual Work Plan and Budget (AWPB) and Procurement Plan (PP) represents the outcome of the participatory and consultative planning process to be adopted by the SAP programme; they further serve as the instruments for identifying specific targets and activities; the AWPB and PP integrates management priorities for implementation, forecasts procurement requirements and facilitates the mobilization of staff and financial resources. The draft AWPB and PP is approved by the programme National Steering Committee (NSC) and subsequently submitted to IFAD for no objection.

### Monitoring and evaluation

134. The main purpose of an M&E system is to provide comprehensive, frequent and reliable data and information for sound result-based management and decision-making. It is thus intended to be management tool that can inform programme management of whether implementation is going as planned or corrective action is needed. Beyond that however, it should also contribute to the programme's learning agenda as to what works, what doesn't and why; and it should promote accountability – enabling the PMU to report to Government and IFAD on its performance and impact.

135. The programme M&E system will be based on the logframe and will report on the RIMS indicators; though the lower level performance indicators identified in the programme logframe may be further refined where necessary during implementation. All data will be disaggregated by sex and age where applicable, so as to be able to produce information on different target groups and beneficiaries (women, men and youth). M&E will be utilised as a management tool, and will include an assessment of progress and adoption of best practices and recommendations, identification of constraints and proposed remedial actions. Participatory M&E, including qualitative surveys and in-depth assessments, will be undertaken on a regular basis. The baseline situation will be established within six months of the programme becoming operational, though *for each 4P approved, specific baseline surveys will also take place*. Outcome surveys will be carried out on an annual basis, per guidelines development by IFAD's APR Division. The final impact evaluation will serve to assess the contribution of the SAP programme towards achieving the development objective, relying heavily, though not exclusively, on the rigorous monitoring and evaluation of the financed 4P schemes (sub-projects) and their results; a final survey will be conducted, which will collect data and information related to the RIMS impact-level indicators (household assets, child malnutrition, etc.).

136. The overall responsibility for M&E activities will lie with the Deputy Programme Manager of the PMU, assisted by two development assistants, who would collectively be responsible for collecting and analyzing the data. Data collection and inputting into the web-based system would be the responsibility of the Social Mobilisers, the 4P partners (companies, FOs), service providers and PFIs, on the basis of agreed reporting formats and timing. Specifically, in consideration of the 4P schemes and the attention to promoting FO-led 4Ps, M&E and RIMS training will be provided to those involved in the implementation of the programme (especially at the level of FOs).

137. The M&E system will be expected to generate comprehensive and reliable information to improve planning and decision making for results-based management during the programme life. The system will provide, and analyse, data on the following:

(a) Output monitoring; focusing on physical and financial inputs, activities and outputs;

(b) Outcome monitoring; assessing the use of outputs and measuring benefits; and

(c) Impact assessment; assessing impact for target groups in comparison with objectives.

138. Annual and quarterly reports would be produced which would contain data relevant to programme inputs (financial), outputs and emerging outcome/impact.

139. The M&E system will be participatory and decentralized; and all data, analysis and reporting would be disaggregated by sex and age where appropriate.

140. Progress reporting and evaluation formats would be designed to capture sex and age-disaggregated data at all levels and to record progress against the baseline data. Programme staff responsible for data collection and monitoring should be trained in understanding and applying gender analysis. A key role of the PMU's M&E Specialist would be to effectively integrate gender and youth specific indicators within the programme's performance measurement framework and to ensure programme stakeholders with M&E responsibilities have the awareness and skills to measure these gender and youth-specific indicators. Both the gender and youth strategies will also inform the M&E system and needs.

141. The Management Information System (MIS). The M&E system will be part of a larger MIS system to be developed within the first year of implementation, and which will serve as an information and knowledge sharing platform. The SAP-developed MIS system will integrate programme-based information (M&E data and fund disbursement), lessons learned, finance, inventory, task management, payroll management, leave management, microfinance data, etc. It is expected that all partners including the private sector companies, government agencies and other public users will be given access (with varying levels of user-permission) to the system once fully established, which contributes to enhanced knowledge management. The system would include some highly innovative features, such as an ‘app’ (application) developed specifically to feed the system, and which allows enhanced and efficient data collection in real time at the field-level (i.e. a data collection app). In complement, an SMS communication and broadcasting system will be developed to reduce the communication gap between field-level farmers and the programme.

### Learning and knowledge management

142. Learning and knowledge management are integral to the successful implementation and sustainability of the models and approaches to be promoted by SAP. By virtue of the multiple programme stakeholders, especially the 4P partners/ parties, knowledge sharing and management is critical for effective coordination, and towards instilling a lasting and sustainable model of partnership. This is also closely linked to the policy engagement efforts, which seek to ensure that the policy and regulatory framework is conducive. Subsequently, the analysis of data and information generated by the M&E system will be central to feed into knowledge management, and dissemination, learning events, and promotional, advocacy and policy forums are key activities to be pursued under the programme.

## D. Financial management, procurement and governance

143. The proposed financial management arrangements for the programme incorporate a number of measures intended to reduce risks to acceptable levels, ensuring that: (i) the programme funds and assets created are used for their intended purposes in an efficient and effective way; and (ii) reliable and timely financial reports are prepared and submitted to GoSL and IFAD.

#### Financial Management and disbursement arrangements

144. **Financial management**. Taking into consideration the experience of IFAD-financed project NADEP, a financial management assessment was undertaken during the second design mission in relation to the new SAP project. The assessment was guided IFAD's guidelines on assessing financial management risk at design and its findings are detailed in appendix 7. The overall project financial management risk is assessed to be Medium at design stage.

145. The Presidential Secretariat as the Lead Project Agency (LPA), will be accountable for the financial management of the project and for putting in place procedures meeting IFAD's fiduciary requirements to ensure that funds are used for the intended purposes.

146. **Organisation and staffing**. The existing NADeP PMU is expected to be retained/ transferred as a dedicated and autonomous PMU established under the Presidential Secretariat, though strengthened to include additional positions relevant to achieving the SAP project objectives. This PMU will be responsible for implementing all operational-level fiduciary functions. The Finance department of the PMU will consist of a Finance Manager, released on a full-time basis from the Government Service, to be assisted by a Deputy Finance Manager and two Accounts Assistants. The Finance department, reporting to the Project Manager, will take on the key functions of project administration.

147. **Fiduciary functions**. The PMU and Finance unit in particular, will be responsible for fiduciary functions that include: preparation of the Annual Work Plan and Budget (AWPB) and Procurement Plan (PP) (through the consultative process the technical/ operational departments, and project stakeholders); submission of applications to withdraw advances from the Designated Account to meet project expenditures based on available budgetary provision; release of adequate funds to project partners for undertaking project activities; preparation of withdrawal applications (WA) based on actual expenditure statements; preparation and updating the annual procurement plan, maintaining Fixed Asset Register (FAR) of the project, preparation of annual financial statements , preparation of quarterly financial reports for submission to IFAD and the LPA, maintaining the Audit Log and responding to the Auditor General on issues raised and action taken to resolve them with copy to IFAD within one month from the receipt of Management Letter / Detailed audit Report.

148. **Budgeting**. The PMU shall prepare mid-year its submission for the national budget to ensure timely appropriations of IFAD and GoSL funding in the autumn as part of parliamentary processes. The detailed annual budget, linking all the planned activities to component and cost categories outlined in the Financing Agreement will be prepared in consultation with project stakeholders and submitted to the National Steering Committee and IFAD for approval prior to year end. Monitoring of AWPB execution by the PMU will be ensured by automated financial reporting system. Interim financial reports will be submitted to IFAD on a quarterly basis, including a report of budget versus actuals.

149. **Disbursement arrangements and flow of funds**. A designated account (DA) in US Dollars will be opened at the Central Bank of Sri Lanka (CBSL), managed by the General Treasury. Two accounts for day to day operations, managed under dual signature by the Project Manager and Finance Manager, will be opened at Bank of Ceylon or another bank designated by the Borrower, respectively for IFAD and GoSL funded expenditure. The PMU will be responsible for ensuring the flow of funds from the Designated Account and General Treasury respectively, through imprest applications approved by the LPA, submitted via the Treasury to CBSL. A dedicated account will be opened at CBSL, operated by RDD, for operations under the line of credit. Fund transfer requests from the DA to the CBSL RDD account will follow the same approval mechanism as described above.

150. An initial deposit, agreed during negotiations and specified in the LTB, will be released by IFAD to the credit of the DA. Replenishments of the DA will be effected through submission of Withdrawal Applications (WAs) and accompanying Statements of Expenditures (SOEs), in accordance with IFAD procedures as set out in the LTB and Loan Disbursement Handbook. Other available disbursement methods will be direct payments – above a specified threshold – and reimbursements.

151. A start-up advance may be provided once the financing agreement has become effective, to facilitate implementation readiness activity pending satisfaction of the disbursement conditions specified in the financing agreement. The ceiling of the start-up advance will not normally exceed USD 300,000 and will be agreed at negotiations.

152. Transfers of grants to beneficiaries will be made by the PMU directly to beneficiaries' bank accounts, on the basis of certification by companies participating in the 4P schemes that goods or works have been duly received or completed.

153. Transfers to entities implementing SAP activities, including farmers' organisations, will be governed by legal agreements (MoUs or contracts). Transfers will be treated as advances, with monthly reporting on the use of funds, and these accounts will appear as reconciling items on the DA reconciliation statement until they have been accounted for and liquidated.

154. **Internal controls.** Today under NADeP, controls and procedures in place are adequate to address the needs of the proposed project. The Government Established Code, Financial Regulations and Administrative Circulars are followed, in addition to which project-specific procedures are documented and being integrated in the finance section of NADEP's PIM, which will form the basis of SAP's finance manual. Roles and duties for processing, reviewing, recording, custody and authorization of financial transactions under NADEP are appropriate segregated. Disbursement conditions for SAP will include IFAD's approval of the finance manual.

155. **Accounting.** NADEP's accounts are kept on a dual entry, accrual basis, following Sri Lanka accounting standards. Records are maintained timely and regularly. Counterpart funds are appropriately recorded and reported.

156. Accounting records are maintained manually in physical books with analysis performed using Excel. The prevalence of manual financial reporting systems has been a shortcoming of NADEP financial management to date. However a multi-project software package is in the process of being procured by the LPA to record NADEP accounts for the remaining implementation period and will be available for SAP financial reporting at start-up. The software will be customised to provide information useful to PMU management and meeting IFAD's requirements for financial reporting. The Auditor General has agreed to the automation of the project's accounts, subject to AG staff involvement in the installation and training of the software.

157. **Financial reporting.** The NADEP PMU has established financial reporting responsibilities that specify reports to be prepared and the frequency of production (monthly, quarterly, annually [audited]). The automation of financial records, as described above, is expected to significantly enhance the reliability of financial reports and the PMU's reporting capabilities, which for SAP will include submission of interim financial reports to IFAD.

158. The PMU's capacity to record in-kind contributions of private companies, beneficiaries and PFIs will need to be enhanced. In this connection, NADEP has recently created an MIS system which is kept updated by the Finance Unit as regards grant transfers to beneficiaries. The system will need to be improved as regards transfers under the credit line and will be adapted to SAP purposes at start-up.

159. **Internal audit.** Following a Government circular, all donor-financed projects must foresee internal audit arrangements. NADEP has recently recruited an internal auditor as part of the staff complement. This arrangement is expected to be reviewed to align with best practice, whereby the internal audit function would be segregated from project management. The LPA's Internal Audit unit will be requested to include SAP in its annual work-plan. The frequency and scope will be agreed during negotiations. Internal audit reports will be submitted to IFAD.

160. As for the line of credit, CBSL has an internal audit department which reports to the Monetary Board of CBSL.

161. **External audit.** The supreme audit institution, the Auditor General of Sri Lanka (AG), is mandated under the Sri Lanka Constitution to audit donor-funded projects, in addition to all accounts pertaining to government revenues and the use of public resources. In line with IFAD's guidelines, the scope of annual audits includes a review of the financial statements, designated account and expenditure reported in statements of expenditure.

162. Audit reports for IFAD-funded projects in Sri Lanka are generally submitted with some delay (two to four months) and do not always fully meet IFAD's standards and guidelines. However, communication between IFAD and AG has recently been strengthened and the timeliness and quality of audit reports is improving.

163. Under NADEP, IFAD has requested the AG to provide an opinion on the usage of resources under the 4P contracts, and a similar requirement is foreseen for SAP. Audit provisions will be included in MoUs with farmers' organisations and the Mahaweli authority.

164. The lines of credit managed by CBSL's RDD for NADEP are subject to annual audit. The SLA for the management of the line of credit under SAP will require an audit opinion pertaining to the operation of the SAP LOC.

165. **Financing terms**. If approved in 2017, IFAD financing to SAP will be on **Blend** terms and subject to interest on the principal amount outstanding at a fixed rate of 1.25% per annum, with a service charge of 0.75%. The loan shall have a maturity period of 25 years, including a grace period of five years. The simulated amortization schedule for repayment will be provided during Loan Negotiations. Under IFAD's newly adopted Single Currency lending framework, GoSL has expressed a preference to receive the loan in USD.

**Procurement arrangements**

166. **Procurement**. The SAP programme will adopt the National Procurement Guidelines that were drafted in association with major funding agencies such as the World Bank, the ADB and the JICA, and which are largely consistent with IFAD’s Procurement Guidelines and Handbook. However, in case of any inconsistency, IFAD Guidelines will supersede the National Procurement Guidelines. In addition, SAP will recruit a Procurement Officer within the PMU to support the programme and ensure alignment with the applicable procurement guidelines.

167. **Procurement plan**. As indicated by IFAD’s Procurement Guidelines, IFAD review of and no objection to the consolidated procurement plan is compulsory; the 18-month procurement plan and subsequent annual procurement plans must have been submitted by the PMU in advance. Any changes and amendments to the procurement plan shall also be subject to IFAD’s No Objection. Procurement related supervision for post review procurement actions will be done along with the annual Supervision Mission or Implementation Support/ Follow up Missions fielded by IFAD.

**Governance**

168. All procurement for goods, works and services financed from resources funded or administered by IFAD require bidding documents and the contracts to include a provision requiring suppliers, contractors and consultants ensure compliance with IFAD zero tolerance to anticorruption policy and to permit IFAD to inspect their accounts, records and other documents relating to the bid submission and contract performance, and to have them audited by the Auditor General.

## E. Supervision

169. SAP will be directly supervised by IFAD, with at least a yearly formal supervision mission to be fielded with the programme and Government participation. Emphasis will however be placed on providing implementation support missions on a more frequent basis, and especially during start-up and the first two years of programme implementation. A mid-term review is expected in year 3.

## F. Risk identification and mitigation

170. Implementation during SAP could be subject to several risks as presented in the Table below. Measures have subsequently been incorporated in design, to mitigate these risks.

**Table 3: Risks and risk mitigation**

| Risk | Risk before mitigation | Measures for risk mitigation | Residual risk |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Component 1 | | | |
| 1. Lack of responsiveness by private sector to social and environmental issues | Medium / High | - Company selection criteria include assessment of their social responsibilities<br>- 4P Baseline include these aspects<br>- Monitoring and reporting during 4P execution<br>- Trust building, participatory and consultative forum | Low/ Medium |
| 2. Contractual breaches (e.g. side selling) | Medium / High | - Sensitization and clarity for all partners, regarding the mutually beneficial nature of the 4P scheme<br>- Contractual clauses offering competitive market prices<br>- Private sector provision of services (including extension) and other types of support (e.g. for emergencies) to build trust and loyalty among farmers<br>- Dispute settlement arrangements<br>- Tri-partite agreements<br>- Avoid committing 100% of the production under 4P agreement | Low/ Medium |
| 3. Sub-quality of produce | Medium | - Provision of quality inputs with spot checks<br>- Coordination and advisory support from public R&D agencies<br>- Price differentiations by quality grade | Low |
| 4. Rising cost of inputs (and lower profit margins) leads to producers abandoning the 4P scheme | Medium / High | - Bulk buying of inputs with private sector support<br>- Promotion of technologies/ best practice to increase productivity (reducing unit costs)<br>- Reconsider the choice of crops looking for those with greater margins | Low/ Medium |
| 5. Crop failures and yield reduction | Medium | - Assessment of land suitability<br>- Promotion and training on good agricultural practices and management; complementary on-farm investments | Low |
| 6. Commodity market volatility | Medium | - 4P scheme assessed firstly on market demand and against market conditions<br>- Let the private sector lead the choice of markets/products: informed and mature private sector has best placed knowledge of the market | Low |
| 6. Unsustainability of rural organizations | Medium | - Selection based on organizational capacity assessment<br>- Participatory development of capacity development plans; related cap. bdg support<br>- Adoption of progressive and graduation approach (conservative) | Low |
| Component 2 | | | |
| 7. Credit and finance risks - default risk and moral hazard | Medium | - Tri-partite agreements and provision of mostly in-kind credit are expected to reduce the production, price, marketing and finance risks<br>- Sales proceeds to be directly paid into farmers' bank accounts, encouraging farmers to save and build a positive credit history<br>- PFI co-financing ensures strong credit appraisal and establishment of monitoring and recovery strategies | Low |
| 8. Non-materialisation of PFI co-financing | Medium | - Financial literacy training for potential clients to reduce PFI risk perception<br>- Provision of capacity building support to PFIs<br>- Sensitization and selection of PFIs based on assessment of capacity and willingness<br>- Make sure 4P business plans are viable and bankable<br>- Key role of the private company in ensuring an early involvement of PFIs | Low |

| Cross-cutting aspects (NRM/ climate change, gender, nutrition, policy, programme management) | | | |
|---|---|---|---|
| 9. Deteriorating climatic conditions (risk to production) and negative environmental impact | Medium/ High | - Screening of 4P proposals from environmental/ NRM perspective during appraisal<br>- Promotion of climate-resilient varieties and technologies/ practices<br>- Weather/ climate knowledge infrastructure (for producers and companies) – timely and verifiable information linked with MIS<br>- Monitoring of natural resource base and awareness raising regarding linkages between environmental conservation and farm profitability<br>- Post-harvest technology and infrastructure (storage) to reduce price risk | Low/ Medium |
| 10. Private sector's limited knowledge of gender issues | Medium | - Inclusion of a minimum set of gender equality standards in the 4P agreement (e.g. equal treatment, same wages for male and females with similar functions)<br>- Awareness raising and technical support provided by gender and youth-trained staff, social mobilisers, etc.<br>- Periodic gender assessments | Low |
| 11. Male domination over additional household income (generated by the programme) | Medium | - Awareness raising/ promotion of joint bank accounts with the both spouse names; PFIs to encourage/ reinforce<br>- Awareness raising/ promotion of joint decision making at household level<br>- Use support to organizations as entry point to address gender-based issues within the household | Low |
| 12. Little improvement in policy environment for equitable and sustainable smallholder-sourced agribusiness development | Low | - Regular policy fora and consultations with active participation by farmer/ producers, FOs and companies;<br>- Leadership from the Presidential Secretariat | Very low |
| 13. Implementation delays | Medium | - Retention of NADeP PMU (staff, institutional setting, etc.)<br>- IFAD direct supervision and implementation support | Very low |

# IV. Programme costs, financing, benefits and sustainability

## A. Programme costs

171. The total investment and recurrent costs, including physical and price contingences, is estimated at USD 105 million (LKR 17.1 billion). Table 4 below presents the programme costs by components; Table 5 shows the programme costs (including contingencies) by component and by year.

**Table 4: Programme Costs by Component**

| | (LKR '000) | | | (US$ '000) | | | % Foreign Exchange | % Total Base Costs |
|---|---|---|---|---|---|---|---|---|
| | Local | Foreign | Total | Local | Foreign | Total | | |
| 1. C1: Access to Commercial Partnerships | 7,573,226.8 | - | 7,573,226.8 | 51,170.5 | - | 51,170.5 | - | 51 |
| 2. C2: Access to Rural Finance | 6,455,967.3 | - | 6,455,967.3 | 43,621.4 | - | 43,621.4 | - | 43 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 803,730.0 | 51,504.0 | 855,234.0 | 5,430.6 | 348.0 | 5,778.6 | 6 | 6 |
| **Total BASELINE COSTS** | 14,832,924.1 | 51,504.0 | 14,884,428.1 | 100,222.5 | 348.0 | 100,570.5 | - | 100 |
| Physical Contingencies | 1,165.4 | 1,172.2 | 2,337.6 | 7.9 | 7.9 | 15.8 | 50 | - |
| Price Contingencies | 2,278,404.5 | 5,669.2 | 2,284,073.7 | 4,435.8 | 8.4 | 4,444.2 | - | 4 |
| **Total PROJECT COSTS** | 17,112,494.0 | 58,345.3 | 17,170,839.4 | 104,666.1 | 364.4 | 105,030.5 | - | 104 |

**Table 5: Programme Components by Year – Including Contingencies**

| | Totals Including Contingencies | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| 1. C1: Access to Commercial Partnerships | 13,834.6 | 15,672.8 | 11,074.5 | 7,114.4 | 3,106.0 | 2,661.1 | 53,463.4 |
| 2. C2: Access to Rural Finance | 17,537.3 | 12,120.9 | 5,694.7 | 2,711.9 | 3,256.7 | 4,104.5 | 45,425.9 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 1,331.1 | 984.5 | 950.4 | 970.9 | 943.9 | 960.3 | 6,141.1 |
| **Total PROJECT COSTS** | 32,702.9 | 28,778.2 | 17,719.6 | 10,797.3 | 7,306.5 | 7,725.9 | 105,030.5 |

## B. Programme financing

172. Of the forecasted total programme base costs, USD 51.2 million (or 51% of the total) will go to finance Component 1: Access to Commercial Partnerships; USD 43.6 million (or 43% of the total) to finance Component 2: Access to Rural Finance; and USD 5.8 million (or 6%) for Component 3: Programme management and Policy dialogue. The remaining USD 4.4 million are for contingencies.

**Table 6: Programme Components by Financiers**

| | IFAD Loan | | Private Financial Institutions | | Private Sector Partners | | Government (incl. taxes) | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| 1. C1: Access to Commercial Partnerships | 36,312.0 | 67.9 | - | - | 16,967.0 | 31.7 | 184.5 | 0.3 |
| 2. C2: Access to Rural Finance | 12,641.3 | 27.8 | 9,820.7 | 21.6 | - | - | 18,469.7 | 40.7 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 5,436.0 | 88.5 | - | - | - | - | 705.1 | 11.5 |
| **Total PROJECT COSTS** | 54,389.3 | 51.8 | 9,820.7 | 9.4 | 16,967.0 | 16.2 | 19,359.3 | 18.4 |

| | Beneficiary Contribution | | Total | | For. Exch. | Local (Excl. Taxes) | Duties & Taxes |
|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | | | |
| 1. C1: Access to Commercial Partnerships | - | - | 53,463.4 | 50.9 | - | 53,279.0 | 184.5 |
| 2. C2: Access to Rural Finance | 4,494.3 | 9.9 | 45,425.9 | 43.3 | - | 45,328.5 | 97.4 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | - | - | 6,141.1 | 5.8 | 364.4 | 5,416.5 | 360.2 |
| **Total PROJECT COSTS** | 4,494.3 | 4.3 | 105,030.5 | 100.0 | 364.4 | 104,024.0 | 642.1 |

173. The IFAD financing of USD 54.4 million (loan on blend terms) will fund 52% of total programme costs, of which the IFAD financing represents 68%, 28% and 89% of the financing for components 1, 2 and 3 respectively, as shown in Table 6 above.

174. Per the current costings, the contribution by the Government of Sri Lanka amounts to USD 19.3 million; this however comprises USD 18.5 million in reflows from previous IFAD-financed lines of credit (i.e. this is not 'new' financing or investment), which will go towards the SAP line of credit for on-lending to beneficiary smallholder farmers and youth; through the on-lending mechanism, these funds will eventually translate into beneficiary contribution, over and above the USD 4.5 million contribution from their savings and in-kind contributions.

175. The contribution of PFIs amounts to USD 9.8 million, which is in line with the strategy of leveraging PFI own-funds towards the available line of credit. Co-financing by the private sector partners under the 4P schemes is estimated at USD 17 million, which can take the form of contributions in cash, in-kind and working capital.

## C. Summary benefits and economic analysis

176. On the basis that the two main areas of investment by the programme are: (i) Access to Commercial Partnerships; and (ii) Access to Rural Finance, the main quantifiable benefits expected from improved market access measures comprises the following elements: (i) increased agricultural and off-farm production, resulting in higher incomes; (ii) production guided by value chain priorities with respect to farmer and producer organisations; (iii) greater variety of income and higher value-added products sold at consumer markets by producer organisations; (iv) increased income from short-term employment and self-employment for local villagers; and (v) greater value chain integration, with backward and forward market linkages, by target beneficiaries.

177. In terms of financial analysis, six combination crop and activity models illustrate the mix of crops at the household level and community level. Combination models over an area of one acre of arable land were used to illustrate the benefits of the programme for activities related to crop production, reflecting also the average plot-size of farms in the programme area, and to better reflect

the reality in the field, where mixed farming occurs. These models are presented in Appendix 10, though in summary, the programme is expected to increase household incomes by 63% on average.

178. Taking into consideration the benefit and cost streams, the overall programme analysis suggests an EIRR of 52% and an NPV of USD 349,708,192 over a twenty-year period. The gross value of production increases approximately by 56% from the without situation, while outflows increase 65%, including labour. Sensitivity analysis for a number of negative scenarios found the EIRR to remain robust with no negative returns in 11 scenarios.

## D. Sustainability

179. Overall, sustainability of the programme takes into consideration the rapidly developing context in Sri Lanka. The expectation is that at the end of the programme period, there is a very strong likelihood that the private sector and banking sector are able to continue to develop their relationships with farmers groups, and without the need for government or exteranal pdevelopment partner interventions. Effectively, SAP is facilitating the solid foundation and transition to sustainable 4Ps.

180. Through the mechanism of the 4P partnerships, sustainability is implicitly embedded into the programme; the sustainability of the 4P arrangement is further reinforced by the enhanced linkages to the formal financial sector (commercial banks) for rural/ microfinance. It is reasonably expected that the process of dialogue and negotiation between producers, their representatives and the private sector in finalizing the proposed BPs and in its implementation, is serving to build a culture of trust and normalize working relationships. As mutually beneficial arrangements, the mechanisms of the partnership will continue beyond the programme lifetime. Simultaneously, the promotion of rural finance linked to the 4P arrangement, is building the understanding and capacity of financial institutions (notably loan officers) to appraise small producer needs and requests, and changing mindsets towards accepting farming as a business. The range of 'partners' involved in the 4P scheme, is in itself, the exit strategy.

181. Sustainability of the 4P model will largely depend on the technical, financial and institutional capacity of producer groups/ organisations involved in implementing the programme; the commitment of the private sector partners and participating financial institutions to sustain the system; and the policy environment for equitable and sustainable smallholder-sourced agribusiness development. The attention to and provision of capacity building and institutional strengthening support across the components, matched by the support for policy dialogue, are the main approaches to instil a foundation for sustainability of the programme interventions.

182. At the level of producer/ farmers and their organizations, these participating organisations will be assisted and supported to increase their member services delivery capacity and their ability to manage and operate as business or entrepreneurial ventures starting from the first year. A sustainability 'action plan' will be introduced as part of the 4P model, jointly elaborated by the 4P partners (producers/ producer organizations and companies) to establish a road map for the duration and continuation of the partnership.

183. As regards financial services at the micro level, the SAP will seek partnerships with PFIs committed to the rural sector. The arrangements facilitated under the 4P investment plans are entirely geared at facilitating access to affordable financial services for farmers, and at maintaining good business relationships between farmers, agribusinesses and financial institutions. The ties are further strengthened through the continuous savings process of farmers. Furthermore, the interventions at the meso and macro level through capacity building support to CBSL and PFIs will serve to improve financial inclusion over the long-term. These are complemented by the policy dialogue and engagement, which will contribute to improve the policy environment, hopefully opening access to financial services further in favour of the rural poor.

184. The environmental sustainability and climate resilience of the activities initiated under the 4Ps are also taken into consideration and recommendations have been made, notably related to water

management, soil rehabilitation, agrochemical management and avoidance of common property exploitation (see SECAP review).

# Appendix 1: Country and rural context background

### Country background

1. **Economy and poverty**. In recent years, and following the end of the 26-year civil war in 2009, the Sri Lankan economy has continued to grow at a steady rate, averaging 6-7 percent up to the present day. Sri Lanka is now a lower middle-income country with a population of 20.5 million and per capita GDP of US$ 3,811, compared with US$ 2,400 in 2010. Whilst growth has contributed to poverty reduction, 32% of the population remain 'nearly' poor or 'poor' (25% of the population are 'nearly' poor, whilst almost 7% are defined 'poor'). Poverty headcount in 1990 was 24%, progressively declining to 8.9% in 2009/10 and 6.7% in 2012/13. The vast majority of poor (86.6% of the total) live [27]in rural areas and estates, with high dependency on the agricultural sector. Population groups most affected by poverty are agricultural smallholders, plantation workers, underemployed and landless labourers, particularly youth and women, and people engaged in micro-enterprise. In terms of the youth, they represent approximately 24% of the total population, and are the group with the highest unemployment rate, particularly among young women. Rural women in Sri Lanka enjoy better status and rights compared to other countries in the region but they are however confronted with limited economic opportunities. Women comprise 53% of the agricultural labour force often as unpaid family labour, yet traditional norms are biased in favour of men, resulting in obstacles to women's equitable access to resources (land, capital – including credit) and markets, and the control of assets.

2. **Food and nutrition security**. Over the last three decades, the food security situation in Sri Lanka has improved significantly over the years; according to the 2014 Global Hunger Index, Sri Lanka is now ranked 39 out of 76 countries and above all South Asian countries with a score of 15.1. However, whilst availability of food at the national level is secure, this does not necessarily translate to food and nutrition security at household level for all segments of the population, especially socially and nutritionally[28] vulnerable groups[29]. As well, under-nutrition remains a concern in Sri Lanka, reflected by a stunting rate among children under five years of age of 15% and a wasting rate in the same age group of 21%. In particular, the high rate of low birth weight (18%) is crucial as Low Birth Weight (LBW) is a major predictor of undernutrition. The high rate of LBW indicates also issues around gender imbalance and particular challenges with regard to maternal nutrition and nutrition of adolescent girls. In some areas, early marriages and consequently early pregnancies are of concern.

3. **Nutrition policy environment**. In October 2012 Sri Lanka joined the Scaling Up Nutrition Movement (SUN) and has since made considerable effort and progress to mainstream nutrition in a multi-sectoral approach and in partnership with the donor community. Today, there are a number of entry points to partner and engage in nutrition policy and its operationalization. At the time, Sri Lanka established an Inter-ministerial National Nutrition Council and a multi-sectoral National Steering Committee for Nutrition; nutrition was also one of the key priorities of the government "Mahinda Chintana" development plan. In addition, a National Nutrition Secretariat had been set up at the Presidential Secretariat to provide technical and coordinating support in collaboration with UNICEF. The National Nutrition Council (NNC) of Sri Lanka is chaired by the President, and the Additional Secretary of the Presidential Secretariat is the appointed SUN Government Focal Point. The National Steering Committee on Nutrition is the implementation body of the NNC that brings together 17 Ministries (including Planning, Agriculture, Fisheries, Livestock, Health, Women's Affairs/Empowerment, Education, Social Services, Poverty alleviation, and Trade and Industry) in close collaboration with civil society, non-governmental organisations, and is supported by United Nations (UN) Agencies. The Scaling Up Nutrition People's Forum is the established Civil Society Alliance that supports implementation of actions at the ground level with Save the Children as the

[27] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf
[28] Nutritionally vulnerable people are the ones with a particular demand on nutrients/nutrition support (e.g. children from 6 to 23 months, pregnant and lactating women)
[29] For example, the most recent comprehensive food security and vulnerability assessment (CFSVA), undertaken by WFP and GoSL in April 2012, determined that 1.3 million persons in the Northern and Eastern Provinces were still food insecure.

main implementing partner. Recently, a Media Awareness Forum was conducted to sensitise stakeholders from the media industry; including editors, journalists, program directors, television and radio presenters and to discuss the ethics of media in advertising campaigns and nutrition awareness.

4. The National Nutrition Policy (NNP) 2010 – 2018 provides a platform for inter-sectoral coordination in order to accelerate efforts to achieve optimum nutrition for all. The NNP is linked with a workable National Nutrition Strategic Plan (2009) which identifies the key health related and non-health interventions aimed at improving nutritional status. A multi-stakeholder NNP Review Committee has been established and a meeting was convened to finalise the Terms of Reference (ToR). The ToR outlines the Committee's role to critically evaluate the NNP and ensures that the NNP is aligned with the Global World Health Assembly Targets 2025 and the Sustainable Development Goals (SDGs), with strengthened mechanisms for implementation. Nutrition is also mainstreamed in the sectoral policies, including: National Agriculture Policy; National Livestock Development Policy and Strategies; School Canteen Policy; Non Communicable Disease Policy; and Early Child Care Development Policy.

5. Draft Advocacy Action Plans for Civil Society Organisations are under development on the specific themes of Food Security and Communication for Better Nutrition. The national legislation covers the Food Act, salt iodisation, food labelling, food advertisement, consumer protection and the International Code of Marketing of Breast-Milk Substitutes. Maternity leave covers 6 months pay in the public sector and 3 months in the private sector. The Multi-sectoral Action Plan on Nutrition (MsAPN) is the Common Results Framework (CRF) that sets targets and milestones to reduce the prevalence of under-nutrition, anaemia and stunting amongst key population groups, as well as to improve food security and provide access to safe water, sanitation and hygiene to households-at-risk. The MsAPN has been jointly agreed upon by the 17 Ministries and in-country partners. Currently, the MsAPN is being reviewed by experts to avoid dilution, foster prioritisation and enhance on-going nutrition related activities at the national, provincial, district and divisional levels. The national multi-sector institutional environment is also reflected at the provincial level in two provinces; its expansion to all nine provinces is expected. A monitoring cell will track the overall implementation based on the World Health Organisation results-based framework, and have been agreed by line ministries to facilitate joint analysis of information gathered. A monitoring guidance note was also developed to be used at the district level and a database is being created to monitor activities. The MsAPN has been partially costed. Nutrition specific interventions of this plan are being costed with the help of the World Bank through the One Health Tool. Financing is provided by different sources including government and donors. A dedicated budget line for nutrition was opened up in the Ministry of Health and the finances were allocated from the Treasury. In order to implement the MsAPN, each ministry was instructed by the Treasury to create a separate budget line for nutrition, through a pooling of resources (public-private partnerships, allocations from provincial funds).

**Rural and agricultural sector**

6. **Policy direction and institutional issues**. Following the 2015 elections, the newly established Ministry of Policy Planning and Economic Affairs coordinates official development assistance in the country, ensuring alignment with the national priorities for development. The Government of Sri Lanka (GoSL) in its recent budget speeches, have set key targets related to poverty reduction, including the creation of 1 million job opportunities and raising per capita income to US$ 4,000. For the agricultural sector in particular, the strategic orientation is to achieve sustainable improvements in production through increased productivity, sustained incomes for producers and enhanced market competitiveness. This calls for development assistance to promote increased productivity, adoption of good agricultural practices, diversifying products and markets, and enhancing linkages to the private sector. As part of these efforts, the Government has indicated a keen interest to build capacity of existing produce/ farmer organizations such as those established under the Mahaweli system, to serve as a key entry point and catalyst for agricultural modernization and transformation.

7. **Characteristics of the rural and agricultural sector.** Sri Lanka's agricultural sector is characterised by the plantation (mainly tea, rubber and coconut) and non-plantation cropping sub-

sectors (mainly rice, maize, fruits, vegetables and other crops grown in small-holdings), and despite declining share in GDP (11% in 2012), remains the backbone of the economy and an important source of employment, engaging one third of the labour force. Since 2006, the sector has served to contribute to poverty reduction, driven by increasing agricultural wages, increases in domestic food prices, and increasing international price for tea (a major export commodity); subsequently, this has led to higher wages and improved returns to self-employed farm labour. However, the sustainability of these gains are not assured and will remain modest unless there is complementary improved agricultural productivity and modernization of the sector with further diversification, improved commercialization and value addition. With regards to the sector, the Government's primary concerns include: low and declining productivity; misuse of agrochemicals (including fertilizer) which affects water supply and food quality; the practice of inappropriate technologies; poor water management; and lack of market competitiveness due to poor quality products and inadequate food safety measures.

8. **Climate change and environmental considerations**. Climate change has impact on Sri Lankan rural agriculture mainly through the changes in seasonality of precipitation. The monsoon rains occur in a bi-modal pattern every year; in between the two main monsoons, there is inter-monsoon precipitation which occurs in all the coastal regions and of sporadic intensity. Precipitation replenishes the extensive river and reservoir system which serves as the backbone for agricultural water requirement in the dry periods island-wide. Based on field observations, cropping patterns and decisions do not incorporate alternatives that could be attributed to climate change. However, there is increasing evidence of delays in planting decisions (sometimes as long as for four weeks in the life of a 12-week crop) due to variations in the precipitation pattern. Climate change introduces a substantial variability in the annual precipitation ranging from 800 to 5000 mm.

9. Drought tolerant and flood/salinity resistant varietal development has been an agronomic priority for crop development at the national policy and institutional research level (especially at Rice Research and Development Institute and Field crop research and development institute). For rice and field crops, there had been development of drought-tolerant varietal development in terms of the water requirement and the length of the crop cycle. It should be further noted that prolonged droughts have implications for livestock husbandry in terms of direct water requirement, ambient temperature and water for fodder establishment.

10. The agricultural sector in Sri Lanka contributes to carbon emissions through deforestation for agricultural land use and land management practices (i.e. fertiliser, soil carbon stocks) mainly. The poor transport logistics and poor road infrastructure contribute to agriculture-related emissions indirectly.

11. **Market opportunities**[30]. Despite some of the challenges faced in shaping the agricultural sector to be more competitive, there is significant market potential for Sri Lankan agricultural products, to serve both the export and local markets. A rapid market analysis as a measure to support the identification of key value chains with high potential, primarily takes into consideration the market 'destination' – i.e. (i) export-oriented value chains/ sub-sectors; and (ii) local (national)-oriented value chains/ sub-sectors. In terms of exports, the value chains for fruits (mango, pineapple, passion fruit and papaya), vegetables (green chili, jalapeno pepper, low-country vegetable such as bitter and snake gourd), protected vegetables (gherkins, bell pepper, cucumber and tomato), spices (pepper, cinnamon, clove and nutmeg), and other sub-sectors such as seaweed, honey and sesame seeds, offer high potential to meet export market demand. Per 2015-2016 data, the key export markets for Sri Lankan produce are the EU, Middle East and Maldives (in recent years, Sri Lanka annually exports more than USD 6 million in fruits and USD 1 million in vegetables); as well, the spice sub-sector has an export market that includes Japan, the United States and Middle East countries (USD 630,000 in annual exports). These export markets are capable of absorbing more Sri Lankan produce.

[30] See Appendix 4, Annex 3 for the Identification of Agribusiness Opportunities and Markets in Selected Value Chains (incl. detailed market analysis of each potential value chain) and list of potential commercial partnerships with private sector companies.

12. The private sector is well cognizant of the market potential, and are demonstrating willingness to partner with smallholder farmer/ producers in order to more effectively respond to the market opportunities, and which has win-win benefits; the majority of these private sector companies are larger companies, including supermarket chains, processors and exporters. Promoting the partnership between smallholder producers and the private sector in the first instance, assesses the market potential/ opportunities (economic criteria) as an underlying and key factor, which is further strengthened by social and environmental considerations.

13. **Producer/ farmer organizations**. The rural landscape in terms of the organization, organizational structure and cohesion amongst farmer/ producers is mixed. Officially, more than 15,000 farmer organizations (FOs) have been established nationally, registered under the Agrarian Development Act No. 46 of 2000 and falling under the mandate of the Department of Agrarian Development; a further 1007 organizations have been established under the Mahaweli irrigation scheme (which covers more than 450,000 ha or 30% of Sri Lanka's land mass), initially with the primary purpose of managing water-use, and are registered by the Mahaweli Authority of Sri Lanka (MASL). There are several other organizations registered under the Companies Act No. 7 of 2007 as limited liability companies and farmers' / traders' associations. Also there are few farmers / traders co-operatives registered under the Co-operative Societies Act. As well, there exist countless forms of 'groups' or 'societies' at village and community levels, some of whom are registered under the Voluntary Social Service Organizations (Registration and Supervision) Act No. 31 of 1980 (amended Act No. 8 of 1998), though many of whom remain informal and un-registered.

14. As a commercialization effort, there have been several farmer companies as peoples' companies under the Company's Act (this provision was taken off with the 2007 amendment to the Company's Act) established in the country during the period 1980 – 1990, with the patronage of state agencies like the Department of Agriculture, Ministry of Irrigation, Department of Export Agriculture, Sri Lanka Export Development Board (SLEDB) and the MASL. People's companies by Act were safeguarded against possible private ownership by imposing restrictions on membership and share trading. Only farmers and other stakeholders involved in agriculture living within a particular geographical region can become shareholders and shares cannot be traded except among farmers eligible for membership. In addition, the maximum number of shares one can own was limited to 10% of shares issued at a given time according to the relevant provision of the Act. The progress to-date of these companies, however has been rated poor according to these agency sources; in fact most of these companies have ceased to exist (note that only one company out of 35 peoples' companies established by the SLEDB exists today). However, there are few farmer associations, registered under the Companies Act No. 7 of 2007 are in good operation currently which includes Marginalized Organic Producers' Association, Laksawi Group Pvt Ltd. and The Lanka Fruit & Vegetable Producers, Processors and Exporters Association. Also there are a few farmer cooperatives successfully involved in agribusiness. These include Small & Medium Organic Agriculture Farmers' Cooperative and Nuwara-Eliya Foliage Cooperative. Products handled by these organizations include foliage, cut flowers, fruits & vegetable, seed paddy, vergin coconut oil, dairy and dry fish, all as producers/manufacturers and most as marketers in the local market with a few catering to export market through established exporting companies. There are about 15 such organizations currently in operation, membership of them varies from 100 – 500. It is evident that some of these organizations have been in business for more than five years with acceptable financial standing.

15. Acccording to MASL records, out of 1,007 FOs, 36 have reached a level of business enterprise, having reasonable assets built-up with processing machinery, warehousing, goods transport vehicles, etc. There are 150 FOs categorised as 'enterprising FOs'. Some of these FOs are engaged in various businesss activities in agricultural value chains (fruits & vegetable, dairy, paultry, goat farming, seed production etc.) and few have gone for value-addition (youghut). The average membership is around 120 per FO. MASL recognizes that FOs in Systems B, C, H and Walawa are ahead of others in business enterprising.

16. Business oriented Community-based Organizations. Business is carried out in some cases by other forms of community organizations registered under the Voluntary Social Service Organizations (Registration and Supervision) Act No. 31 of 1980 (amended Act No. 8 of 1998). No restrictions for these organizations to engage in businesses but they are not recognized as legal business entities for bank financing and contracting. There are exceptions, but in such most cases business achievements dependent on the person managing the institution. This paper does not attempt to make a situation analysis of these institutions.

17. Whilst no comprehensive maturity assessment of these various organizations / institutions (both formally registered and informal) has been undertaken, in terms of their functions and services to members, and vis-à-vis their marketing capacities and strategies, the overwhelming majority are relatively immature or nascent. Furthermore, the process of registration of rural organizations is cumbersome and lacks clarity, and once registered, these rural organizations do not benefit from regular monitoring and support. The exception are those FOs registered by MASL, who are being monitored by MASL field officers; whilst this monitoring has mainly been related to their water management capacities, the MASL has recently strengthened its monitoring of FO economic activities and member services performed. MASL's annual performance rewards scheme, presents a tool to screen better-performing FOs and to assess their maturity and financial status.

18. **Main challenges faced by smallholder farmer/ producers**. IFAD has historically targeted rural households with low income levels equivalent to approximately USD 70 - 150 per month, per household. Within the rural sector, this group face multiple challenges which overwhelmingly includes limited access to the following: land, technologies, extension services, markets and access to credit through formal systems; this subsequently leads them to be characterised by indebtedness to moneylenders and further exacerbates the lack of access to land in terms of forgone rights to farm their land (used as 'collateral').

## Financial market review

19. **Financial sector landscape**. There is growing recognition that the shift towards transformation of the rural/ agricultural sector precipitates a need to mobilise investments, notably facilitated by the formal financial sector. Sri Lanka's financial sector system is relatively diverse, and consists of a wide range of service providers, including: (i) formal financial institutions, comprising 25 licensed commercial banks (LCBs); 7 licensed specialized banks (LSBs); 46 licensed finance companies (LFCs) and 7 specialist leasing companies (SLCs); (ii) semi-formal institutions (co-operatives, NGO–MFIs, CBOs, and state programmes such as Samurdhi); and (iii) informal sources of finance such as money lenders and rotating savings and credit associations.

20. Although a large number of LCBs exist, the stability of the financial system is primarily dependent on the performance and financial strength of the 6 largest LCBs, consisting of two state banks and four private domestic banks. The LCBs own 49% of the total formal financial sector assets as compared to LSBs with 9.1%; the LFCs and SLCs own 6.7% and 0.6% of the total assets of the financial sector respectively, as shown in the table below.

**Table 1: Total assets and deposit liabilities in the formal financial system as at end December 2014 (a)**

| | Assets | | Deposits | |
|---|---|---|---|---|
| Financial Institution | Rs. bn. | % share | Rs. bn. | % Share |
| Central Bank of Sri Lanka | 1,464.3 | 12.2 | n.a | n.a |
| Institutions Regulated by the Central Bank | 8,016.4 | 66.6 | 5,100.3 | 98.2 |
| Deposit Taking Institutions | 7,751.7 | 64.4 | 5,100.3 | 98.2 |
| Licensed Commercial Banks | 5,884.6 | 48.9 | 3,976.8 | 76.6 |
| Licensed Specialized Banks | 1087.5 | 9.0 | 709.6 | 13.7 |
| Licensed Finance Companies | 779.6 | 6.5 | 413.9 | 8.0 |
| Other Financial Institutions | 264.7 | 2.2 | n.a. | n.a. |
| Primary Dealers | 191.1 | 1.6 | n.a. | n.a. |
| Specialized Leasing companies | 73.6 | 0.6 | n.a. | n.a. |

| | | | | | |
|---|---|---|---|---|---|
| Institutions not Regulated by the Central Bank | | 2,560.7 | 21.3 | 94.5 | 1.8 |
| | Deposit Taking Institutions | 112.4 | 0.9 | 94.5 | 1.8 |
| | Rural Banks *(b)* | 103.5 | 0.9 | 89.6 | 1.7 |
| | Thrift and Credit Co-operative Societies *(b)* | 8.9 | 0.1 | 4.9 | 0.1 |
| | Contractual Savings Institutions | 2,272.9 | 18.9 | n.a | n.a |
| | Employees' Provident Fund | 1,486.9 | 12.3 | n.a. | n.a. |
| | Employees' Trust Fund | 199.1 | 1.7 | n.a | n.a |
| | Approved Private Provident Funds *(c)* | 134.2 | 1.1 | n.a | n.a |
| | Public Service Provident Fund | 41.0 | 0.3 | n.a | n.a |
| | Insurance Companies *(d)* | 411.7 | 3.4 | n.a | n.a |
| | Other Financial Institutions | 175.5 | 1.5 | n.a | n.a |
| | Stock Broking Companies *(e)* | 11.3 | 0.1 | n.a | n.a |
| | Unit Trusts/ Unit Trust Management Companies *(e)* | 128.6 | 1.1 | n.a | n.a |
| | Market Intermediaries* *(e)(f)* | 29.6 | 0.2 | n.a | n.a |
| | Credit Rating Agencies *(e)* | 0.3 | 0.0 | n.a | n.a |
| | Venture Capital Companies | 6.2 | 0.1 | n.a | n.a |
| **Total Assets** | | **12,041.4** | **100.0** | **5,194.8** | **100.0** |
| Source: Central Bank of Sri Lanka<br>n.a.: not available | | | | | |

21. The importance of LSBs is relatively low in comparison to the LCBs, both in terms of size and their impact on financial intermediation, as they do not play a major intermediary role in the payment system. 91% of total deposits were held by the LCBs and only 9% by LSBs and SLCs. About 65% of sources of funds of LCBs are constituted by deposits and 22% by borrowings. Time deposits and savings deposits constitute 57.7% and 31.2% of total deposits respectively, which indicates yield consciousness on the side of the depositors.

22. The NPLs of the banking sector stood at 3.4% and the total capital adequacy ratio (CAR) declined from 16.6% to 14.2% in 2015. The Statuary Liquid Asset Ratio (SLAR) of domestic banking units decreased by 566 basis points during the year as a result of increased lending activities in this year. This was also reflected in the loans-to-deposits ratio of the banking sector, which increased to 87.3% at the end of 2015, up from 83.1% in 2014[31]. The average weighted deposit rate (AWDR) stood at 6.4% and the interest spread was in the range of 3.5% to 14% for the lending rate. While the lower krate reflects government or donor initiated and funded programmes with prescribed margins, the latter is the lending rate of clients not well known and without sufficient collateral and/or track records.

23. The number of LFCs and SLCs in Sri Lanka grew at a rapid pace in the last decade, largely backed by a high growth momentum and credit demand in the economy. In the last 4-5 years however, many of these institutions grappled with operational and governance problems which had a negative impact on the asset quality and profitability of the overall financial sector in Sri Lanka. In order to improve the state of financial health of the concerned financial institutions (FIs), in 2013-14, the Central Bank of Sri Lanka (CBSL) rolled out the blueprint for consolidation in the LFC and SLC segment to strengthen the balance sheets of the beleaguered FIs. However, there is little analysis publicly available on the impact of it on these measues on the FIs.

**Table 2: Selected performance indicators of LCBs and LSBs**

| | 2013 | 2014 |
|---|---|---|
| **Licensed Commercial Banks** | | |
| 1. Capital Adequacy Ratio - Tier I Capital Ratio (%) | 14.3 | 12.6 |
| 2. Capital Adequacy Ratio - Total Capital Ratio (%) | 17.5 | 15.6 |
| 3. Gross NPA as a % of Total Loans & Advances | 5.2 | 3.6 |
| 4. Net NPA as a % of Capital Funds | 24.4 | 13.1 |

[31] CBSL Annual Report 2015

| 5. Sectoral Credit Distribution (%) | | |
|---|---|---|
| Agriculture & Fishing | 12.2 | 10.5 |
| Manufacturing | 11.8 | 11.9 |
| Tourism | 2.9 | 3.5 |
| Transport | 2.9 | 2.8 |
| Construction | 12.4 | 13.1 |
| Traders | 16.9 | 17.3 |
| New Economy | 1.2 | 1.5 |
| Financial & Business Services | 4.0 | 5.0 |
| Infrastructure | 6.5 | 7.9 |
| Other Services | 3.1 | 3.7 |
| Other Customers | 26.2 | 22.9 |
| 6. Return on Assets (%) | 2 | 2.1 |
| 7. Return on Equity (%) | 17.4 | 16.8 |
| **Licensed Specialized Banks (LSBs)** | | |
| 1. Capital Adequacy Ratio - Tier I Capital Ratio (%) | 20.6 | 17.3 |
| 2. Capital Adequacy Ratio - Total Capital Ratio (%) | 18.6 | 15.7 |
| 3. Gross NPA as a % of Total Loans & Advances | 9.3 | 9.5 |
| 4. Net NPA as a % of Capital Funds | 37.6 | 45.9 |
| 5. Return on Assets (%) | 1.0 | 1.7 |
| 6. Return on Equity (%) | 8.6 | 15.1 |

(Source: CBSL)

24. The informal sector includes thrift and credit societies, moneylenders, credit cooperative societies, micro finance institutions (MFIs), donor-initiated village savings and loan associations and rotating savings associations (chit funds). These institutions are not regulated by the Central Bank (the new Microfinance (MF) Act has not been implemented) and are mostly self-regulated or at times under various government ministries and departments, namely the Department of Divineguma which is a consolidation of the Samrudhi Authority, Southern Development Authority, and the Udararata Development Authority. The department of Divineguma holds 64% of the total informal financial assets, which is estimated to be 1%[32] of the overall financial assets of the country. The table below shows some key performance indicators for the microfinance sector. The entire MF sector serves less than 6% of the largest commercial bank in the country.

**Table 3: MF sector in Sri Lanka 2014-2015**

| | NBFIs | Guarantee Companies | NGOs | Private/Public companies | Total |
|---|---|---|---|---|---|
| Number of Institutions reporting | 2 | 6 | 13 | 14 | 35 |
| Active borrowers | 305,191 | 94,452 | 45,379 | 200,829 | 645,851 |
| Gross loan portfolio (in LKR million) | 28,892 | 2,127 | 1,360 | 4,461 | 36,777 |
| Active women borrowers (in %) | 70.5 | 83 | 93 | 92 | 80 |
| Total staff | 1308 | 382 | 778 | 1,170 | 3638 |
| Total assets (in LKR million) | 34,289 | 2,443 | 2,500 | 5,307 | 44,539 |
| OSS (Median) in % | 119.7 | 104.7 | 106.52 | 109.81 | |
| PaR (Median) in % | 9.63 | 3.8 | 3.01 | 1.95 | |

(Source: Lanka Microfinance Association & Ministry of Finance)

25. The above data further show that Non-Banking Financial Institutions (NBFIs) have the largest outreach in terms of number of borrowers and loan outstanding, second to public/ private companies and NGOs. The challenge for NBFIs is to maintain their portfolio quality. The skills gap in terms of loan appraisal, suitability of products and services and high interest rates are some of the reasons for

[32] MF Annual Review 2014

default. The average loan outstanding is LKR 56,943 (USD 320); this loan is mostly for a short term period (6 months), for trading or other enterprises with high turnover.

**Table 4: List of regulatory and supervisory institutions**

| Type of FI | Regulatory Body | Main governing Act |
|---|---|---|
| Licensed Commercial Banks | Central Bank of Sri Lanka (CBSL) | Banking Act |
| Licensed Specialized Banks | CBSL | Banking Act |
| Licensed Finance Companies | CBSL | Finance Business Act |
| Specialized Leasing Companies | CBSL | Finance Leasing Act |
| SANASA - Thrift and credit cooperative societies | Department of Cooperative Development (DCD) | Cooperative Society Act (CSA) |
| Cooperative Rural Banks and other cooperative societies | DCD | CSA |
| Farmer organizations | Department of Agrarian Development | Agrarian Development Act |
| Dept. of Divineguma | Divineguma Development Department | Divineguma Act |
| MFI companies & NGO MFIs | CBSL and NGO Registrar | Microfinance Act 2016[33] |

26. **Regulation and supervision**. The banking sector in Sri Lanka is regulated and supervised by the Central Bank of Sri Lanka (CBSL). LCBs, LSBs, LFCs and SLCs fall under the purview of CBSL. The new Microfinance Act, passed in July 2016, is expected to be operational by 2017. The Act provides for two sets of MFIs, including MF companies which would be regulated by the CBSL, and NGO-type MFIs which are to be regulated by the NGO Secretariat. Thrift and credit societies and cooperative rural banks are under the regulation of the department of cooperative development. In addition, a movable collateral registry law is being drafted and is expected to be passed in 2017.

27. Worker's remittances grew by 9.5% to USD 7,108 million in 2014 compared to USD 6,407 million in 2013[34]. The remittances remained the foremost and stable exchange earner of Sri Lanka. However, due to the decline in oil prices and the increasing budget deficit of gulf economies, it is expected that remittances inflow to Sri Lanka will decline in 2015-2016.

28. Nearly 10% of Sri Lankans (about two million) are migrant workers, and their remittances account for about 6% of GDP. The vast majority of senders come from rural areas. One of the commercial banks, Hatton National Bank (HNB), channels about twenty per cent of official international remittances, making it the second largest channel in the country. HNB has opened offices in several Gulf countries and India (where over 60% of Sri Lankan remittances originate), reduced fees for migrant workers who transfer money to HNB accounts in Sri Lanka and linked savings and loan products to these flows. An IFAD grant funded pilot programme developed a tailored savings scheme for migrants and their families in rural areas (women in particular), offering a safe and affordable way for them to send money home by transferring directly into a recipient's savings account. However, as the farmers to be supported under the SAP are not those that are currently working overseas, and as there is no systematic link between overseas workers and the members in farmer groups to be selected under SAP, it will not be possible under SAP to establish a systematic link between remittances and investment finance. However, alternative options to mobilise remittances as a source of funding for business plans of target groups will be explored during project implementation, and this can be promoted through the financial literacy trainings.

29. Despite the comparatively high penetration of basic financial services, Sri Lanka lags in financial inclusion parameters such as credit penetration, life insurance penetration, pension coverage as well as credit access for small businesses and farm-based activities when compared to India and other south Asian countries. Overall, 79% of the people have bank accounts with FIs but only 29% out

[33] The operating guidelines to govern these institutions are being developed by CBSL
[34] Ministry of Finance annual report

of that borrowed and only 3.1% borrowed for farm or business activities35 which is much lower than the south Asian average of 8.6%. The majority of the loans and advances go for consumer credit, which is also validated by the fact that 97%36 of Credit Reference Information Bureau (CRIB) issued reports was on consumer credit.

30. As at end 2015, loans outstanding to agriculture were 9% of total loans, of which 5.9% points were for short-term lending, 1.9% for medium term and only 1.2% for long term lending37. In terms of interest rates, commercial banks are lending mostly at 14-19%. While the CBSL requires banks to lend at least 10% of the portfolio to the agriculture sector, the majority of these loans are granted to large-scale farmers and farm-based agribusinesses. The MF sector lending is primarily geared towards lending to small-scale farmers and business. Furthermore, it is estimated that 30%38 of the lower segment (small-scale farmers) have been flagged by CRIB, due to defaults or having acted as a guarantor to a defaulter. Once individuals are flagged under CRIB, any individual future credit becomes virtually impossible to obtain39 as they become blacklisted.

31. The supply-side constraints to lending to the agriculture sector are due to the risk perception of the banks incurred in agriculture, high transaction costs, liquidity shortages, information asymmetry and ultimately the operational capacity of banks to lend to smallholder famers. With some exceptions, the do not have the physical infrastrure and manpower to handle thousands of small scale loans. The demand-side constraints are primarily related to the perceived high interest rates40, complex credit procedures resulting in delays in disbursement, immovable collateral-based lending and the poor attitude of the banking staff in serving the sector. Some of the more dynamic banks have stated to overcome this by working with supply chains, disbursement of loans in kind to suppliers and the distribution of simple debit cards to farmers, which will receive the net amount of their sales after deduction of loan capital and interest due through their debit cards, The more innovative and dynamic banks are keen to expand their services to the agricultural sector, have trained their staff on good micro and agricultural finance practices and see programmes such as the SAP as good entry points. For these banks, the key constraint is liquidty for lending.

32. The comparatively high interest rates charged by the banks are linked to the high yield on government securities. The median and mean of treasury bills (T-bills) yield rates since 1996 to 2016 are 11.7% and 11.6% respectively. This has been further aggravated by a comparatively high budget deficit, which is seen by many as unsustainable. Sri Lanka's recorded budget deficit was 7.4% of the country's Gross Domestic Product in 2015. The government budget deficit in Sri Lanka averaged -7.6% of GDP from 1990 until 2015, reaching an all-time high of -5.4 percent of GDP in 2013 and a record low of -10.2 percent of GDP in 2001[41]. In the medium term, the T-Bill yields are not expected to decline, as government will keep borrowing to fund the government budget deficit.

**Table 5: Key determinants of the financial sector**

| Key determinants of the financial sector | 2015-16 (%) |
|---|---|
| Inflation rate | 0.9 - 4 |
| Budget Deficit | 7.4 |
| T-Bills Rate | 11.38 |
| AWDR | 6.38 |
| Commercial lending rate | 14-18 |
| Non-Performing Loan (NPL) rate | 3.4% |

[35] World Bank Global FINDEX Indicators 2014 data. All population figures include age 15+ years only
[36] CBSL Annual report 2015
[37] CBSL Annual report 2015
[38] 30% of the NADeP smallholder famers dropped out of the programme due to CRIB report
[39] Commercial banks downgraded their product and services to the lowest segment without the necessary skills to lend to this specific market segment; the misalignment and limited financial education, resulted in increasing defaults by 2010
[40] The lending rate of LCB and LSCs are in between 12-18%, and MFIs interest rate is between 22%- 52%
[41] tradingeconomics.com/sri-lanka/government-budget

33. The high yield on government securities provides less incentive for FIs to lend money. At this rate, much of the lending to the agriculture sector is not sufficiently profitable to offer good shareholder returns, and even less so if the operating costs of lending are higher than average.

34. **Demand for credit**. As discussed above, the lower income brackets of the population suffer from inadequate access to reliable and sustainable sources of financing. Despite the high credit to deposit ratio, the domestic credit to the private sector as a percentage of GDP is only 40.3% in Sri Lanka, which is lower than in India (53%) and Bangladesh (44%). This indicates that domestic credit is not adequately available to the private sector enterprises, particularly micro, small and medium enterprises (MSMEs). In 2012, the total credit gap for MSMEs in Sri Lanka was estimated at USD 3.5 billion[42], which is likely to have slightly widened since then.

**Table 6: Key determinants of liquidity**

| **Key determinants of liquidity** | **2015** | **2014** |
|---|---|---|
| Bank Liquid Reserve to Bank Asset Ratio | 5.73 | 10.4 |
| Gross Savings (% of GDP) | 27.9 | 29.4 |
| ***LCBs*** | | |
| Credit to Deposit Ratio | 87 | 83.1 |
| Borrowing to assets | 21.7 | 20 |
| ***LSBs/LFCs*** | | |
| Credit to Deposit Ratio | 165 | 145.8 |
| Borrowings to assets | 31 | 26.6 |

35. The banks' liquid reserve to bank asset declined to 5.73%, extending further pressure on available cash. Banks' credit to deposit ratio is very high and only just complies with minimum regulatory requirements. Borrowing by the banks are at a moderate level, which is only 21% and 31% of the total asset for LCBs and LSBs/ LFCs respectively. At present, the available deposits clearly cannot drive the loan portfolio growth for the agriculture sector.

36. The gap between demand and supply can primarily be attributed to the inability or unwillingness of FIs to supply additional credit at current interest rates, on the one hand, and the unwillingness of smallholders or entrepreneurs to borrow at the prevailing interest rates. This, in turn, has been perpetuated to a large extent by the high borrowing by the government, mopping up the liquidity and reducing the incentive for FIs to lend to what is perceived as a difficult and risky market.

[42] IFC SME finance Gap for Sri Lanka 2011-12

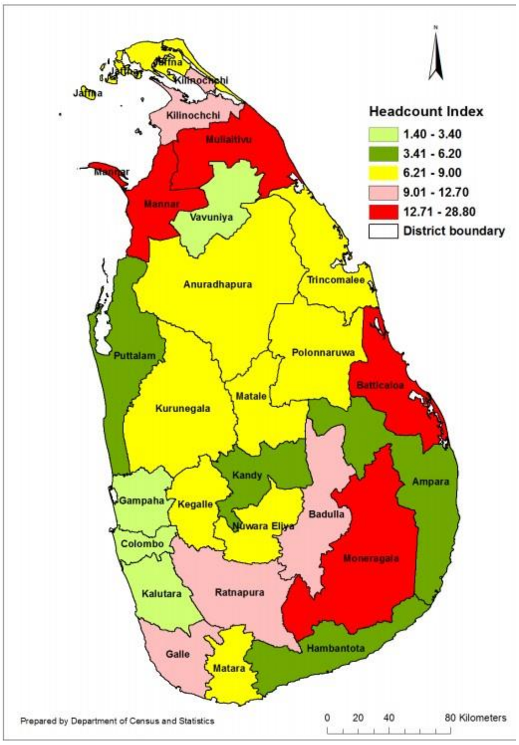
# Appendix 2: Poverty, targeting, gender, food security and nutrition

### Poverty

1. Over the last years, following the end of the 26-year civil war in 2009, the Sri Lankan economy has continued to grow at a steady rate, averaging 6-7 percent up to the present day. Sri Lanka is now a lower middle-income country with a population of 20.5 million and per capita GDP of US$ 3,811, compared with US$ 2,400 in 2010. Thanks to constant investments in health and education, Sri Lanka has also experienced a notable increase in Human Development Indicators (HDI)[43], now ranking 72 among the high human development countries and far higher than other South Asia countries and most of East Asia ones. Its HDI value spurred from 0.620 in 1990 up to 0,757 in 2014, picking up after the end of the conflict; it resulted in literacy rate of 91% reached through free education, low levels of infant and maternal mortality and life expectancy of 74 years. Moreover, population expresses a fair trust in national government (77%) and judiciary system (74%), portraying a good relationship of confidence between institutions and citizens[44].

2. The country has an overall lower percentage of its population below the official poverty line in comparison to other South Asian countries. Poverty headcount in 1990 was 24% and kept on declining ever since, arriving at 8.9% in 2009/10 and 6.7% in 2012/13. Sri Lanka key development challenge is a tendency towards increased inequality, despite its economic growth. The Gini Index has been on the growth for the last 20 years, increasing from 32.4 up to 36.4 in 2014[45]. In 2010, the poorest 20% of Sri Lankan citizens received only 4.5% of total household income, whole the richest 20% enjoyed 54.1%.

**Figure 1: Distribution of poverty headcount index by district 2012/13[46]**




[43] Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living.
[44] http://hdr.undp.org/sites/default/files/hdr_2015_statistical_annex.pdf ; http://www.lk.undp.org/content/dam/srilanka/docs/localpublications/Executive%20Summary.pdf?download
[45] World Bank and HDI report
[46] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf

3. Leaving the country as migrant worker oversea has been a widespread response to poverty, particularly for less educated people from rural areas. It is estimated that the Sri Lanka migrant population working overseas numbers at around 1.7 million (SLBFE, 2009) and that annually more than 200,000 persons are moving out of the country for the purpose of employment. Private remittances sent by such migrant workers are a major source for investments in education and health (particularly if coming from a female migrant), increasing poor families' ability to cope with shocks, purchasing land or other productive assets, and releasing from indebtedness. The majority of the migrants come from lower income population and the 25-39 age group and - even if they have traditionally been women- nowadays women migrants equal males. However, the high incidence of female migrants bears consequences on families cohesion and wellbeing[47].

**Rural poverty**

4. Poverty reduction has taken place among all geographical areas yet rural areas still account for 86.6% of the total poor, where poor people are 1,163,000[48]. As a result of nearly 30 years of armed conflict, poverty in Northern and Eastern provinces is comparatively higher than in the others. The number of people under the poverty line is higher in Ratnapura, Kur, Galle and Batticaloa district -as shown in Figure 1. Poor rural areas are characterized by limited employment opportunities, constraints to public services outreach in remote areas, low penetration of financial services and vulnerability to climate shocks or erratic weather patterns. In terms of the youth, they represent approximately 24% of the total population, and are the group with the highest unemployment rate, particularly among young women.

5. The vast majority of poor live[49] in rural areas and estates, with high dependency on the agricultural sector. Population groups most affected by poverty are agricultural smallholders, plantation workers, underemployed and landless labourers, particularly youth and women, and people engaged in micro-enterprise. Rural women in Sri Lanka enjoy better status and rights compared to other countries in the region but they are however confronted with limited economic opportunities, unequal access to land and credit. Women comprise 53% of the agricultural labour force, often as unpaid family labour, yet traditional norms are biased in favor of men, resulting in obstacles to women's equitable access to resources (land, capital – including credit) and markets, and the control of assets.

**Food security and nutrition**

6. Over the last three decades, the food security situation in Sri Lanka has improved significantly over the years; according to the 2014 Global Hunger Index, Sri Lanka is now ranked 39 out of 76 countries and above all South Asian countries with a score of 15.1. However, whilst availability of food at the national level is secure, this does not necessarily translate to food and nutrition security at household level for all segments of the population, especially socially and nutritionally vulnerable groups .

7. Sri Lanka has a very particular nutrition situation with very high rates of under-five wasting (21%), moderate rates of stunting (15%), low birth weight (18%), women anaemia (26%), and 0-5 months exclusive breastfeeding (76%). The nutritional problems in Sri Lanka are very complex but an important contributor to the situation is inadequate maternal nutrition. Although, the high rate of low birth weight implies early pregnancies as well, according to UNICEF early pregnancies are only seen in some geographical pockets in the country but do not occur countrywide.

8. Seasonal food price volatility is an important determinant of food and nutrition security according to UNICEF. This results to a limited accessibility of high nutrient value food throughout the year. Another factor which was mentioned was food safety, starting from unhealthy application of pesticides and insecticides up to unsafe food preparation at household level.

[47] file:///C:/Users/b.gerli/Documents/mission/2016.11.01%20Sri%20Lanka/background/migration_profile_ips.pdf
[48] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf
[49] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf

9. As stated in the Multisector Action Plan for Nutrition – Vision 2016 "For some unknown reason the nutrition indicators do not match those of health; the nutritional status of children, women, and adolescents have remained stagnant for over a decade and are not keeping up with the present levels of socio-economic development".

10. It is very commendable that the new Multisectoral Action Plan for Nutrition is in preparation, strongly supported by UNICEF and other partners like WFP. This provides SAP an opportunity to be actively involved in shaping nutrition interventions in a multi-sectoral manner in Sri Lanka and partner with other agencies in nutrition.

11. High wasting rates require a particular emphasizing on nutrition-specific interventions that go beyond the scope of IFAD supported programmes. However, nutrition-sensitive are as much required as nutrition-specific interventions to address not only the immediate but the underlying causes of malnutrition as well. Therefore, opportunities in SAP will be developed along food value chains, making them nutrition-sensitive whenever appropriate and feasible.

12. Nutrition-sensitive food value chains (NSVC) potentially have a positive impact on the nutrition security in a country. The focus of NSVC is on shaping the food systems with regard to availability, affordability and diversity of food. NSVCs target not only the producers and other value chain actors but also the consumers addressing not only quantity but quality of their diets as well. The shift is from the supply side to the demand side by accompanying measures such as nutrition education and Behaviour Change Communication in nutrition etc.

13. The impact on the nutrition situation of the targeted population is higher if the food promoted plays a substantial role in the diet or can replace food with less nutrient value. This represents the own production pathway.

14. In the case of the SAP the own production pathway has limitations as some of the products do not have or do only have a limited nutrient value e.g. spices. The greatest potential for a substantial nutritional impact in SAP will be the dairy value chain or any other value chain promoting the consumption of animal sourced protein at household level.

15. Fruits and vegetables do also have nutritional value in particular with regard to micronutrients. This would directly address the nutritional gap in Sri Lanka, which is a combination of quantity and quality of the diets.

16. The income pathway is the second pathway for the SAP. In this case, it is expected that higher income in combination with nutrition interventions such as nutrition education but also gender equality (allocation of the family budget and informed decision-making) lead to the purchase of food with high nutritional value. In this case, the determinants of food choices need to be identified and addressed in nutrition messaging and nutrition education – preferably Behaviour Change Communication.

17. The income pathway is a very important pathway also for women's empowerment. Elements of the value chain offer opportunities for women including adolescent girls to get involved without increasing the workload tremendously. An example from the field visit is the drying of pepper. Other options could be post-harvest processing e.g. solar drying and other conservation and preservation methods to increase the availability and accessibility throughout the year and thereby contribute to minimise food loss and reduce food waste.

18. A third pathway to enhance nutrition is the market pathway. By leveraging the potential of markets for nutrition, NSVC can catalyse improvements in the overall food environment. Acting on demand and supply can contribute to increased availability, affordability, food safety, nutritional quality and acceptability of foods in the marketplace. This pathway broadens the impact to the wider set of consumers that can benefit from a more nutritious food system. Again, interventions under the SAP are fostering this pathway as well. In particular, the food safety component can play an important role to improve nutrition.

19. The theory of change has to identify the pathway applicable for the chosen intervention and will define the activity promoted and how this activity will lead to better nutritional outcomes.

20. There are two critical mediators of impact across the three pathways. First, women's empowerment and gender equality. Given the implications of women's time allocation, decision making and control over resources for household nutrition, as well as their own health and nutritional status being crucial for child nutrition, women's empowerment and gender equality are essential for catalysing the effects of these pathways. Second, nutrition awareness. Without nutrition awareness and appropriate knowledge and practices, increases in income and production will have limited effects on changing food choices and diets, and so limited impact on improving nutrition. Behaviour change communication and nutrition education and information are essential to turn changes in production and income into changes in consumption – eating and feeding habits.

21. The importance of nutrition education and behaviour change communication counts for the entire family and should not be limited to women and girls only. In Sri Lanka issues around cooking, eating, and feeding are greatly determined by in-laws in particular mother and grandmother in law. This needs to be considered when developing a nutrition education strategy including defining the target group. The nutrition education component needs to be very explicit on the improvement of maternal nutrition and nutrition of adolescent girls.

22. Nutrition education and behaviour change communication are part of the capacity building activities in SAP and will be integrated in the overall capacity strengthening strategy.

23. When appropriate and feasible, promotion of integrated homestead food production (home gardens complemented by small livestock including fish) will contribute to better nutrition outcomes.

**Programme area and target group**

24. **Geographic targeting**. The SAP programme is conceived to have national coverage, though special attention and preference will be given through an evaluation/ selection process, to low income districts and where agri-production potential is high. The programme is demand-driven and the willingness and commitment by stakeholders (agribusiness and value chain actors including the private sector and farmers/ producer organizations) will be critical[50]. The programme will also assess the scaling up potential of target groups living in areas with ongoing NADEP 4Ps, seizing opportunities of deepening the outreach of such partnerships with the inclusion of additional smallholder farmers.

25. The following table summarizes the prioritization criteria for the selection of districts: incidence of poverty and relevance of agriculture in rural poor livelihoods.

| District[51] | Incidence of poverty | | Relevance of agriculture (Percentage distribution of employed population in agricultrue for each district – 2014[52]) |
|---|---|---|---|
| | Poverty head count index (%) | Number of poor population (thousands) | |
| Colombo | 1.4 | 31 | 28.5% |
| Gampaha | 2.1 | 47 | 5.7 % |
| Kalutara | 3.1 | 37 | 14.7 % |
| Kandy | 6.2 | 83 | 23 % |
| Matale | 7.8 | 37 | 37.9 % |
| Nuwara Eliya | 6.6 | 46 | 54.3 % |
| Galle | 9.9 | 102 | 32.6 % |
| Matara | 7.1 | 57 | 36.5 % |
| Hambantota | 4.9 | 29 | 39.3 % |
| Jaffna | 8.3 | 48 | 25.8 % |

[50] At design the geographic targeting strategy will be developed taking into consideration issues related to management and monitoring of the programme on a national scale. The scope for the concentration of programme activities in geographic clusters would be explored.
[51] http://www.statistics.gov.lk/poverty/PovertyIndicators2012_13.pdf
[52] http://www.statistics.gov.lk/samplesurvey/LFS_Annual%20Report_2014.pdf

| | | | |
|---|---|---|---|
| Mannar | 20.1 | 19 | 39.1 % |
| Vavunia | 3.4 | 6 | 33.8 % |
| Mullaitivu | 28.8 | 26 | 44.6 % |
| Kilinochchi | 12.7 | 14 | 38.8 % |
| Batticaloa | 19.4 | 101 | 25.8 % |
| Ampara | 5.4 | 35 | 33.3 % |
| Trincomalee | 9.0 | 34 | 30.5 % |
| Kurunegala | 6.5 | 102 | 35 % |
| Puttalam | 5.1 | 38 | 23.6 % |
| Anuradhapura | 7.6 | 63 | 55 % |
| Polonnaruwa | 6.7 | 26 | 43 % |
| Badulla | 12.3 | 98 | 63.3 % |
| Moneragala | 20.8 | 92 | 56.9 % |
| Ratnapura | 10.4 | 112 | 41 % |
| Kegalle | 6.7 | 55 | 21.3 % |

26. **Key characteristics of the target population.** The SAP target group constitutes of small holder farmers already active in agricultural production or young rural people interested in developing an entrepreneurial activity revolving around rural production systems. Given the country-wide scope of the programme, the livelihood of smallholders varies depending on the area, combining food crops (rice, maize) with cash crops of different kind (spices, protected agriculture, etc.). This diversification strategy enables to sell on local markets both surplus of food crops and cash crops, gaining through higher margins or value addition. An extent of 68.5% of the gross cultivated areas of the country is under food grains, which includes 28% cultivated for rice. The food grain category is usually considered as low value crops and comprises finger-millet, maize, lentils, sorghum and other serials. Vegetables, fruits, and condiments cover another 15.3% of land extent[53].

27. Land fragmentation. Comparing the Census of Agriculture in 1982 and 2002, data highlight a significant jump in the number of farmers with an agricultural land holding of less than 1acre (0.40ha), increasing from 42% to 63%. Such small land size limit income generating capacity of the crop they grow. The relationship between poverty and land extent owned is demonstrated in the following table. Youth is the age group with more limited access to land, partly due to their exclusion during the land distribution programmes promoted in the past decades (Land Development Ordinance in 1935, Land Development Act in 1981 and Agrarian Services Act in 2000).

**The extent of land owned and prevalence of poverty**

| Extent of land owned | Absolute poverty (HCI) | Relative poverty (HCI) |
|---|---|---|
| Household owns agricultural lands | 18.2 | 28.4 |
| Land area < 10 perches | 24.0 | 34.6 |
| 1/4ac -1 ac | 20.4 | 31.5 |
| > 1 ac | 17.3 | 27.1 |
| Land less | 32.0 | 45.0 |

Source: Center for Poverty Analysis (CEPA), 2007

28. Reduced income availability of smallholders engaged in agriculture is related to a variety of causes. Among others, poor access to marketing facilities and agricultural infrastructure, lack of market oriented cultivation practices, selling products for cheaper without processing and adding values, low quality seeds. Moreover, formal financial institutions have very low level of penetration in rural areas, reducing opportunities for productive investments, upgrading existing infrastructure and often trapping small holders into vicious circles of indebtedness with informal providers of credit in their communities.

[53] Sri Lanka Integrated Survey- SLIS, 1999-2000).

29. **SAP targeting strategy.** The SAP programme is premised on ensuring inclusiveness of smallholder producers in a market-driven model through 4P business partnerships and other interventions aimed at building producer/ farmer organization capacity and enhancing access to rural finance. The programme target group comprises 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 targeting strategy is based on leveraging existing mechanisms for change and rural transformation, building on synergies and (NADeP) scaling up potential.

- The first target subgroup are 35,000 rural household producers that will benefit from increased livelihood opportunities by virtue of their engagement within 4P schemes – this includes 4,000 households organized in 70 producer/ farmer organizations (FOs). Although the programme is demand driven and the willingness and commitment of all 4P parties is critical, the same set of targeting criteria as in NADeP, ensures the pro-poor nature of these partnerships. Producer/ farmers implicated in the 4P arrangements own less than 1 ha of land, rely on agriculture for at least 50% of their household income and have monthly incomes averaging LKR 25-30,000 (USD 150-200) or below. With respect to the support to develop farmer organizations, SAP adopts a two-phased approach over six years (pilot phase from programme years 1-3, and expansion phase from years 4-6), which is requisite for obtaining results and emerging lessons which can be utilised for scaling up approaches in line with Government's policy and development agenda, and to ensure sustainability of supported FOs within 4P partnerships. In the expansion phase (years 4-6), the programme expects to increase outreach to producer/ farmers with additional financing to the 70 producer/ farmer organizations (FOs) supported during the pilot phase, but with the expectation that their membership will increase, or to new FOs, particularly FOs under the Mahaweli Authority.
- The second target subgroup are the 20,000 households participating in 4P schemes already established under the NADeP programme, who will benefit from SAP support through access to credit for seasonal/ working capital needs.
- The last target subgroup is represented by 2,500 poor young women and men who will be supported to enhance their employability or become entrepreneurs, responding to the demand for products or services generated along the value chain and in complement to the 4Ps. This youth represent a particularly vulnerable target group as they are generally unemployed, have low monthly incomes (less than LKR 20-25,000), and are either landless (70%) or own less than 1 ha of land (30%).

30. **Rural organizations** The rural setting characterised by a large variety of informally and/or un-organized small farmer/ producers compared to those well-organized, gives rise to two levels of groups to be targeted by the programme, namely:

(a) individual or informally organized small farmer/ producers implicated in contract farming/ outgrower schemes – this includes under *new* and *existing* (to be expanded/ scaled-up) 4P business plans and youth benefitting from entrepreneurial opportunities;

(b) nascent producer 'groups' or organizations under established agricultural schemes (such as Mahaweli).

31. The programme will provide targeted support to the latter, to cement their cohesion and organization into formal 'producer organizations that will serve as a springboard for further development. SAP will support the empowerment of producers/ farmers through a progressive strengthening of these rural groups/organization on different dimensions: a) good governance and democratic management; b) capacity of improving production – both in quantitative and qualitative terms c) Sustainable financial management d) inclusiveness and gender equality. The programme will support the organizations to self-assess their level of maturity on these four dimension and define a capacity building plan to address shortcomings. Through producer organizations, the graduation of their members and of the institutions as a services-oriented and market-oriented body themselves is

envisaged within the larger national framework of advancing agricultural modernization and competitiveness.

32. These producer organizations will be supported (in response to the demand) to progressively provide relevant and adequate services to meet member needs (e.g. procurement of inputs, marketing and commercialisation). This may also include taking responsibility for management of post-harvest handling and processing facilities to increase value addition and margins as part of a viable business plan. It is expected that with SAP support a large number of these organizations will be able to "graduate" over time in order to reach a mature and self-sufficient level and become business-oriented producer/ farmer companies.

33. The SAP approach will then be modular and providing support to FOs and producers' organizations at different stages of their business development. The few existing cooperatives already in business will be further supported to enlarge their business, to make it sustainable and promoting women and youth leadership. The less organized FOs will be in turn supported to start up their business either under 4P partnerhsips led by private companies or through 4P schemes led by FOs.

**Overview of SAP target groups**

| Target groups | Targeting criteria | Programme activity | NADEP benef. | Women | Youth |
|---|---|---|---|---|---|
| 1) 35,000 rural household producers that will benefit from increased livelihood opportunities provided by entering into 4Ps partnerships. | • own less than 1 ha of land<br>• rely on agriculture for at least 50% of their household income<br>• monthly incomes of LKR 25-30,000 or below | • 21,000 households will engage in newly formed 4Ps partnership | No | 40% (14,400) | 20% (7,200) |
| | | • 10,000 households will engage in already existing 4Ps agreements, incrementing their outreach | No | | |
| | | • Producer groups / organizations. capacities will be strengthened to empower a total of 4,000 members to initiate new 4Ps. Organizations participating in already existing 4Ps are eligible for post-production support only. | No but also NADEP beneficiaries are eligible | | |
| 2) 20,000 households participating in P4 partnerships established under the NADEP programme, who will benefit from SAP support in order to ensure sustainability of their production systems and strengthen their organizations | | • farming system sustainability support. Short-term credit of maximum USD 350 to further strengthen production systems by meeting liquidity needs | Yes | No quota | |
| 3)2,500 poor young women and men that will be supported in becoming entrepreneurs to meet the demand of services generated by the development of value chains under the 4Ps | • Unemployed<br>• Monthly income of less than LKR 25-20,000,<br>• At least 70% of them are landless and the remaining 30% owe less than 1ha. | • Package of support to entrepreneurial plans – mainly services revolving around 4Ps value chains. I) vocational/ technical training ii) business/ entrepreneurial skills ii) access to USD 1500 credit | No | 40% (4,000) | 100% Preference will be given to youth. Application s from individuals up to 35 will also be considered |

**Gender**

34. Women in Sri Lanka enjoy better status and rights compared to other countries in South Asia. Literacy rates are high and similar to men's ones (98.6% and 97.7% respectively), they have a

relatively good access to service (maternal mortality ratio is 35 in 100,000) and gender inequality index (GII) is 0,370[54], ranking among high human development countries. Interestingly, indicators of perception of individual well-being report that man and women are equally satisfied with their freedom of choice (81% of interviewed males and females) , unveiling a rather balanced society.[55]

35. Yet, women in Sri Lanka still confront key gender challenges in the field of employment and economic empowerment. Notwithstanding the higher percentage of female students entering the university (53.8%), the rate of women's participation in the labour force is only 34.4% and the majority of graduate unemployment prevails among females. Moreover, women's wages tend to be lower than those of men in the same positions, be engaged in informal labour, less likely to be self-employed due to low capital ownership and difficult access to credit.

36. Gender-based challenges are exacerbated in rural areas, where employment opportunities are even more reduced and asset ownership represents an important determinant for agricultural production. Key challenges for rural women in Sri Lanka include:

(a) Lack of or inadequate productive assets, particularly land. Inheritance practice tend to favour men over women and joint titling practices are very limited. Rural women lack awareness of land rights and mechanisms for enforcing them. Many are hesitant to exercise their rights because of social and cultural pressures;

(b) Limited access to credit due to lack of collateral and higher perception of risk. When available, women tend to have little control and decision making power over credit;

(c) Relatively low engagement in the labour force and lack of remunerative or productive employment. Engagement of a substantial portion of the labour force as unpaid family workers and/or poorly paid labour;

(d) Low productivity and profitability in agriculture and limited alternative economic opportunities, which translate into very high rates of young rural women unemployment - up to 31.2%. Low-income families, even those with secondary or university education, lack opportunities to upgrade their skills and achieve upward economic empowerment;

(e) Malnutrition, particularly in adolescent and fertile age;

(f) Limited access to markets due to constraints on mobility posed by responsibilities within the household;

(g) Vulnerability to disasters and impact of climate changes.

37. The most vulnerable women are those in post conflict areas in the north of the country, women affected by the tsunami on the east coast and women heads of households in poverty groups – generally widows and the elderly. In 2010, 23.2% households in Sri Lanka (1.2 million) were women-headed households and its majority (80%) are in the age group 40 and above[56].

38. The majority of rural women are active in the agricultural sector as part of the household livelihood. Their role and contribution varied depending on the type of crop and the activity. For instance, women's role tends to be prominent in pollination, picking and sorting. Value chains that tend to be have a higher involvement of women are mango, green chillies, bitter gourd, protected agriculture vegetables (particularly bell pepper, gherkins, tomatoes), staple crops (rice and maize), sea weed, sesame and pepper.

39. **The SAP gender strategy** will ensure rural women's inclusion across the three target subgroups: at least 40% of programme beneficiaries should be women. It will promote their economic

[54]The GII is a composite measure that reflects inequality in achievements between women and men in reproductive health, empowerment and the labour market. The index ranges between "0", which means women fare equally well, to "1.0", which indicates that women fare as poorly as possible in all dimensions measured.
http://hdr.undp.org/sites/default/files/hdr_2015_statistical_annex.pdf
[55] HDI
[56] Household Income and Expenditure Survey (HIES) 2009/2010

empowerment through inclusion in productive activities, use of labor saving technology to free up their time and support to voice and leadership within their communities and organizations.

40. The strategy revolves around three cornerstones: i) promoting women's inclusion in economic opportunities brought about by the 4Ps schemes; ii) supporting their leadership and decision-making capacity economic activities, groups and their communities; iii) manage workload increase that might occur as a consequence of increased engagement in economic activities. Key entry points to achieve these three goals will be the 4Ps partnerships, rural organizations/groups and youth entrepreneurial activities.

(a) In order to support women's inclusion in economic opportunities provided by 4Ps, gender considerations will be incorporated among the criteria to review partnership proposals and trained field staff will address women's specific needs in production. Particular attention will be placed on exposing both women and men of a beneficiary household to trainings and capacity development opportunities. 4Ps are market-led partnerships and, when profitable and convenient for all parties, preference will be given to value chains with a high degree of women's participation, such as papaya, green chilies, bell pepper and maize. Skills upgrading and labor saving technologies will be actively promoted in the context of these partnerships, using NADEP positive impact on workload reduction as supporting evidence.

(b) The promotion of youth and women's active participation in rural organizations is part of SAP strategy of empowering all producers/ farmers under 4Ps schemes. Women's role and participation in rural organizations varies enormously across the rural landscape, with no clear correlation with type of organization, size and structure. For this, rural organizations members will gauge their levels of inclusiveness and gender sensitivity as a central dimension of their overall maturity self-assessment, developing a related capacity building plan for their progressive strengthening.

(c) Business and entrepreneurial activities promoted by SAP for landless youth build on the evidence of their very positive impact achieved in NADEP, where 79% of beneficiaries were young women. Enhanced access to credit and a package of entrepreneurial and vocational training will support additional young women in taking advantage of economic opportunities arising from 4Ps schemes (e.g. engaging in post processing activities such as drying fish and fruit, fodder production to accompany dairy development and so on).

41. Lastly, SAP will promote policy engagement for the removal of gender-based constraints in access to credit by interacting with key stakeholders and supporting the development of gender-sensitive operational guidelines of the microfinance department.

**Youth**

42. In Sri Lanka, youth between the ages of 15-29, represent 24% of the population; they face challenges related to education, civic engagement, political participation and employment in particular. Young people's unemployment stands at 20.8% for those aged 15-24, and 9.4% aged 25-29; the challenges of young women’s participation in the labour force is even more pronounced with an unemployment rate of 27.4% and 17.5% for the two age brackets respectively. Youth unemployment as a proportion of total unemployment is high at 61.6% for young men and 45% for young women, which indicates an unequal distribution of the problem of unemployment, and is a significant and persistent issue for the country. Furthermore, a noticable feature about Sri Lanka’s youth unemployment is that *educated* young people make up a significant proportion of Sri Lanka’s unemployed; nearly 50% of youth unemployed have completed their GCE A Levels or above, demonstrating that many of the youth unemployed have in fact, attained a reasonable level of education. Per the Labour Force Survey (2015), provincial disparities also exist, and in 7 out of the 9 provinces, youth unemployment as a proportion of total unemployment is above 50%; it is particularly high in the Central, Eastern and Sabaragamuwa provinces. It can be reasonably assumed that various reasons account for the high rate of unemployment amongst the youth, including geographical

disparities, gender, class and status, ethnicity, and cultural norms; especially, differences in the quality of education and challenges in transitioning from (theoretical) education to practical experience and training are constraining factors.

| | | Male | Female | Total |
|---|---|---|---|---|
| **Unemployed population and rate by all sectors, and gender** | Urban | 29,295 (3.5) | 27,775 (6.7) | 57,070 (4.6) |
| | Rural | 122,822 (2.9) | 190,016 (8.0) | 312,839 (4.8) |
| | Estate | 5,677 (2.7) | 7,911 (4.6) | 13,588 (3.5) |
| | | 157,794 (3.0) | 225,702 (7.6) | 383,497 (4.7) |

| | | **Male** | **Female** | **Total** |
|---|---|---|---|---|
| Youth unemployment rate by sex | 15 - 24 | 16.6 | 27.4 | 20.8 |
| | 25 - 29 | 4.4 | 17.5 | 9.4 |
| | | | | |
| | | | | |

| | Sabaragamuwa | South | Central | Uva | East | North | North Central | West | North Western |
|---|---|---|---|---|---|---|---|---|---|
| **Youth unemployed rate by provinces** | 29.6 | 27.9 | 25.5 | 22.0 | 21.7 | 18.8 | 16.3 | 15.9 | 15.2 |
| **Youth unemployment as a proportion to total unemployment** | 57.5 | 51.5 | 58.5 | 54.3 | 57.8 | 57.0 | 55.0 | 45.5 | 42.8 |

| | | **Male** | **Female** | |
|---|---|---|---|---|
| Youth unemployment as a proportion of total unemployment by gender and level of education | | 61.6 | 45.0 | |
| | Grade 6 - 10 | | | 52.2 |
| | GCE (O/L) | | | 58.7 |
| | GCE (A/L) & above | | | 49.9 |

43. The problem of unemployment is therefore showcased as being unequally distributed and as a mismatch of skills and limited economic opportunities, especially for those with highler levels of education; there is a need therefore, for interventions to enable the youth to better enter the labour force and successfully secure employment or self-employment opportunities. As regards self-employment, this too is constrained by the inability of youth to access finance and their lack of business skills and basic financial literacy; in rural areas, youth who are self-employed or choose this option, have little to show in terms of income and market access.

44. Subsequently, within the business and commercial orientation of the programme, special attention will be given to the rural youth as potential change agents. A first target of 2,500 youth (landless and/ or unemployed) will be supported to enhance their employability or become entrepreneurs that can provide services/ products to meet the demand generated by the development of value chains under the 4Ps. In addition, through a 20% quota on the main target group of small producer/ farmers engaged in 4P partnerships, the programme will reach out to a further 7,000 youth.

45. In order to implement effective interventions that may include technical and vocational training, managerial training, financial and business planning (including know-your-numbers training), provision of business start-up capital or other investment/ fixed asset capital, mentorship or apprenticeship/ placement programmes, a more **detailed youth strategy will be elaborated within the first six-months of the programme**[57], with the objective to better understand the heterogenous nature and needs of the rural youth, and to elaborate responsive measures. The youth strategy will also define the implementing partners or service providers to implement the activities.

46. Across the youth interventions, the role of agribusiness private sector partners will be critical in helping to identify the needs and opportunities that exist in the agribusiness sector (i.e. the demand for products/ services/ human resource capacity) , and which the youth could fulfil with the support

[57] The TORs for the youth strategy will be finalised prior to SAP's entry into force.

provided by the programme. In order to ensure a close proximity to the youth, guidance and follow-up, the programme envisages as well a strong role for social mobilisers to provide a quasi-mentoring of the youth, especially in development of their business plans.

**Implementation arrangements and M&E**

47. The overall responsibility for the implementation of the gender and youth strategies relies upon the programme director, supported by long-term specialized technical assistance (TA). The TA team will supervise delivery on gender and youth activities by field agents and service providers dealing in capacity development activities and social mobilization - in particular social mobilizers. Responsibility for the implementation of the gender and youth strategies will be included as relevant in the ToRs of PMU staff, the TA team and social mobilisers.

48. It will be key to provide adequate training and technical support on gender and youth issues to the PMU, private partners, service providers, field agents (mostly social mobilizers) and producers' organizations/groups. The gender and youth TA will work in close cooperation with the PMU business unit to assess 4P proposals, provide capacity building trainings when needed and overview organizations' maturity assessment.

49. Possible procedural obstacles to women and youth and the poor's access to credit are also analyzed and addressed in the PIM.

50. The PMU will strive to maintain a good gender balance among the staff recruited for SAP.

51. A technical specialist in gender and targeting will participate during supervision and/ or implementation support missions. The expert would assess the progress and performance of the project with reference to gender, youth and poverty targeting, assess transformative processes, highlight key issues, achievements and constraints. The specialist would review the level of the partner institutions' role and performance for gender mainstreaming and identify areas for further improvement.

52. The programme M&E system will be based on the logframe and will report on the RIMS indicators; all data, progress reporting and evaluation format will be disaggregated by sex and age, so as to be able to produce information on different target groups and beneficiaries (women, men and youth).

(a) Programme staff responsible for data collection and monitoring would be trained in understanding and using gender and age indicators.

(b) Detailed gender and youth-sensitive indicators for the progamme M&E system will be developed with the support of the gender and youth specialist TA. Among other indicators, the ME system will report in a sex and age disaggregated manner on the performance of loans and organizations/groups.

(c) Gender, youth and poverty considerations will also be included in baseline survey and potential impact assessment.

(d) Participatory self-assessment and monitoring will be promoted as much as possible, particularly using the organizations' maturity assessment tool as an entry point to trigger discussion over inclusion and gender and youth issues.

## ANNEX I Targeting and Gender Checklists

### Targeting Checklist

| Targeting checklist | Design |
|---|---|
| 1. Does the main target group – those expected to benefit most – correspond to IFAD's target group as defined by the Targeting Policy (poorer households and food insecure)? | The SAP target group constitutes of small holder farmers already active in agricultural production or young rural people interested in developing an entrepreneurial activity revolving around rural production systems.<br>• Farmers /producers will own not more than 1 ha of land, rely on agriculture for at least 50% of their household income and have monthly incomes of LKR 25-30,000 or below.<br>• Youth target group represent a particularly vulnerable segment of the rural population as they should be unemployed, have a monthly income of less than LKR 20-25,000, at least 70% of them are landless and the remaining 30% own less than 1ha. |
| 2. Have target sub-groups been identified and described according to their different socio-economic characteristics, assets and livelihoods – with attention to gender and youth differences (matrix on target group characteristics completed)? | There are three target sub-groups in the programme.<br>1. 36,000 rural producer households that will benefit from increased livelihood opportunities provided by entering into 4Ps partnerships. Farmers /producers will own not more than 1 ha of land, rely on agriculture for at least 50% of their household income and have monthly incomes of LKR 25-30,000 or below (40% women, 20% youth)<br>2. The second target group are 20,000 households participating in P4 partnerships established under the NADEP programme, who will benefit from SAP support in order to ensure sustainability of their production systems and strengthen their organizations Targeting criteria are therefore the same as in the previous (no quota as they were NADEP target group)<br>3. The last target group is constituted by 10,000 poor young women and men that will be supported in developing their entrepreneurial initiatives. they should be unemployed, have a monthly income of less than LKR 20-25,000, at least 70% of them are landless and the remaining 30% own less than 1ha. (40% women, 100%youth) |
| 3. Is evidence provided of interest in and likely uptake of the proposed activities by the identified target sub-groups? What is the evidence (matrix on analysis of programme components and activities by principal beneficiary groups completed)? | The programme target group comprises 66,000 poor rural households with the potential to become active economic players in a diverse array of value chains. The targeting strategy is based on leveraging existing mechanisms for change and rural transformation and it will assess synergies and scaling up potential with the current NADeP target group under existing 4Ps. This programme builds on the successful model of of NADEP, in which interest and uptake of the same target group has been proven. |
| 4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy, involving some or all of the following measures and methods: | |
| *4.1* ***Geographic targeting*** *– based on poverty data or proxy indicators to identify, for area-based programmes or programmes, geographic areas (and within these, communities) with high concentration of poor people;* | The programme target group comprises 66,000 poor rural households with the potential to become active economic players in a diverse array of value chains. The targeting strategy is based on leveraging existing mechanisms for change and rural transformation and it will assess synergies and scaling up potential with the current NADeP target group under existing 4Ps |

| | |
|---|---|
| *4.2* ***Self-targeting*** *– when good and services respond to the priority needs, resource endowments and livelihood strategies of target groups;* | The programme is demand-driven and the willingness and commitment by stakeholders (agribusiness and value chain actors including the private sector and farmers/ producer organizations) will be critical |
| *4.3* ***Direct targeting*** *– when services or resources are to be channelled to specific individuals or households;* | One key target group consists in 10,000 poor young women and men that will be supported in developing their entrepreneurial initiatives |
| *4.4* ***Empowering measures*** *– including information and communication, focused capacity- and confidence-building measures, organizational support, in order to empower and encourage the more active participation and inclusion in planning and decision-making of people who traditionally have less voice and power;* | In order to support women's inclusion in economic opportunities provided by 4Ps, gender considerations will be incorporated among the criteria to review partnership proposals and trained field staff will address women's specific needs in production. Particular attention will be placed on exposing both women and men of a beneficiary household to trainings and capacity development opportunities. |
| *4.5* ***Enabling measures*** *– to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building;* | SAP will promote policy engagement for the removal of gender-based constraints in access to credit by interacting with key stakeholders and supporting the development of gender-sensitive operational guidelines of the microfinance department.<br>Adequate training and technical support on gender and youth issues will be provided to the PMU, private partners, service providers, field agents (mostly social mobilizers) and producers' organizations/groups. |
| *4.6* ***Procedural measures*** *– that could militate against participation by the intended target groups;* | Possible procedural obstacles to women and youth and the poor's access to credit are also analyzed and addressed in the PIM |
| *4.7* ***Operational measures*** *– appropriate programme/programme management arrangements, staffing, selection of implementation partners and service providers.* | • The gender and youth officer will supervise delivery on gender activities by field agents and service providers dealing in capacity development activities and social mobilization - in particular social mobilizers<br>• The PMU will strive to maintain a good gender balance among the staff recruited for SAP<br>• Adequate training and technical support on gender and youth issues will be provided to the PMU, private partners, service providers, field agents (mostly social mobilizers) and producers' organizations/group |
| 5. Monitoring targeting performance. Does the design document specify that targeting performance will be monitored using participatory M&E, and also be assessed at mid-term review? Does the M&E framework allow for the collection/analysis of sex-disaggregated data and are there gender-sensitive indicators against which to monitor/evaluate outputs, outcomes and impacts? | The programme M&E system will be based on the logframe and will report on the RIMS indicators; all data, progress reporting and evaluation format will be disaggregated by sex and age, so as to be able to produce information on different target groups and beneficiaries (women, men and youth).<br>Detailed gender-sensitive indicators for the programme M&E system will be developed with the support of the gender and youth specialist. Among other indicators, the ME system will report in a sex and age disaggregated manner on the performance of loans and organizations/groups. |

## Gender Checklist

| Gender checklist | Design |
|---|---|
| 1. The programme design report contains – and programme implementation is based on – gender-disaggregated poverty data and an analysis of gender differences in the activities or sectors concerned, as well as an analysis of each programme activity from the gender perspective to address any unintentional barriers to women’s participation. | Sex-disaggregated data and gender –specific issues have been used to portray women's role in value chain and access to rural finance |
| 2. The programme design articulates – or the programme implements – actions with aim to:<br>• Expand women’s economic empowerment through access to and control over productive and household assets; | SAP gender strategy promotes women economic empowerment through inclusion in economic opportunities brought about by the 4Ps schemes |
| • Strengthen women’s decision-making role in the household and community and their representation in membership and leadership of local institutions; | The promotion of youth and women's active participation in rural organizations is part of SAP strategy of empowering all producers/ farmers under 4Ps schemes. Rural organizations members will gauge their levels of inclusiveness and gender sensitivity as a central dimension of their overall maturity self-assessment, developing a related capacity building plan for their progressive strengthening. |
| • Achieve a reduced workload and an equitable workload balance between women and men. | Labor saving technologies will be actively promoted in the context of these partnerships, using NADEP positive impact on workload reduction as supporting evidence. |
| 3. The programme design report includes one paragraph in the targeting section that explains what the programme will deliver from a gender perspective. | A gender strategy will ensure women's inclusion across three target subgroups promoting their economic empowerment through inclusion in productive activities, use of labor saving technology to free up their time and support to voice and leadership within the communities and rural organizations. At least 40% of SAP beneficiaries should be women.<br>The SAP gender strategy aims at addressing these challenges by i) promoting women's inclusion in economic opportunities brought about by the 4Ps schemes; ii) supporting their leadership and decision-making capacity economic activities, groups and their communities; iii) manage workload increase that might occur as a consequence of increased engagement in economic activities. |
| 4. The programme design report describes the key elements for operationalizing the gender strategy, with respect to the relevant programme components. | Gender will be incorporated in SAP components as follows:<br>• In order to support women's inclusion in economic opportunities provided by 4Ps, gender considerations will be incorporated among the criteria to review partnership proposals. trained field staff will address women's specific needs in production. Preference will be given to value chains with a high degree of women's participation<br>• SAP will promote policy engagement for the removal of gender-based constraints in access to credit by interacting with key stakeholders and supporting the development of gender-sensitive operational guidelines of the microfinance department.<br>• Business and entrepreneurial activities promoted by SAP for landless youth build on the evidence of their very positive impact achieved in NADEP, where 79% of beneficiaries were young women. Enhanced access to credit and a package of entrepreneurial and vocational training will |

| | |
|---|---|
| | support additional young women in taking advantage of economic opportunities |
| 5. The design document – and the programme implements – operational measures to ensure gender-equitable participation in, and benefit from, programme activities. These will generally include: | |
| *5.1 Allocating adequate human and financial resources to implement the gender strategy.* | The overall responsibility for the implementation of the strategy relies upon programme director, supported by a gender and youth officer. The gender and officer will supervise delivery on gender activities by field agents and service providers dealing in capacity development activities and social mobilization - in particular social mobilizers. |
| *5.2 Ensuring and supporting women's active participation in programme-related activities, decision-making bodies and committees, including setting specific targets for participation.* | The promotion of youth and women's active participation in rural organizations is part of SAP strategy of empowering all producers/ farmers under 4Ps schemes. Women's role and participation in rural organizations varies enormously: rural organizations members will gauge their levels of inclusiveness and gender sensitivity as a central dimension of their overall maturity self-assessment, developing a related capacity building plan for their progressive strengthening. |
| *5.3 Ensuring that programme/programme management arrangements (composition of the programme management unit/programme coordination unit, programme terms of reference for staff and implementing partners, etc. reflect attention to gender equality and women's empowerment concerns.* | The overall responsibility for the implementation of the strategy relies upon programme director, supported by a gender and youth officer. The gender and youth officer will supervise delivery on gender activities by field agents and service providers dealing in capacity development activities and social mobilization - in particular social mobilizers.<br>The PMU will strive to maintain a good gender balance among the staff recruited for SAP.<br>Responsibility for the implementation of the gender strategy will be included as relevant in the ToRs of PMU staff (e.g. in the business unit and loan officer). |
| *5.4 Ensuring direct programme/programme outreach to women (for example through appropriate numbers and qualification of field staff), especially where women's mobility is limited.* | Adequate training and technical support on gender and youth will be provided to service providers and field agents (mostly social mobilizers) . |
| *5.5 Identifying opportunities to support strategic opportunities with government and other development organizations for networking and policy dialogue.* | SAP commits to policy engagement for the removal of gender-based constraints in access to credit. It will also network with key stakeholders and supporting the development of gender-sensitive operational guidelines of the microfinance department. |
| 6. The programme's logical framework, M&E, and learning systems specify in design – and programme M&E unit collects, analyses and interprets sex- and age-disaggregated performance and impact data, including specific indicators on gender equality and women's empowerment. | All data, progress reporting and evaluation format will be disaggregated by sex and age, so as to be able to produce information on different target groups and beneficiaries (women, men and youth).<br>Gender-sensitive indicators for the programme M&E system will be developed with the support of the gender and youth specialist.<br>In depth studies and KM products on gender impact will be developed during the course of programme implementation. |

# Appendix 3: Country performance and lessons learned

**Past results, impact and performance**

1. IFAD has financed a total of 17 programmes in Sri Lanka since 1978, with loan commitments of US$ 262.8 million and a total value of about US$ 464.9 million. Currently, three programmes are ongoing. IFAD's programme approaches have evolved over time: those in the 1980s followed mainly the integrated rural development approach; in the 1990s, programmes gradually adopted a collaborative approach involving NGOs, community organizations and the private sector in programme planning and implementation; and since the early 2000s, programmes have focused on the commercialization of agriculture and the value chain approach. IFAD has concentrated on three geographic zones: the dry zone in northern and eastern parts of the country, smallholder plantation areas in Central Province, and eastern and southern coastal districts affected by the 2004 tsunami. An ongoing programme is located in the Northern Province, contributing directly to post-conflict reconstruction. Altogether, IFAD-financed programmes in Sri Lanka have benefited more than 557,000 households or 2.2 million poor people.

2. IFAD programmes have contributed to increasing the incomes of beneficiary households. In the dry zone, programme-supported seed production led to farmers' incomes more than doubling. The incomes of women participants in the loan scheme increased by 32 per cent for agro-based enterprises and 47 per cent for trading. In smallholder plantation areas, the use of water storage tanks and protective netting improved vegetable productivity, with a 40 per cent increase in beneficiaries' gross income. The increase in monthly income of beneficiary households under the coastal programme averaged 15 per cent.

3. Improved food security has been reported by all completed programmes. In the dry zone, crop productivity was improved thanks to practices introduced through IFAD programme interventions. Programme-supported small-scale irrigation schemes improved water availability for paddy production, leading to increases in cropping intensity of 50 per cent in the maha (rainy) season of 2010-2011 and 410 per cent in the yala (dry) season of 2011. About 20 per cent of programme-supported coastal households reported improved food security, compared with 13 per cent of non-beneficiary households.

4. Through the Post-Tsunami Coastal Rehabilitation and Resource Management Programme, IFAD gained experience in post-conflict fragile areas of Eastern Province where it worked during 2010-2013 with institutions that were struggling to emerge. Flexible operations, willingness to work with multiple partners and a devolved programme management system facilitated IFAD interventions in these areas, which achieved almost all their expected outcomes. A rural finance initiative under the programme piloted the provision of business development services to the target population, convincing banks to accept collateral from social groups for loans to SMEs. About 80 per cent of loan beneficiaries were women.

5. Empowerment is an important impact of IFAD programme interventions. Women participants in programme activities have accounted for around 40-60 per cent of the total, and women hold nearly half the key positions in rural organizations. The majority of loan beneficiaries are also women (60-100 per cent).

**Lessons learned**

6. Overall, and based on IFAD's operational experience in Sri Lanka, the main lessons include: (i) IFAD interventions in improved land productivity for domestic crop and plantation agriculture, irrigation rehabilitation, fisheries, rural enterprise development, rural and microfinance, value chain development and rural infrastructure development contribute to poverty reduction; (ii) geographic targeting with carefully selected poverty-stricken divisions as programme areas is an effective strategy; (iii) the private sector's involvement with IFAD programmes is strong and sustainable when flexible implementation arrangements, critical volumes of products to meet market needs and strong

strategic alliances are available; (iv) programmes seeking to channel improved profit margins to farmer/ producers need to consider supporting their involvement/ uptake in primary processing, in addition to the conventional forms of support to their on-farm production; (v) when programme beneficiaries are over-dependent on public extension services, programme expectations are less likely to be met; (vi) rural grassroots institutions are strong in common property development and management, but are not always effective in market-based commercial enterprises; (vii) rural and microfinance is an effective instrument for providing financial services to the poor; (viii) programme management, M&E, financial management and procurement are common and recurrent issues – in the past, IFAD-financed programmes have suffered from delayed loan effectiveness and resulting slow start-up; to the extent possible, new financing should build on existing structures and mechanisms, and early and continuous consultation with Government is essential to mitigate delays; as well the selection and retention of qualified staff is a critical element to ensure timely implementation and performance; when delayed, there is further consequence in terms of long implementation delays; and (ix) high staff turnover hinders efficient programme implementation – efficiency is improved by retaining experienced and performing staff, with support from technical assistance/ consultants for specific needs.

7. Whilst the overall lessons learned are well considered, the SAP programme incorporates detailed lessons from the implementation of NADeP in particular; these detailed lessons learned are as follows:

(a) Growing interest by the private sector to enter into 4P arrangements: there is evidence of growing private sector interest in the 4P model, demonstrated by the 50+ business proposals received by NADeP after only two calls for proposal. The appeal of the 4P model from the point of view of the private sector is that the matching grant element of the investment can address non-profit related issues such as improved technologies leading to quality, better organization, etc. As well, the private sector appreciates the linkage between small producers and the financial sector for credit, as this lends itself to the credibility of the small producer’s commitment to the investment and production.

(b) Private-sector partner profile: the preferred private sector partner would be experienced and financially secure and established companies, as opposed to small (new) companies or NGOs/ CBOs with limited market experience and capacities. The rationale is that established companies have the capacity to provide extension services, offer a ready market with absorption capacity, and don’t require any additional financing for their own operations. In the context of inexperienced farmer/ producers, engaging with inexperienced companies presents a greater risk to achieving good results and increased income for the target group.

(c) Joint collaboration to develop technical and financial business proposals: the process of developing viable 4P business proposals requires strong negotiation and clarity, to ensure that all actors are aware of the ‘rules of engagement’ and responsibilities; this refers to the co-financing arrangements and expectations of the commitment and value added of each partner in the 4P; as well, the business model and the final expected income to farmers are important elements of the final proposal. In the case of the private sector specifically, their willingness to provide technical and extension services is critical. The actual process of finalizing a business proposal has been demonstrated to be relatively fast, requiring six months on average.

(d) Graduation approach to avoid complexity: the experience of establishing 4Ps is still relatively nascent in the Sri Lanka context, and building trust across partners is a longer-term process. Subsequently, the partnership to be nurtured should be modest (such as the outgrower scheme) in the first instance. NADeP experience suggests that there is need to first establish 4Ps that are characterized by linking the private sector with individual farmers who are identified and grouped by the company itself; a progressive second level would pursue 4Ps that link the private sector to better organized producer organizations; and finally, the most progressive model would be to promote producer organization-led business proposals. Once the trust has been strengthened, only then is there more flexibility to deepen the scope of the partnership. It is also worth noting that at present, per NADeP's experience, very few farmer organizations have reached a level of maturity to take on 'business' and financial responsibilities/ functions; the assumptions of producer organizations should be reviewed closely.

(e) Rural finance needs: Overwhelmingly, small producers continue to identify the lack of *affordable* short-term working capital to finance their regular agricultural seasonal needs; in general, the financial products on the market are currently often entirely inaccessible, and where credit institutions are ready to provide loans, many farmers feel that the rates are too high, given that even the hypothetically high returns may easily erode as a result of delayed or excessive rains, pests, insect infestations or other mishaps. In an interest rate sensitive society, they often prefer not to borrow if they perceive that the balance between additional costs and additional risks is not in their favor. There is, therefore, scope to promote seasonal agricultural loans (at more feasible interest rates) to meet short-term working capital needs. With this product, small producers would be able to purchase inputs in support of increasing their production/ productivity, and will similarly avoid the risk of indebtedness to moneylenders and loss of their rights to cultivate their own land (where land is used as 'collateral' by moneylenders). The same applies to investments and term finance.

(f) Formal financial sector system capacity: The CBSL, commercial banks and MFIs have all identified capacity constraints as preventing them from being able to service, reach out and meet the needs of the target group (small producers engaged in the rural/ agricultural sector). The capacity constraints relate to human resources in terms of manpower (number of loan officers) and skills set. Subsequently, the complementary trained 'social mobilisers' offered by NADeP, are highly appreciated and the approach should be replicated, as it allows for more efficient pre-screening of potential clients and brings the segment specific needs upfront. The provision of support to the CBSL and performing PFIs is also geared at closing the knowledge and skills gaps. uilt

(g) Savings: Even though some banks and development programmes have in the past adopted the self-help group linkage models with its in-built savings approach, only few banks are at present actively engaged in mobilizing savings from among rural borrowers. However, the PFIs contacted would highly appreciate the creation of a savings habit among their 4P clients, as it would reduce the liquidity constraints, build financial reserves among the clients for any mishaps, and create the basis for more significant investments in machinery and equipment. The planned interventions of the social mobilizers to create a systematic savings process, and savings as a habit, is therefore highly needed.

(h) Line of credit (LOC): Disbursement under the NADeP LOC accelerated by more than 300% in one year, following a re-negotiation of the interest rate from 13.25% to 6.5% to the end borrower. The reasons for the accelerated performance may be attributable to the fact that the new interest rate is much more attractive to the end-borrower, also because the interest rates in the market had overall declined in the meantime. While the available allocation for self-help groups was USD 6 million before, PFIs have fully committed these funds within one year, and have already appraised an additional USD 9 million in demand for loans, which they would have approved if funds were available under the LOC. NADeP has supported and strengthened linkages between the PFIs and target groups through trained social mobilisers; and the PMU chairs joint meetings on a monthly basis with PFIs and CBSL to monitor, follow-up and resolve issues. Whilst national figures show that less than 29% of clients receive credit and that loan outstanding to agriculture is only 9%, in the case of the NADeP LOC, almost 40% of

NADeP-linked clients received credit (7,100 out of 18,000 registered through self-help groups; 79% of borrowers are women) of an average loan size of USD 650. About 48% of these loans were used primarily for agriculture-related activities. This confirms the need for a LoC to help rural farmers test the innovations emerging under the 4P investment plans and thereby increase incomes and the stability of income flows.

(i) Role of the 4P broker: appraising the 4P business plans requires specialists who are familiar with the language of business on the one hand, as well as agronomists (with technical and field knowledge of farm production, etc.), in order to ensure that the underlying assumptions and cost-benefit analysis undertaken by the appraisal/ evaluation team is sound. Based on the NADeP experience, the PMU with its in-house Technical Assistance team is the best placed 'broker' of 4Ps. The broker team has direct interest and is committed to establishing 4Ps; the team also has demonstrated technical capacity, and has shown this by developing 15 4Ps within one year.

(j) Household monitoring: Farmer/ producers are not fully sensitized on monitoring their income derived from production sales vis-à-vis their expenditure requirements; in general, there is need for producers to monitor their expenditure, production, sales and income at the farm-level to better inform their farming/ production decisions; this kind of household/ farm monitoring also supports testing of assumptions made on cost-benefit analysis of production and farming models that are part of the BP proposals.

(k) Supporting the rural youth: As expressed to social mobilisers with close contact to youth in rural communities, access to finance is one of the key challenges for rural youth. Their financing needs which can help them to start-up small business are in the range of USD 1000-3000, though they require support from social mobilisers who are also interlocuters with PFIs (and know loan officer appraisal priorities), to shape their business plan and request for financing. This model of working with social mobilisers as a go-between the youth and PFIs, works well in mobilizing start-up funds for youth; the specific line of credit dedicated to youth, also supports the approach.

# Appendix 4: Detailed programme description

### Approach vis-à-vis the Theory of Change

1. **Theory of change.** The theory of change of the programme is based on a fundamental premise that a market-driven approach is needed to help smallholder farmers sustainably increase their income and improve their livelihood. This is operationalized by facilitating mutually beneficial (win-win) Public-Private-Producer Partnerships (4Ps) between smallholder farmers and private companies in response to clear market opportunities and by strategically combining public and private sector funds and advice to address smallholders' needs in terms of access to market, technology, organization and scale, good agricultural practices, and affordable credit, as well as creating a favorable policy and regulatory environment for the agribusiness and financial sector to expand outreach towards rural clients and become overall more competitive.

2. Subsequently, the development hypothesis and theory of change is that smallholder producers, through tailored support, including for their organization, are primed to benefit (in terms of income, livelihoods, assets and social capital) as key actors in viable 4P arrangements/ models aimed at improved marketing and (quality) product enhancement to meet current market demands, and overall contributes to national agricultural competitiveness. This approach necessarily requires better organization and strengthening of smallholder farmers, towards their graduation into functional producer/ farmer organizations, improving their technological and business skills, and linking them to agribusiness partners, markets and financial services. A crucial dimension of sustainability will be to formalize and strengthen these organizations, by improving their outreach, managerial capabilities, services and enhancing their market engagement.

3. Special attention will also be given to income generating activities in which youth, in particular those who do not have land and other assets to be involved in farming, can be involved. These opportunities will be explored primarily in the value chains supported by the programme offering products or services to meet the demand for services generated by the development of 4Ps.

4. **Approach and principles of engagement.** The overarching principles that frame and govern management and coordination of the SAP programme are the following: (i) alignment with Government priorities (includes collaboration with other development partners and opportunities); (ii) a demand-driven and flexible approach; (iii) adoption of a market-driven and private sector-led approach; (iv) inclusive rural financial services provision; (v) joint financing (cost-sharing) and risk-sharing; (vi) competitive selection of partners and viable business plans; (vii) empowerment, organisation and strengthening of smallholder farmers as business partners; and (viii) complementary support to market-driven self-employment activities for specific segments of the rural population (i.e. landless youth).

5. The mechanism by which these principles are embodied is through the promotion of mutually beneficial (win-win) Public-Private-Producer Partnerships (4Ps) between private companies and smallholder farmers. These 4Ps will build on the lessons learned from the ongoing NADeP programme and adopt some of the good practices identified by IFAD in applying this approach worldwide. This is key to ensure that the 4P partners have incentives to respect the contractual agreements, avoiding for example side-selling, and maintaining fair pricing, which serves to ensure the success and sustainability of the partnership.

6. In the first instance, the decision to support a 4P requires a strong rationale for a 4P. In the process of setting up the partnership, the programme should assess whether the following questions are properly addressed: what is the aim and what are the objectives to be achieved; to what extent are the interests (incentives) of different actors aligned towards a common objective; and is the partnership responding to a sustainable market demand. Secondly, it is important to make a careful selection of the 4P partners both, private companies and producer/ farmers. To this end SAP will adopt a competitive process (based on expressions of interest and call for proposals), well tested

under the ongoing NADeP programme; however, special attention will be given in supporting the design of 4Ps initiated by farmers organisations, as they have less capacity compared with private companies. Subsequently, technical assistance through a qualified service provider will be critical to develop a viable and bankable 4P business plan in consultation with the potential commercial partner. A third element is related to the negotiation of the business model proposed in the 4P scheme (whether the model is an integrated outgrower scheme (like some of those supported under NADeP), a simple commercial agreement between two parties, or a more complex co-investment into a post-harvest handling / processing facility) – i.e. how will all the parties profit/benefit from the partnership, ensuring the partnership is truly a win-win arrangement. Fourthly, in the negotiation of the 4P, the partners/ parties must agree on their respective roles and responsibilities, including each partner's share of risks and benefits; as well, unforeseen circumstances (e.g. natural disaster, pest and disease, price drop) which may affect the capacity of one of the parties to honour the agreement need to be considered and discussed. Finally, as currently being applied in NADeP, the 4Ps should be based on cost-sharing arrangements agreed upon by all parties. To this end, it is critical to ensure that the agribusiness sector actually contribute to the partnership with funding and know-how made available to farmers. The same applies to the financial sector which is requested to step in under SAP as full-fledge partner willing to co-finance with its own funds.

7. In complement to the 4Ps, special attention will be given to income generating activities in which youth, in particular those who do not have land and other assets to be involved in farming, can be profitably involved. These opportunities should be explored during the preparation of the 4P business plans by requesting the promoter/ originator(s) to identify, based on the product and value chain, complementary goods and services demanded by 4P partners (e.g. veterinary services, organic compost, maintenance of equipment).

8. **4P planning and development process.** The 4P arrangements (outlined in what will be the 4P business plan) are based on the expectation that they respond to common objectives among the partners and address the major constraints in farm-level production/ productivity and in marketing. The identification of 4P partners and plans will build on the current NADeP procedure based on a call for proposals (expression of interest). Under SAP, both private companies and farmers organisations (with a specific call for proposal process for FOs at incipient stage of development in Mahaweli area – see appendix 5 on implementation arrangements) will be invited to submit proposals. The proposed 4P business plans will be evaluated against multiple criteria, transparently communicated to potential stakeholders through sensitization and consultation workshops and forums in advance of the call for interest. To this end, SAP will prepare 'educational' material as relates to the key social (e.g. gender and youth specificities) and environmental (including climate change adaptation[58]) issues and best practices or approaches which SAP will promote and give preference for in the evaluation of 4P proposals. Following a first appraisal, the SAP PMU will facilitate, broker and negotiate the final 4P scheme across the partners, shaping and developing the final 4P proposal.

9. The 4P appraisal process, as well as a rapid market assessment of potential value chains/ sub-sectors, is elaborated in the annexes. Key criteria reviewed during appraisal include: the market prospects (national/export); expected economic benefits in terms of farmers' incomes increase from participating in the 4P (through a combination of improved farmer gate prices, improved on-farm productivity and participation in upstream value added processing); overall profitability of the investment proposal (internal rate of return, incremental benefit/cost ratio, payback period); as well as social and gender or youth-related and environmental aspects (improvement of sustainable farming practices, use of organic fertilizers, plant protection methods).

10. The planning/ development process and subsequent implementation of 4Ps will be concentrated in the first three years of the programme cycle, with the remaining programme lifetime dedicated to monitoring and consolidation of activities and results for sustainability. The exception

[58] As a first measure, the SAP SECAP Review Note will be streamlined and repackaged as a guideline for 4P stakeholders and for their consideration in preparing the 4P proposals.

relates to support to 4Ps implicating farmer groups/ organizations, which will be implemented over two phases – a pilot phase (programme years 1-3) and an expansion phase (programme years 4-6).

11. **Financing of the 4P business plan**. Financing of the 4P business plan (i.e. investment plan) will be under a co-financing/ cost-sharing arrangement that includes: (i) matching grants/ start-up funds provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of beneficiary contribution; and (iii) private sector (agribusiness) contribution (this will be in the form of extension or other services rendered to the target group (monetized), in-kind contributions, etc.). Whilst the total investment per beneficiary of the 4P business plan will vary, it is expected to be USD 1500 on average, shared approximately on a one-third co-financing basis, though allowing for some flexibility in this arrangement. The matching grant should be considered as start-up funds, to complement the fixed assets investment financed through credit[59] (and serving as beneficiary contribution).

12. With respect to producer/ farmer organizations (FOs), SAP will promote a three pronged approach taking into account both the degree of FOs' development and the means by which FOs and farmers groups will enter as stakeholders into the 4Ps. The three models are the following:: (i) private-sector led 4Ps; (ii) mature FOs or farmer cooperatives already managing sizable businesses; and (iii) incipient FOs, mainly under the Mahaweli Authority of Sri Lanka (MASL) areas. Under the first model, SAP will encourage private sector companies, on a voluntary basis, to lead the development of partnerships with farmer groups; under the second model, the relatively more mature FOs already engaged in the business of processing and/ or value addition, will be receving seed and working capital financing to expand their business to the benefit of their members; and under the third model, a specific attention will be given towards supporting the FOs to develop their bankable business plans and gradually evolve into functional business-oriented entities. The nascent nature of these FOs requires a strong field presence amd proximity support for their institutional strengthening. As a result an institutional collaboration is proposed with Mahaweli Authority (see appendix 5 for the elements of such collaboration). The overall approach of engaging FOs into 4P arrangements will be gradual, with an intial support to 70 FOs along the models outlined above for the first three years of the programme, and following a mid-term assessment, the model can be refined, scaled-up and expanded.

13. Finally, the design of the SAP programme acknowledges the importance of promoting an enabling policy and regulatory environment for the private sector to operate and respond to market opportunities. Therefore, it will facilitate spaces of dialogue and interaction with both the agribusiness/agriculture and the rural finance sector where key policy issues could be identified by programme stakeholders. This will be supported by joint performance monitoring, knowledge dissemination (and management) and specific technical assistance as part of an integrated policy dialogue and engagement process.

**Description of Programme Components**

14. The development objective and expected outcomes and results will be achieved through three components: (i) Access to commercial partnerships; (ii) Access to rural finance; and (iii) Programme management and policy dialogue.

**Component 1: Access to commercial partnerships (USD 51.2 million)**

15. This component includes two sub-components: (1.1) Establishing 4Ps; and (1.2) Institutional strengthening and capacity building of producer groups (within a market-driven model). A total of 35,000 households will be directly reached through 4P schemes and institutional strengthening interventions. A further 2,500 poor young women and men will be supported to become entrepreneurs responding to demand for products or services generated by the 4Ps.

16. **Under sub-component 1.1**, the programme will support the establishment of market-driven 4Ps under three categories: (i) new 4P schemes led by private companies (21,000 hhs); (ii)

[59] See Component 2 for details regarding financial products and credit offered by participating financial institutions (PFIs) through the programme-supported line of credit.

geographical/ outreach expansion or scaling-up of NADEP-supported 4P schemes (10,000 hhs); and (iii) new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the business 4P schemes (4,000 hhs). This implies that the 'promoter' (originator) of the 4P schemes will be either a private-sector company or a farmer organization that can show evidence of a confirmed commercial arrangement with a private-sector company or commitment of a market buyer.

17. **Matching grants and start-up funds**. For the overall purposes of promoting agricultural modernization and reducing producer/ farmers' (and youth) risks related to uptake of new technologies and innovative activities (especially those that promote sustainable natural resource management and climate change adaptation), SAP will provide some start-up funds as complementary to term loans to farmers and private sector investment, on a one-third cost-sharing arrangement to the overall business investment proposed under the 4P scheme; these start-up funds are strictly targeted at smallholder farmers only (in the form of a matching grant), and can also be used as partial collateral, thereby reducing the cost of borrowing. Flexibility will however be exercised; in practice, and as has been the experience of NADeP, each 4P partnership (and the co-financing arrangement) will be negotiated, taking into consideration the additional net income generated for farmer/ producers and the total cost per beneficiary.

18. Equipment or assets which promote health and safety standards, improved climate change adaptation/ natural resource management, or are particularly gender or nutrition-sensitive, may also be eligible for matching grants.

19. **FOs**. For the new 4P schemes explicitly working with producer/ farmer organizations, the programme will provide an additional support, in the form of start-up funding at group level up to USD 50,000 per FO as start-up financing for seed capital needs (such as acquisition of small to medium-sized equipment and post-harvet assets, e.g. collection centres, storage facilities, processing plants) and initial working capital needs that will enable the group to run its business in partnership with the 4P stakeholders.

20. **Youth entrepreneurship initiative**. SAP will also provide targeted support to rural youth, in order to become entrepreneurs, and responding to the demand for services generated along the value chain and in complement to the 4Ps. An initial 2,500 youth will be supported with start-up financing for their business plans, averaging USD 2000 in the form of start-up funds (matching grant) and credit. A basic training curriculum for youth business plan preparation has already been tested under NADeP, and will be refined by SAP, though the business plan training is only the first step in capacity building support for youth and is linked to their ability to apply for the special youth credit (see Component 2). Identification of the youth, and their mobilisation will be a joint responsibility between social mobilisers, private sector partners and community leaders (involved in 4Ps), vis-à-vis the principle that youth businesses would be responsive to the service or product needs around the 4P schemes.

21. A youth strategy will be commissioned as a first starting point to better understand diversity amongst the rural youth, and subsequently their challenges, aspirations, critical needs and the opportunities where SAP can intervene in supporting the youth. This strategy will draw from the consultations with youth in rural communities, the experience and sensitization activities undertaken by the social mobilisers, and via the dialogue with private sector companies.

22. In order to more effectively draw out the demand for products/ services around the 4P, SAP will through its consultation and sensitization activities, encourage the private sector companies to identify the critical product or services gaps along the value chain, and/ or the gaps in human resources capacities. These gaps will be communicated to the youth, to establish their interest and commitment to engage in these particular activities. Social mobilisers, by virtue of their close community-level knowledge and training in the SAP principles and approaches, will communicate SAP's open call for interest for youth to take part in the initiative. To facilitate youth in stepping forward, social mobilisers will provide support to the youth with some initial and basic training on how to develop basic business plans and will work with those youth with potential to finalize their business plans; the social

mobilisers will also have the role of connecting the youth to PFIs, who will ultimately appraise the business plan and decide on whether to approve the loan.

23. Once the youth business plan and credit has been approved, the support to youth will also be complemented by capacity building support. A range of topics such as financial literacy, know-your-numbers, and managerial training will be offered, and youth with approved business plans can choose their priority needs; the specific technical training that will also likely be required, has also been provisioned for.

24. To the extent possible, the programme will also attempt to facilitate or broker a mentorship programme for those youth demonstrating strong leadership and entrepreneurial potential, with established business experts.

25. **Approach for the provision of matching grants (4P and youth)**. Under NADeP, the provision of matching grants under the 4P scheme, adopts the following model: based on the business/ investment plan, the the cost-sharing principle is agreed by the parties. Whilst matching grants can be provided, they are only used to finance part of the fixed asset investment not exceeding USD 500 per beneficiary; the remaining part of the fixed asset investment is financed through the PFIs (via the loan taken by the farmer). Once the farmer has been appraised and cleared by the PFI to borrow, the project (NADeP) transfers the agreed matching grant amount into the borrowers account; in the standard case, the borrower authorizes the bank with a standing order to transfer the loan and matching grant amount to the supplier's account for purchase of the fixed asset/ equipment.

26. Under SAP, a second alternative approach that requires further discussion and agreement by the parties, is as follows: the matching grant, upon approval of the loan by a PFI, could be paid out into a trust account of the PFI, and shall serve as a guarantee up to the moment that the borrower has repaid 60-80% of the loan capital; once the agreed level of repayment has been reached, the matching grant amount will then be debited from the trust account and credited to the loan account of the borrower, and thereby bringing the debt to zero. In this approach, should a borrower default significantly, the matching grants would be cancelled automatically. The main disadvantage of this approach is that the borrower would need to pay interest on the whole amount until the matching grant is credited into the borrower's account.

27. The above two approaches can also be applied to the provision of matching grants to complement the appraised and approved (by PFI) youth business plans. For the youth especially, the matching grant element (in addition to its provision to reduce the risk of uptake of new innovative business) should ease some of the risk perceptions of lending institutions who in general have a preference to lend to clients with experience in doing business as a key lending criterion. Subsequently, the matching grant serve as partial collateral for the borrower.

28. **Under sub-component 1.2**, , the programme intends to support capacity building of producer/ farmer organizations (FOs), with the rationale that strengthening of FOs will empower the group to become an effective partner under 4P schemes as well as their capacity to take informed decisions about their business. The start-up funding at group (FO) level will be complemented with support in the form of business mentoring, training, exchange visits and degressive support to FOs for their management.

29. Producer/ farmer organizations eligible for support include those registered under the following: (i) Social Services Act; (ii) Agrarian Development Act (this includes organizations registered by, and operating within the remit of the Mahaweli Authority); (iii) Co-operative Socieities Law and (iv) Company's Act. For those groups not yet registered, whenever appropriate, the programme will facilitate their legal registering: awareness building and reflection process with the members to enable them to analyse pros and cons of the four possible registration options and ultimately choose the option that best suits their needs and plans.

30. For the new 4P schemes explicitly working with producer/ farmer organizations as stakeholders in the business 4P schemes (4,000 hhs), SAP will promote a multi-pronged approach taking into

account both the degree of FOs' development and the means by which FOs and farmers groups will enter as stakeholders into the 4Ps. Three models engaging and providing support to 70 FOs are envisaged:

(a) Private-sector led 4Ps with 20 FOs (Type A FO 4P partnership). Under this first model, SAP will encourage private sector companies to present business proposals for outgrower schemes that foresee partnerships between private sector companies and farmers groups, either legally constituted in the form of associations/farmer-led companies or as informal groups. Initial support will be for 20 FOs under these 4Ps type of schemes, with an average membership of 50 members each, for a total outreach of 1000 households over the first three years of the programme (pilot phase).

(b) Mature FOs or farmer cooperatives (10) already managing sizable businesses (Type B FO 4P partnership). Under this second model, the relatively more mature FOs will already be engaged in the business of processing and/or value addition, and the provision of seed and working capital financing will support them to expand their business to the benefit of their members. The support will be very similar to the one for private led 4Ps. Indeed these coops and FOs are already into business, processing and value adding activities and therefore the support won't depart from the one provided to 4Ps private companies led schemes. In that sense, the SAP support will be through the provision of Lines of Credit (LOC), grant financing and will comprise a counterpart financing from the coops themselves The difference with the 4Ps led by private companies is that LOC and grant financing can be contracted directly to the coops and FOs rather than financing the farmers on an individual basis and lump together with the 50 000 USD provision for the coops and FOs in the form of start up fund at group level (see subcomponent 1.1). The logic for such diverse approach is that the FOs and coops are belonging to farmers hence the support to coops will be benefiting directly farmers as members while strengthening FOs/coops businesses. Given the limited number of FOs and coops in Sri Lanka already capable to manage sizeable business, the initial support will be for 10 FOs and coops under these 4Ps type of schemes, with an average membership of 100 members each, for a total outreach of 1000 smallholder farmers over the first three years of the programme (pilot phase).

(c) Incipient FOs (40), mainly under the Mahaweli Authority of Sri Lanka (MASL) areas (Type C FO 4P partnership). Under this third model, specific attention will be given towards supporting the FOs to evolve from initial 'business ideas' to bankable business plans and gradually evolve into functional business-oriented entities. Financial support, similar to the Type B coops and FOs will not be initially matched with counterpart financing, given low capacity of these FOs to mobilize their own resources. Financial support will be provided on a gradual basis to ensure solid management and absorption capacity. The FOs supported under this third model are still at start up of their business (only with business ideas rather than business plans) thus requiring a stronger field presence to support their institutional strengthening. Henceforth, the FOs under this model will be geographically targeted to Mahaweli areas given strong field presence of Mahaweli Authority of Sri Lanka (MASL) that will provide on the ground institutional support and business mentoring to FOs (see appendix 5 for detailed implementation arrangements with MASL). Initial outreach will be for 40 FOs under these 4Ps type of schemes, with an average membership of 50 members each, for a total outreach of 2000 households over the first three years of the programme (pilot phase).

31. The selection of business ventures (under private-sector and FO-led 4Ps), will follow competitive open selection processes. In the particular case of incipient FOs in the Mahaweli areas, the process of sensitization and competitive selection will be in turn, managed by MASL, who will also benefit from institutional strengthening support from SAP .

32. Financial support will then be matched with a package of capacity building support that will include, *interalia*, business mentoring, training, exchange visits and degressive support for the FOs management, given the hypothesis that these farmers groups initially won't have a business capable to cover recurrent costs linked to the their management.

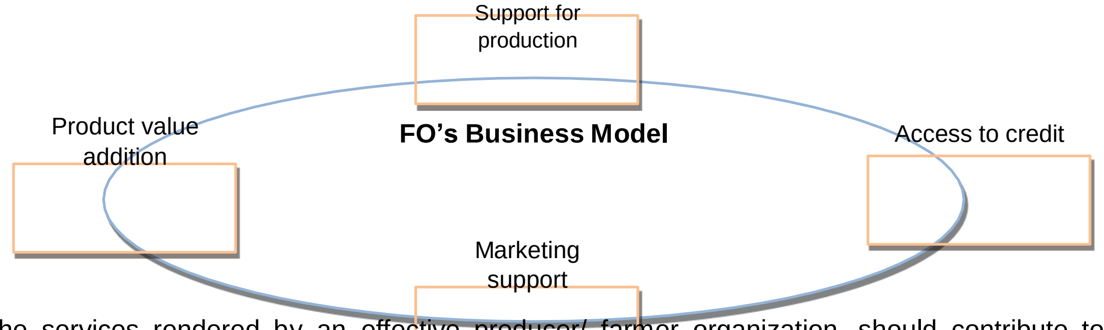
33. The package of capacity building support will be flexible depending on needs and audience (by group, organization, individual), though primarily relates to technical assistance/ training; the areas which can be covered include: organizational structure; governance and management; market intelligence and marketing, negotiation skills; basic accounting and finance; business plan development, contract development with other chain stakehodlers, collective/bulk marketing and procurement of inputs, management of common storage facilities and equipment, technology development for agricultural intensification and productivity enhacement, financial literacy and intelligence for linkages with banks. In the latter case, trainings will be promoting savings mobilization, approaches to implement their savings schemes, with a view to satisfy social needs, business expansion and collateral requirements of the banks. Trainings will also promote sustainable adoption of climate resilient crop development that will be accompanied with approaches for sustainable use of natural resources. Training programmes will be delivered through a number of conduits; through specialised service providers, as well as through social mobilizers who will be trained as trainers through a training of trainers (TOT) programme.

34. Trainings programmes will then be complemented by exchange and learning visits, within the country and in the Asian region. These visits will be providing exposure and learing for, inter alia, further expansion of coops and FOs business model, to develop environmental sustainable strategies, and to promote market compliance.The capacity building package, for Type A and Type C models characterized by less mature FOs with no yet a net margin to cover their recurrent costs, SAP programme support will be complemented by a degressive support for costs related to FOs management.

35. In the case of Type C FOs abovementioned, a specific role will be played by MASL with a pool of consultancy support for implementing the support to FOs (see appendix 5 for the specifics related to the role of MASL)..

36. Through the pilot phase, the attention to supporting the structure, governance and business of FOs, should yield important lessons and allow for fine-tuning of comprehensive and replicable models to support FO development in the country and further expansion in the context of SAP.

Figure 1: Support instruments for producer/ farmer organizations




37. The services rendered by an effective producer/ farmer organization, should contribute to enabling smallholder members to increase their productivity, mitigate production risk, improve household and farming management and subsequently increase household income. The supporting instruments to develop this level of organization are as follows:

(a) *Support for production* basically covers regular input supplies like seeds and fertilizer, access to productive equipment and agricultural extension services; in complement, the existing public services should be tapped into. As is now also a practice, input supplies could be arranged through the private sector (buyers), set out in such contracts as the forward sales agreements (FSAs).

(b) *Support for product value addition* relates to: access to processing equipment; sub-contracting arrangements with larger-scale processors; packaging; and post-harvest handling, including storage.

(c) *Marketing support* relates to the management of contracts with buyers; bulk marketing; transport management; market studies; and market information systems. SAP support in particular, would be required to strengthen FO knowledge on management of 'business' contracts, including legal instruments and formalities.

(d) *Access to credit* refers to facilitating the important linkage to the formal financial sector. In complement, FOs would likely require support and assistance to develop bankable business plans.

(e) *Overall support.* In general, FOs will need have continuous institutional capacity building support, in terms of the governance and management of the organization as an entity in itself.

**Component 2: Access to rural finance (USD 47.1 million – includes a financing gap of approximately USD 15.8 million)**

38. The limited lending to agricultural sector activities and the subsequent impact on agricultural development as outlined in Section I, highlights the need to promote and make accessible, agricultural financial products for the smallholder farmers under 4Ps. This component principally follows the strategies, modes of intervention and investment opportunities that emerge under Component 1, and aims at facilitating access to rural financial services in a sustainable manner and at affordable rates. It shall have two sub-components: (2.1) Financing of 4Ps; and (2.2) Institutional strengthening. The component provides the products and liquidity that are needed to serve the target groups and help achieve the overall objectives.

39. **Under sub-component 2.1**, a line of credit (LOC) shall be established under the Regional Development Department of the CBSL. This LOC shall be used exclusively to refinance PFIs which have granted loans to eligible participants under a 4P business/investment plan through the following target groups:

(a) Farmers, engaged in a 4P scheme or activities under the FO;

(b) Youths in the age bracket of 18-30 years, as per the standard government definition.

40. For these two target groups, three different products shall be offered:

(a) Working capital loans for farmers engaged in 4P arrangements supported under component 1;

(b) Term loans for investments in equipment and machinery up to a duration of five years for farmers engaged in 4P arrangements supported under component 1;

(c) Working capital and investment loans for a duration of up to two years for youths, which may be combined with start-up funds as approved under component 1.

41. For all loans, PFIs will charge the rates agreed upon under the 4P plan and will bear the full risk of default on repayment. Correspondingly, PFIs make their loan appraisal in conformity with their own standards and procedures, and have of course the right to accept or reject a loan application, or to reduce the loan amount if they would not be convinced on the full merits of the proposal. While PFIs apply their standard collateral regime, the SAP extends a small guarantee in the amount of and through a matching grant between the time of disbursement and the loan repayment up to the amount of the PFI contribution. Details have been provided under component 1.

42. **Working capital loans for farmers**. Working capital requirements for the cultivation of crops supported under the 4P plans for one hectare mostly do not exceed the equivalent of USD 350, and are mostly for a duration of up to 9 months. All short-term loans must be repaid within 11 months by the borrowers.

43. **Term loans for investments**. The term of these loans shall be a maximum of 4 years, even where banks would in principle allow for longer terms. Grace periods shall depend on the cash flow, and could be up to six months. The average borrowing amount per individual farmer has been calculated at USD 500.

44. **Working capital and term loans for youths**. In most cases, a loan duration of 24 months will apply, given the size of the loans and the programmeed cash flows. The maximum loan amount shall be USD 2,000, in which an enventual matching grant may be included, depending on the eligibility. Unlike loans to farmers, where short term and medium/long term loans shall fall under separate contracts, this would be simplified in the case of youths, where term loan, working capital loan and eventually a MG would be lumped together. Where a grace period of up to six months would be included, the payments of interest due must always be monthly. This flexibility is needed as it the cash flow of these investments cannot be predicted as in the case of loans to farmers.

45. The Programme Implementation Manual (PIM) shall provide the operating guidelines on loan purpose, target market, eligibility criteria, loan size, loan period, collateral requirements, interest rate and repayment terms and associated fees.

46. It is programmeed that 55,000 smallholders and 2,500 landless youths will get access to credit through the SAP-financed line of credit for on-lending by the PFIs. Once the borrowers under the 4P schemes have liquidated their previous loan, they will also be eligible for term loans.

**Table 5: Incremental outreach under SAP**

| **Planned incremental outreach** | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Total |
|---|---|---|---|---|---|---|---|
| New 4Ps | 6,000 | 6,000 | 6,000 | 3,000 | 0 | 0 | 21,000 |
| NADeP 4P + | 4,000 | 4,000 | 2,000 | 0 | 0 | 0 | 10,000 |
| FO 4Ps | 2,000 | 2,000 | | | | | 4,000 |
| NADeP existing 4Ps | 20,000 | | | | | | 20,000 |
| Youth | | 1,000 | 1,000 | 500 | | | 2,500 |
| Total | 32,000 | 13,000 | 9,000 | 3,500 | 0 | 0 | 57,500 |

47. Contributions to for working capital purposes will vary over time. In the first year, each group of farmers, or each farmer, will have to pay 10% of the expected loan amount into a blocked savings account at the respective PFI. This contribution will gradually increase to 30% of the loan amount in year, after which it will be constant. This means that farmers are expected to continue savings, but are no longer required to keep these savings in their savings account that will be blocked by the PFI at the time of disbursement. PFI contributions will start with 20% in year 1, and will then gradually increase to 70% in year 5. Consequently, the amount taken from the LOC will start with 70% in year 1, and will then gradually decrease to zero from the fifth year onwards. This model will apply to all borrowers served under the LOC. The table below shows the changing contributions by all parties over time.

**Table 6: Contributions to short-term loans**

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| FO or individual farmer | 10% | 20% | 30% | 30% | 30% | 30% |

| | | | | | | |
|---|---|---|---|---|---|---|
| PFI | 20% | 25% | 35% | 45% | 70% | 70% |
| SAP | 70% | 55% | 35% | 25% | 0 | 0 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

48. Following the programmeions for the number of farmers and youths and the demand and absorption capacity of the target groups over time, the programme would disburse nearly 300,000 loans over the six year period.

| Number of loans | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Total |
|---|---|---|---|---|---|---|---|
| New 4Ps | 6000 | 12000 | 18000 | 21000 | 21000 | 21000 | **99000** |
| NADeP 4P + | 4000 | 8000 | 10000 | 10000 | 10000 | 10000 | **52000** |
| FO 4Ps | 2000 | 4000 | 4000 | 4000 | 4000 | 4000 | **22000** |
| NADeP existing 4Ps | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | **120000** |
| **Sub-Total** | **32000** | **44000** | **52000** | **55000** | **55000** | **55000** | **293000** |
| Youth | 0 | 1000 | 1000 | 500 | 0 | 0 | **2500** |
| Grand Total | 32000 | 45000 | 53000 | 55500 | 55000 | 55000 | 295500 |

49. The total amount of loans granted under the SAP exceeds USD 100 million, as shown in the table below.

**Table 7: Value of loans disbursed under SAP**

| Target group | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Total |
|---|---|---|---|---|---|---|---|
| New 4Ps | 2100000 | 4200000 | 6300000 | 7350000 | 7350000 | 7350000 | **34650000** |
| NADeP 4P + | 1400000 | 2800000 | 3500000 | 3500000 | 3500000 | 3500000 | **18200000** |
| FO 4Ps | 700000 | 1400000 | 1400000 | 1400000 | 1400000 | 1400000 | **7700000** |
| NADeP existing 4Ps | 7000000 | 7000000 | 7000000 | 7000000 | 7000000 | 7000000 | **42000000** |
| **Total** | **11200000** | **15400000** | **18200000** | **19250000** | **19250000** | **19250000** | **102550000** |
| Youth | 0 | 1500000 | 1500000 | 750000 | 0 | 0 | **3750000** |
| **Grand Total** | **11200000** | **16900000** | **19700000** | **20000000** | **19250000** | **19250000** | **106300000** |

50. The net financing requirements for the LOC have ben calculated at USD 12.0 million, including total contributions of PFIs to the tune of USD 9.7 million, of farmers amounting to USD 4.7 million, and of the GOSL of USD 17.4 million, the latter being the reflows of past lines of credit.

51. **Pricing of the LOC facility**. The interest rate of the facility should be cost-recovering. As the Government will have to pay back the loan in foreign currency, the devaluation of the Sri Lankan Rupee (LKR) will have to be included in the calculation of the costs. The point of departure for the pricing of LOC will be done as the cost of capital for the Government (including the anticipated devaluation of LKR) + administrative cost of the CBSL + interest spread for PFIs to cover administrative/operating cost, cost of funds, loans losses and profit markup. The interest rate would be reviewed as and when necessary to reflect the current national financial market.

52. The above lending rate following the above principles would turn out as shown in the table below.

**Table 8: Cost of funds from IFAD to the final borrower**

| | |
|---|---|
| IFAD charges to GOSL/MOF as per the financing agreement | 2,00% |

| | |
|---|---|
| MOF rate to CBSL incl. mark-up for devaluation risk[60] | 3,70% |
| Standard CBSL rate to PFIs to cover operating costs | 3,95% |
| Proportionate cover suggested for SAP to cover inflation risk | 2,00% |
| Mark-up for PFIs covering their op. costs and risks | 4,00% |
| Tentative lending rate of PFIs to final borrowers with funds deriving from the LOC | 9,95% |

53. This rate will influence the final loan amount charged by a PFI in view of the average cost of funds for loans. As shown in the table below, the average weighted lending rate in year 1 would be 9.87%. This tentative lending rate compares with 16-19% charged by commercial banks, and about 31% p.a. charged by MFIs in the case of smallholders.

**Table 9: Average weighted cost of lending**

| | Contribution to LOC | Interest rate/average cost of funds | Share |
|---|---|---|---|
| Farmer | 10% | 3% | 0,30% |
| PFI | 20% | 13,00% | 2,60% |
| SAP | 70% | 9,95% | 6,97% |
| Total | 100% | | 9,87% |

54. **Interest rate adjustment**. Interest rates charged under the SAP shall be subject to an annual review conducted during the supervision mission. Rates will then be adjusted where necessary in mutual consent, and taking into consideration the maco-economic and financial environment.

55. **Implementation arrangements**. The line of credit shall be administered by the Regional Development Department (RDD) of the CBSL. The RDD is a specialized department managing the lines of credit of various donors and government-run schemes. The subsidiary loan agreement between the GoSL and CBSL and CBSL and PFIs will specify the terms and conditions of the line of credit and sub loans. The SLAs for the existing line of credit will be amended, as will be the operating guidelines to ensure the funds are utilised for the purposes stated above.

56. Under the 4P scheme, it should be noted that PFIs will bear the full risk for their loans, and will have autonomy to assess loan/ credit applications exclusively based on their technical/ financial merit. Therefore, whilst the programme is serving to facilitate funding for the targeted clients, the decision as to whether to approve a loan (or not), and the amount of the loan will be the full responsibility of the PFIs.

57. **Selection of PFIs**. PFIs would be accredited based on at least the fulfillment of the following criteria: (i) minimum of two years of term-lending operations for which audited accounts are available; (ii) NPL below 5%; (iii) fulfillment of all prudential regulations as required by the CBSL; and (iv) willingness to enter into a tri-partite agreement with smallholder producers and the private sector company under the 4P scheme. Based on these conditions, the Bank of Ceylon, Regional Development Bank, Cargills Bank, Hatton National Bank, and some MFIs would be eligible to participate in the scheme. All above four banks have confirmed their commitment to the SAP.

58. **Exit strategy and post-programme arrangements on the LOC**. By the end of the programme, the exit strategy of the line of credit will be its transformation into a revolving fund, which may be called the Farming System Sustainability Fund. This fund will be endowed from the reflows of this and other LOC as per the mutual agreement of the GOSL and IFAD. The Fund will be dedicated to short, medium and long term loans for agriculture. The RDD of CBSL will continue to manage this Fund for the duration of the Financing Agreement between the GOSL and IFAD. The Fund will

[60] Using the past 20 years as reference case, a mark-up of 4.8% would have been needed to protect the past LOC against devaluation of the LKR. In the model above, 3.6% are integrated, assuming that the GOSL will bear the remaining risks.

become a permanent and strategic tool to stimulate agricultural development through smallholder-oriented farmer credit.

59. **Under sub-component 2.2**, the programme will support institutional strengthening of CBSL and the participating financial institutions (commercial banks and progressively MFIs). First of all, the CBSL will be supported in the elaboration and dissemination of new regulations for the microfinance sector, thus ensuring adequate participation opportunities for rural communities, and in-training of licensed MFIs on these new regulations. Under support for the CBSL, an exposure visit will be arranged to upgrade knowledge of the staff working for SAP. Technical training will also be provided for the MF Inspection department on Monitoring Common Frauds and prevention, System Audit and Inspection, and other MFI tools.

60. Within the existing provisions in the AWPB, the CBSL shall submit requests for support to the PMU. Procurement of services under the sub-component shall be made by the CBSL in accordance with its existing procurement guidelines.

61. Furthermore, some critical support to PFIs, including commercial banks and deposit-taking MFIs, will be provided to enable these provide more inclusive, effective (specific and targeted) and efficient financial services and products to smallholder farmer/ producers and other target segments of the population. Most of this support is geared at technical assistance for issues of interest and concern to the PFIs, including value chain financing, micro and small client‘s credit underwriting skills, and reporting, depending on the expressed needs. PFIs will be encouraged to recruit additional lending officers with backgrounds in agribusiness, as the HNB has done with great success.

62. Procurement of these services shall be made by the PMU in close collaboration with the respective PFIs, to ensure that only that would be procured that what would represent the interest of the PFI. This provision is made in order to simplify the operations, as it may be too time intensive to review the procurement guidelines of PFIs. In any case, the results of consultants' and workshop and training reports shall be regarded as the intellectual property of the respective PFI, and shall not be disclosed to competitors.

63. The eligibility criteria for the support to PFIs shall comprise:

(a) PFI branches are engaged in disbursing credit to smallholder farmers using the SAP 4P line of credit. Priority shall be given to the branches located in remote districts especially in Auradhapura, Monaragala, Hmbanthota, Nuweraeliya, Kilinochchi, Jaffna, Baticaloa Matale, and Ampara districts;

(b) The branches can serve at least 500 smallholder farmers under the 4P line of credit;

(c) Regular reporting to the PMU.

64. In case funds would not suffice in a year or towards the end of the programme, selection criteria may comprise the number of farmers served so far, the volume of loans to the target groups, the staffing of branches with lending officers that have agribusiness backgrounds or have received training via the SAP programme, and the NPL situation.

65. All PFIs that partner with SAP will have to adhere to specific reporting obligations as stipulated in the programme implementation manual.

**Component 3: Programme management and policy dialogue (USD 5.8 million)**

66. Component 3 will serve Components 1 and 2. It will comprise a series of activities to manage, facilitate the implementation of, and monitor, report and draw lessons from, the operational activities carried out under the other two components. Component 3 comprises two sub-components: (3.1) Programme and knowledge management; and (3.2) Policy engagement.

67. **Under sub-component 3.1**, programme and knowledge management (including fiduciary management), will be entrusted to SAP Programme Management Unit (PMU), which is an evolved unit comprising the experienced staff of the *existing NADeP PMU* and technical assistance/

consultants. Following some restructuring, the PMU will be strengthened with additional capacity to effectively carry out its key responsibilities of planning, coordination, facilitation and brokerage, and monitoring and evaluation. The programme will establish management, finance and administrative procedures including accounting, auditing and a monitoring and evaluation system in line with IFAD guidelines, and which will feed into relevant national monitoring systems. Given the scope of the proposed programme, key managerial positions within the PMU include a Programme Director, Deputy Programme Director, Agribusiness Manager, Rural Finance Manager and Finance (and Admin) Manager, heading competent staff within their respective units. Technical assistance in the form of consultants will also continue to bring a higher level of professionalism and expertise to the programme. In order to support specific interventions (e.g. as relates to institutional strengthening, capacity building or 4P facilitation where required), institutional service providers will be contracted.

68. To support the policy agenda to promote pro-poor partnerships with the private sector (see sub-component 3.2 below), and given the multitude of SAP programme stakeholders comprising multiple ministries and public agencies, private sector companies, business associations, financial institutions, producers and their organizations, the element of learning and knowledge dissemination and management is critical to sustainability of the programme interventions and future uptake and up-scaling of the model and approaches tested and promoted by SAP. To facilitate this knowledge management, specialised studies, training manuals and information and communication materials will be developed.

69. As well, the institutional housing of the SAP programme within the Presidential Secretariat as the lead programme agency, presents a very strong opportunity not only to ensure high-level policy engagement, but also coordination of key public institutions, and it will allow for a multi-sectoral approach and support to the programme. The high-level engagement will also translate to the operational level, with coordinated partnership amongst the key public institutions (the Mahaweli Authority especially). In addition, priority cross-cutting issues such as nutrition and natural resources management/ climate change adaptation will be pursued at a high-level, to inform and feed into programme operations on the one hand, and to as well be informed by the findings and results arising from programme interventions.

70. **Under sub-component 3.2, Policy Dialogue**, the activities to be supported will aim at improving the policy environment for equitable and sustainable smallholder farmer–sourced agribusiness development. To achieve this, the policy dialogue agenda will be built on two broad thrusts. First, the programme will bring together the key stakeholders – government, agribusiness, financial service providers and smallholder farmers, to enable them to collectively identify the policy constraints they face, promote consensus as to the need for policy change where appropriate, and support the process of bringing about that policy change. Second, it will draw out the key lessons and successes emerging from the implementation experience, and feed these back to Government, for reflection in national policies, strategies and programmes as appropriate. The sub-component will be managed by the Programme Director, while the National Steering Committee will play a critical role in guiding its scope and focus.

71. Under the first thrust, the programme will create space for policy dialogue between national stakeholders and then support that dialogue. At the national level, **4P multistakeholder meetings** will be established, with participation of representatives of relevant government agencies, of producers and their organizations involved in agricultural value chains, of private sector processors and exporters, and of interested banks and MFIs. These 4P multi-stakeholder meetings, which the PMU will convene twice per year, will be professionally facilitated by a partner organization such as the Institute of Policy Studies of Sri Lanka.[61] The meetings will serve as an opportunity for the different actors along the programme-supported agricultural value chains to interact, and specifically, to identify and bring to the attention of Government critical policy and regulatory issues affecting the sector (which may in some cases have been already pre-identified by the PMU); to prioritise these and propose research, where needed, to better analyse the issues and identify solutions; and to validate

[61] http://www.ips.lk/

the findings and advocate for policy change. Commodity-specific or other follow-up meetings involving a sub-set of the participants may also be held, where there is demand to do so. A preliminary and partial scoping exercise has identified the following possible policy issues for the programme to pursue, though these would be validated and prioritised – or replaced by other issues – by the 4P multi-stakeholder meetings before any subsequent work would be undertaken.

(a) Review of the incentive framework for agriculture – the taxation regime affecting the sector, both for production inputs: e.g. polythene tunnels, plastic piping etc, and for food and agricultural products

(b) Analysis of domestic non-tariff barriers to production – reviewing the restrictions on importation of seed and agro-chemicals and certification processes for these.

(c) Identification of approaches needed to promote agricultural R&D into: (a) alternative, organic-based technologies, supporting its policy of reducing agro-chemical use; and/or (b) climate resilient technmologies and practices.

(d) Identification and analysis of specific policy or regulatory issues / blockages along the value chains of the individual commodities supported by the programme.

(e) Identification of approaches for ensuring approaches for ensuring quality and traceability – rolling out Sri Lanka Good Agricultural Practices (GAP) and supporting farmers' compliance with these, and reviewing costs of certifications at farmer levels and quarantine issues, and their impact on the incentive structure for export-oriented smallholder products.

(f) Assessment of the impact of the newly-revised policy framework for artificial insemination, remaining gaps and options for improvement.

(g) Identification of options for ensuring that public agriculture R&D and extension to go beyond a narrow focus on crop production to better respond to market requirements. (*To this end, a specific budgetary provision has been made for activities promoting dialogue between researchers and private sector processors and exporters*).

(h) Identification of policies, strategies and practices for both mobilizing rural savings and enabling smallholder farmers to more easily access agricultural credit.

(i) Assesment of alternative options currently available, and procedures, for registration of farmers' organizations, and their implications for commercialisation of smallholder producers.

(j) Review of the impact of regulations preventing the use of land designated as being for paddy production for any alternative agricultural purpose;

(k) Identification of possible approaches to assisting smallholder farmers to manage produce price fluctuations.

72. The process of policy dialogue will be enhanced by strengthening the capacity of smallholder farmer representatives to enable them to participate effectively in the meetings. The capacity building activities under sub-component 1.2 will include support to farmer organizations to develop their policy dialogue and advocacy skills.

73. All policy issues prioritised for follow-up action by the 4P multi-stakeholder meetings will then be presented to the National Steering Committee for its endorsement. While the approach to be taken relative to specific policy issues will vary case-by-case, further policy research/analysis is likely to be required, in order to identify detailed policy options. The programme will support such analysis (a provision has been made for two such studies per year – total 10 – to be carried out), which will be conducted by contracted research organizations and/or researchers. The research will be subsequently reviewed and the recommendations of that research endorsed by the 4P multi-stakeholder meetings.

74. Under the second thrust, the lessons of programme implementation experience will be analysed. The PMU will identify particularly successful approaches and models piloted or developed; analyse these (the programme will support data collection for the analysis, where necessary); and where appropriate promote their adoption / scaling up by government under a national strategy or programme would be promoted. The need for, and scope of, such studies would be identified as a key part of the knowledge management function of the programme. They might include topics such as:

- The benefits and costs of the 4P model, as compared to other approaches to smallholder agricultural development
- Different models of farmer organization, and alternative approaches to supporting these to become more commercially oriented and play a more active role in agricultural value chains.
- Alternative approaches for supporting rural youth employability, and creation of opportunities for employment and self-employment.
- Approaches and technologies for promoting lower use of agro-chemicals and climate-resilient production.

75. A provision for two such studies per year, from 2020 onwards, has been made in the programme cost tables.

76. Under both thrusts, the programme will look to turn relevant policy analysis into policy change.This will require the development of specific strategies tailored to the topic or issue in question, which should be endorsed once again by the NSC, Depending on the needs of the specific policy in question, the PMU may prepare policy briefs, video films etc. It may conduct advocacy activities, including with parliamentarians as necessary; and offer exposure visits to senior policy makers and other stakeholders, to enable them to visit sites both within Sri Lanka and in other countries in Asia and Africa, to view cases where proposed policies have been successfully applies. The programme will also offer support: to the process of drafting policy documents or regulations; for public consultations around specific draft policy documents; or for kickstarting the operationalisation of new policies, where policy change has been effected.

77. In pursuing specific policy agendas, alliances with other advocacy groups and organizations will be developed wherever this can strengthen the scope for achieving policy impact. Potential allies may include the various Chambers of Commerce (Ceylon Chamber of Commerce, National Chamber of Commerce, Federation of Chambers of Commerce and Industries) and their member associations and committtees; the Export Development Board (EDB); policy think tanks (e.g. Institute of Policy Studies); and established farmers' organizations (e.g. the Movement for Land and Agricultural Reform – MONLAR).

**ANNEX I: the 4P appraisal and development process**

1. Early sensitization, consultation and provision of guidance on SAP principles, objectives, and specific (targeted) interests amongst all the potential project stakeholders (farmer/ producers, youth, agribusiness companies, PFIs, public sector agencies, social mobilisers) underlies the evolution and implementation of the programme.

2. Subsequently, the SAP programme will invite expressions of interest to engage in 4Ps from reputable agribusiness companies, who are then short listed and selected based on a set of criteria including: financial strength; business experience (at least 2 years in business with unqualified audited accounting statements); and commitment and interest in pro-poor development. These companies are subsequently requested to submit proposals in the form of Business Plans (BP) to include an investment plan and an implementation plan. In this early stage, the PMU is forefront in promoting, sensitizing and brokering first contact with the private sector; as the process progresses, the PMU continues its brokerage role and facilitates the negotiations and fine-tuning of the proposals.

3. Within the PMU, the business development unit, staffed with specialists (i.e. those experienced in private-sector agribusiness, financial and legal sector), will be primarily responsible for networking, working with companies on development of BPs, negotiations, on site and off site appraisal. The unit will also be responsible for regular meetings and follow up with companies, FIs, and farmers to identify any issues during implementation.

4. Upon BP submission, the PMU conducts a preliminary assessment and short-listing, and undertakes site-visits to meet with farmer groups and the promoter/ originator company; after this, the PMU facilitates BP development sessions with the company in order to finalize a feasible BP that benefits all parties (with emphasis on financial and economic benefits to the smallholder producer; at this stage, producers are also pre-identified by the company). The BP then undergoes a final appraisal by the PMU team, and is forwarded to the BP Evaluation Committee (comprised of external experts/ target sector specialists from public institutions, PFIs and the private sector) who undertakes further field visits to validate the appraisal and comments on/ proposes further adjustment and finally recommends the BP to the National Steering Committee (NSC) for approval. Simultaneously, District Secretariats are sensitized and informed on the BP.

5. In general, BP proposals will be evaluated against SAP objectives and using an economic and multi-criteria analysis. However, due diligence on the company is carried out to begin with, and is based on their previous financials and audited reports; the experience of the company in working with farmers in an out-grower model is also considered during the appraisal. Following this due diligence, the BP is assessed on the basis of the following criteria:

- The increase to beneficiary incomes (at least 20%-50%) from participating in the 4P through a combination of improved farmer gate prices, improved on-farm productivity and participation in upstream value added processing;
- Market prospects of the value chain, target markets (national/export);
- Ownership of the processing company (farmer owned or the ownership is shared with the promoting company) or contract purchase mechanism agreed;
- Overall profitability of the investment proposal: internal rate of return, incremental benefit/cost ratio, payback period;
- Poverty reduction potential: proportion of poor (small) farmers participating: incremental net margin, incremental benefit/cost ratio by producer, rate of return at farm level if applicable, return per labour day, return per acre, incremental household income;
- Gender and youth aspects: proportion of women and youth involved, impact on women's workloads, incremental earnings for women and youth;
- Environmental aspects: improvement of sustainable farming practices, use of organic fertilizers, plant protection methods; an analysis is also carried out on climate, price and other major risks, along with mitigation measures;

- Viability of the production base, resources availability, technical suitability and the characteristics of the target group where the producers should meet the stipulated targeting criteria;
- Market potential and the efficiency of the pricing systems proposed in the BP to evaluate its overall financial viability.

6. At the end of the evaluation, an appraisal report is prepared for National Steering Committee (NSC) approval with recommendations/ comments.

**Implementation of the 4P:**

7. Following NSC approval, the BP is submitted to IFAD for No-Objection, which if received, precipitates preparation of the necessary legal documents and signing of Agreements between the company and the SAP programme (this Agreement also defines the budget and financing arrangements: SAP matching grant, SAP line of credit, private company co-financing).

8. Subsequently, a baseline survey is undertaken; as well, the company undertakes the mobilisation, organization and sensitization of the pre-identified producers/ farmers. In general, the company provides technical assistance and extension services to improve farm productivity, coordinates the input/ equipment supply, and agrees to procure smallholder produce or output through collection or processing centres. Training on agri-business, including business ethics, financial management, quality standards, technical know-how, social enterprise principles and practice, and GAP are part of the overall package. However, the 4P business plan should clearly identify if, and where there is need for additional support that could be provided by national or district-level public agencies (such as the Agrarian Services Department, etc.), and how this support could be mobilised; it is however expected that the PMU will play an important mediator and coordination role, ensuring the multiple and relevant public institutions are mobilised and connected to the programme interventions, providing support where necessary.

9. Monitoring and evaluation and of the 4P implementation is a shared responsibility with producers and the companies, with guidance and oversight provided by the PMU.

**Expected benefits arising from the 4Ps:**

10. Strengthening producers and producer groups is an important consideration of the SAP model. Where feasible, the programme would promote improved beneficiary ownership in partnership with the private sector, of primary level processing. The key benefits to the producers leading to enhanced farmers' income and livelihoods are the following:

- Improved knowledge transfers along the value chain;
- Improved productivity and improved quality of the produce through extension services and training;
- Improvement in the net margin of producers through: a) improvements in quality; b) introduction of primary processing and other value addition before sales; and c) access to premium markets and corresponding premium farm gate prices;
- Improved post-harvest practices and acquired higher technologies.

11. The programme will also establish stronger linkages to actors along the value chain – the programme has the potential to generate high quality farmer produce for exporters and marketers to enter high standard and higher price markets. It will result in a significant investment in commercial primary production in the village generating significant added value and increase the skills of producers.

12. The programme with its number of target sectors will contribute to develop the export. Long-term results will be the development of a professional export sector, with companies equipped and able to manage, control and assure product quality in a large volume export trade, and having the business practices and process standards and certifications to meet the requirements of the high value markets, securing their competitive position in the international market.

## ANNEX II: Sample NADeP 4P tools to be fine-tuned for SAP

### (i) Framework for Business Proposal Submission and Business Proposal Format – Out Grower Model

SAP will support the development of viable 4P business proposals submitted by private sector reputed / capable companies (Promoter Company) that are willing to operate out-grower networks of small holder farmers and purchase the output of farmers through buy back agreements. The proposed 4P sub-projects should increase farmer income by 20 % - 30 % and the investment should be justified by the income generated.

#### Eligibility criteria of the Proponent Company:

- Should be a reputed company incorporated in Sri Lanka
- Direct involvement in agribusiness for a minimum of 2 years
- Objectives should be to specialize in agriculture, processing of agricultural materials and agribusinesses and / or to deal in agricultural products or services-related,
- Unqualified auditors' opinion and a sound financial position as evidence by its financial reports,
- Reputation of fair dealing and empathy with smallholders and the law income farmers
- Sound management and corporate governance systems
- Comply with the relevant environmental regulations (on preventing waterand air pollution)
- Capacity to provide significant co-financing (already invested or willing to invest) and technical expertise
- Demonstrated long term marketing capability

#### Eligibility criteria of the farmers:

- Should be engaged in agriculture
- Should not possess land extent over one hectare (At least 80 % of the farmers of the outgrower network should belong to this category)
- More than 50 % of the income should be from agriculture
- Women and youth participation should be encouraged

#### Support to be provided:

- Will be for "on farm" productivity improvements
- Approximately Rs 130,000/- per farmer could be allocated ( of which maximum up to 50 % could be as grant and balance should be through credit from PFIs.
- Grant component of the NADeP contribution should be utilized as much as possible for value chain capital assets, on-farm development and construction. If the grant component is not sufficient for the purpose, then micro credit component too could be utilized; the grant component should be 50 % or less of the total programme contribution.
- Inputs (seeds, planting materials, fertilizer etc), machinery maintenance and other working capital requirements could be purchased from credit component; other capital assert requirements can however also be considered through microfinance.
- Asset ownership should be with the individual farmer. Promoting company should have a signed agreement with each asset owner. In that agreement, it should be clearly indicated that if the farmer stops using that asset, the Company should take the asset back and give it to some other farmer who is willing to do the same agriculture production and be in the out grower network. In that case, net amount original owner paid (total amount paid less depreciation) should be paid to the original owner by new owner. In addition to the grant component, if there is a micro credit component involvement for the purchase of asset, then capital payment (excluding interest paid) up to cessation of the asset has to be paid back to the original owner.

#### Expectations and responsibility of the private-sector company:

- Promoter company should ensure that the maintenance of the asset is looked after by the asset owner.
- Total expenses on extension activities should be carried out by the proponent company and should ensure effective and efficient extension service.

- Proponent Company in association with farmer network should ensure establishment of a welfare fund; utilization of funds should be decided in agreement with both parties.

### Business Proposal Guidelines – out grower system

1.0 Executive Summary
2.0 Organizational Overview (about the company submitting the proposal)
2.1 Vision / Mission of the organization/ company
2.2 History
2.3 Ownership
2.4 Legal structure
2.5 Type of business of the organization
2.6 Products
2.7 Type of marketing Channels
2.8 Office, Factory, Branch Locations
2.9 Quality Assurance Certificates
2.10 Past two years' sales of the end product that uses out-grower produce as a raw material
2.11 Competition for the end product that uses farmer produce as a raw material.
2.12 Market segments and distribution channels
2.13 Total market volume data for past 3 years of the end product that uses farmer produce as a raw material.
3.0 Description of the sector of the product produced by the outgrower farmers (i.e. if the farmer produces vegetables, then this would be a description of the vegetable sector; if farmer produces milk, then it is milk sector; etc.) – this description should include the following information:

- History / evolution
- Present status of the sector
- Approximate total number of farmers in the sector
- Land extent / number of animals in the sector
- Geographical coverage
- Approximate total annual production for last 5 years
- Competition for the product produced by farmers, among buyers
- Contribution of the sector to agriculture sector and total economy
- Threats / issues in the sector
- Export / import data

3.1 Proposed Programme
3.2 Programme Goals
3.2 Programme Objectives
3.3 Problem Identification
3.4 Programme Solution for the problem
3.5 Programme outputs
3.6 Programme Beneficiaries (both direct and indirect), target group in detail
3.7 Programme geographical coverage
3.8 Programme Benefits
3.9 Programme Cost – Detailed cost item wise in LKR, excluding company contribution

| | **Cost item** | **Unit Cost** | **# of Units** | **# of farmers receive this item** | **Total Cost** |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| **Total** | | | | | |

3.10 Programmeed Cost table

| | **Description** | **Company Contribution Rs.** | **NADeP Contribution Rs.** | **Farmer Contribution Rs.** | |
|---|---|---|---|---|---|
| | | | | Own | Credit |
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| | **Total** | | | | |
| | % of contribution | | | | |

3.11 Summary of Programmeed Cost table

| **Description** | **Per farmer Cost (Rs.)** | **Total Cost for farmers (Rs.)** |
|---|---|---|
| NADeP Contribution | | |
| Company Contribution | | |
| Farmer Own Contribution (this includes microcredit component) | | |

3.12 Company contribution for the programme – item wise details

| | **Cost item** | **Unit Cost** | **# of Units** | **# of farmers receive this item** | **Total Cost** |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| **Total** | | | | | |

3.13 Detailed income and cost for farmers and farmer profitability calculation

| | **Estimated quantity** | **Unit price** | **Total Income / Cost** |
|---|---|---|---|
| **Income** | | | |
| **(1)Sales of item 1 @ buy back price** | | | |
| **(2)Sales of item 2 @ buy back price** | | | |
| **Total Income** | | | |
| **Expenses (up to buy back point)** | | | |
| **(1)** | | | |
| **(2)** | | | |
| **(3)** | | | |
| **(4)** | | | |
| **(5)** | | | |
| **Expense Total** | | | |
| **Net Income** | | | |

3.14 Crop /Animal insurance & Welfare fund contribution

3.14.1 Crop / Animal insurance

3.14.2 Welfare fund contribution in LKR

| **From Farmer** | | **From Promotor** | | **Total** | |
|---|---|---|---|---|---|
| Monthly/ Seasonally | Annually | Monthly/ Seasonally | Annually | Monthly/ Seasonally | Annually |
| | | | | | |
| | | | | | |

3.15 Programme Monitoring and evaluation

3.16 Fund Requirement Plan.

3.17 Programme Activity Calendar

3.18 Extension Service Calendar

4.0 Social Impact of the programme

5.0 Gender wise beneficiary categorization

6.0 Youth participation in beneficiaries

7.0 Past two year's financial statements and unqualified audit reports

8.0 GAP proposed to the programme.

## (ii) NADeP Business Proposal Appraisal Report - template

### Business Proposal Appraisal Report

*** Complete all pages before signing the front of this form. ***

| Name of the business proposal : | |
|---|---|
| Proposal Ref. : | |
| Name of the promoter : | |
| Name of the PFI involved (If any) : | |
| Date submitted : | |
| Date primary evaluation completed : | |
| Date BPEC completed : | |
| Date NSC approved : | |

| Appraiser's Comments: | |
|---|---|
| Appraiser's Signature | Date |
| Appraiser's Name (printed) | Phone |
| Title | |
| Address | |

| Program Manager's/Director's comments : | |
|---|---|
| Program Manager's/Director's Signature : | Date |
| Program Manager's/Director's Name : | Phone |

National Agribusiness Development Program (NADeP)

1 of 6

**SECTION I: Promoter/Company Due diligence**

| |
|---|
| Background & the experience in the industry : |
| Reputation : |
| Profitability : |
| Existing infrastructure available to support the proposed project : |
| Previous experience of working with rural farmer communities : |

**SECTION II: Farmer/Beneficiary Analysis**

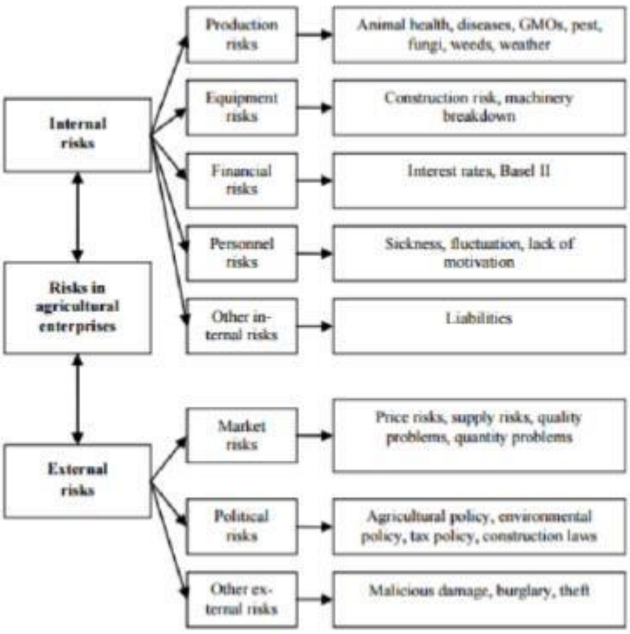
| |
|---|
| Geographical locations of beneficiaries : (Should target areas with high potential for agriculture but affected with poverty) |
| Beneficiary classification: (Income level, production etc.) |
| Existing income activities of the beneficiaries : |
| Accessibility to banking and credit facilities : |
| Previous involvement in foreign funded projects : (If any) |

**SECTION III: Product Analysis**

| |
|---|
| General description of the product/products (Outputs) via proposed project: (Annual production over last 10 years, exports and imports and prices fluctuation over last 5 years etc.) |
| Cost of production breakdown: (Detailed breakdown of per unit cost – Ex: 1L of milk, 1Kg of Passion fruit etc.) |
| Availability of raw materials : |
| Future trends towards the output/product : |

**SECTION IV: Risk Analysis**

Categorize risk factors (See the below chart) involve in the proposed project according to probability of occurrence and the severity (Impact) with a scale to be included in the matrix as given below.




**Simple Risk Matrix**

| | Consequences | | |
|---|---|---|---|
| **Likelihood** | Minor | Moderate | Major |
| Likely | | | |
| Possible | | | |
| Unlikely | | | |

**Risk Treatment Key**

| |
|---|
| Intolerable Risk Level.<br>Immediate action required |
| Tolerable Risk Level.<br>Risks must be reduced so far as is practicable. |
| Broadly Acceptable Risk Level.<br>Monitor and further reduce where practicable. |

## SECTION V: Investment Plan Analysis

This section should summarize the project investment plan highlighting the contribution from relevant parties (Promoter, beneficiary and NADeP). In addition, all the cost factors (Capital investment and working capital) and credit involvement should be considered accordingly (see below example).

| Category 1 (500 Farmers) | | | | | | |
|---|---|---|---|---|---|---|
| **Item** | **Unit Cost (LKR)** | **Grants** | **Credit (Mandatory)** | **Company** | **Grand Total** | **Remarks** |
| Grass Choppers (Chaff Cutters) | 80,000.00 | 32,000.00 | 48,000.00 | 0 | 80,000.00 | Output : >800 Kg/hr |
| Milking Cans (2 cans per each) | 3,000.00 | 6,000.00 | - | 0 | 6,000.00 | 10 L SS |
| Milking Machines | 80,000.00 | 32,000.00 | 48,000.00 | 0 | 80,000.00 | Single SS Bucket, 1 cluster |
| Cattle Sheds Construction | 95,000.00 | - | - | 0 | | |
| Sprinklers for Fodder Development | 90,000.00 | 36,000.00 | 54,000.00 | 0 | 90,000.00 | 200 heads per Acre with motor |
| Grass Cutters | 25,000.00 | 14,000.00 | 11,000.00 | | 25,000.00 | |
| Training & Development (12 sessions for 2 years) | 5,400.00 | - | - | 5,400.00 | 5,400.00 | One Session for each 2 months |
| Farmer Selection & Formation of Groups | 850.00 | - | - | 850.00 | 850.00 | |
| Milk Procurement Cost (For 2 years - Kg basis) | 11.00 | - | - | 120,450.00 | 120,450.00 | Including extension cost |
| Insurance (Equipments) | 1,500.00 | - | - | 1,500.00 | 1,500.00 | Insurance Premium for equipment |
| **Total (Per Farmer)** | | **120,000.00** | **161,000.00** | **128,200.00** | **409,200.00** | |
| **%** | | **29.33** | **39.35** | **31.33** | **100.00** | |
| **Total (For 500 Farmers)** | | **60,000,000.00** | **80,500,000.00** | **64,100,000.00** | **204,600,000.00** | |
| | | | | | | |
| **Avg. Milk Liters (Per Farmer/day)** | | 30.00 | | | | |
| **Avg. Incremental Milk Liters (Per Farmer/day)** | | 15.00 | | | | |
| **Avg. Total Milk liters (Per Farmer/day)** | | 45.00 | | | | |
| **Buy Back Price (Per liter) LKR** | | 65.00 | | | | |
| **Gross Incremental Income (Per day)** | | 975.00 | | | | |
| **Gross Incremental Income (Per month)** | | 29,250.00 | | | | |
| **Monthly Cost (Feed, Medicine & other)** | | 12,375.00 | | | | |
| **Monthly Installment (with interest)** | | **7,144.38** | | | | |
| **Total Cost** | | **19,519.38** | | | | |
| **Monthly savings for first 2 years (Net Income)** | | **9,730.63** | | | | |

**Important:**

- Training and insurance cost for the equipment and constructions should be allocated for the promoter contribution.
- Working capital cost can be covered through NADeP credit facility.
- Fixed assets (Capital investment) can be accommodated through partial grants provided by NADeP.
- It is mandatory to reduce the credit instalment from monthly gross income to calculate the net income (In addition to COP)
- Incremental income is the additional income to be expected due to project intervention. It is not the total net income derived from total monthly production.

## SECTION VI: Beneficiary Profitability Analysis

### Investment Summary

| Description | Per farmer Cost (Rs.) | Per farmer Cost (USD) | Total Cost for X farmers (Rs.) | Total Cost for X farmers (USD) | Budget category |
|---|---|---|---|---|---|
| NADeP Contribution (civil Work) | | | | | 1(a).3.6 |
| NADeP Contribution (Service Provider) | | | | | 1(a).3.5 |
| NADeP Contribution (Micro Credit) | | | | | 1(a).3.7 |
| Farmer Contribution (Credit interest and other) | | | | | |
| Promoter Contribution | | | | | |

### Farmer Income Table

| Description | Per Farmer Income (Rs.) | Per Farmer Income (USD) | Total income for x farmers (Rs.) | Total income for x farmers (USD) |
|---|---|---|---|---|
| Annual income from Production | | | | |
| Annual income from off season production as an additional income (If any) | | | | |
| Farmer incremental income per month due to project intervention | | | | |

### Farmer Payback Period and Internal Rate of Return (IRR)

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Total Investment (cash outflow) | | | | |
| Total Annual Income | | | | |
| Cumulative Cash flow | | | | |
| PV discounted at 6% | | | | |
| Discounted cash flow | | | | |
| Internal Rate of Return | | | | |
| Payback period | | | | |

**Important:**

- Only the credit interest should be accommodated under farmer contribution. Amortization should be under NADeP credit component.
- Farmer cash flow should be calculated using discounted method.
- Discounted rate is fixed at 6% for total period of the project.
- IRR can be calculated using simple hit and trial method

## (iii) NADeP 4P Programme Implementation Log - template

***Project Implementation Checklist***

| | | |
|---|---|---|
| Project Name : | | |
| Name of the Promotor : | | |
| Name of the PFI (If any) : | | |
| Areas : | | |
| No. of Beneficiaries : | | |
| Total Grant (LKR) : | | |
| Total Credit (LKR) : | | |
| Company contribution (LKR): | | |
| Total Investment : | | |

| STEP | ACTION | YES | NO | COMMENTS/REMARKS |
|---|---|---|---|---|
| **1.** | *Company orientation* | | | |
| **2.** | *Farmer selection & obtaining the list* | | | |
| **3.** | *Society creation & registration* | | | |
| **4.** | *Farmer mobilization* | | | |
| **5.** | *Banking methodology*<br>a. *Identification of the bank*<br>b. *Accounts creation*<br>c. *Farmer approval letters with signatures* | | | |
| **6.** | *Supplier selection & procurement*<br>a. *Preparation of specifications*<br>b. *Identification of suppliers*<br>c. *Calling quotations*<br>d. *Expert panel*<br>e. *Farmer preference*<br>f. *Selection*<br>g. *Order placement*<br>h. *Receive at supplier level.* | | | |
| **7.** | *Delivery of provisions to farmer level*<br>a. ..................................<br>b. ..................................<br>c. ..................................<br>d. ..................................<br>e. ..................................<br>f. ..................................<br>g. ..................................<br>h. ..................................<br>i. ..................................<br>j. ..................................<br>k. ..................................<br>l. ..................................<br>m. .................................. | | | |

| | | | | |
|---|---|---|---|---|
| **8.** | ***Receipt of claim documents & analysis***<br>a. *Farmer certification letter*<br>b. *Covering letter from promotor*<br>c. *Claim summary*<br>d. *Copies of invoices*<br>e. *Analysis*<br>f. *Data feeding to MIS* | | | |
| **9.** | ***Monitoring report and fund transfer approval***<br>a. *Field inspection*<br>b. *Monitoring report*<br>c. *Fund transfer approval DPM*<br>d. *Final approval by PM* | | | |
| **10.** | ***Fund transfer & delivery to suppliers***<br>a. *Fund transfer to individual accounts*<br>b. *Fund delivery to suppliers* | | | |
| **11.** | ***Training and extension***<br>a. *Reviewing the training plan*<br>b. *Follow up & execution*<br>c. *Training reports* | | | |
| **12.** | ***Exposure visits***<br>a. *Coordination and arrangement*<br>b. *Execution*<br>c. *Exposure visit report* | | | |
| **13.** | ***Farmer feedback***<br>a. *Delivery of letters/SMS*<br>b. *Gather feedback*<br>c. *Feed in to system (MIS)* | | | |
| **14.** | ***Farmer credit delivery (Value chain)***<br>a. *Identification of PFI*<br>b. *Mobilization of farmers with PFIs*<br>c. *Procurement of provisions*<br>d. *Delivery* | | | |
| **15.** | ***Sustainability fund***<br>a. *Awareness*<br>b. *Account creation*<br>c. *Follow up* | | | |

**Verified by:** ____________________ **Date:** __________________

## ANNEX III: Identification of Agribusiness Opportunities and Markets in Selected Value Chains

### A. Preliminary Remarks

1. This annex focusses on identification of agribusiness opportunities and potential markets in selected agriculture sub sectors is prepared as a contribution to the SAP –Sri Lanka Small Holder Agri- Business Partnership Programme design Repot. It is based on findings of the first design mission. This identification of opportunities targets also to provide the information to identify the potential and prospects to promote 4 Ps Model (Producer, private and public sector partnerships) to support small holder agri-businesses in Sri Lanka. In this context, initial investigations were carried out to identify potential product sectors based on value chains development approach, capturing information on markets and business opportunities for private sector and producers and potential partners of value chains identified during the Mission. In addition to the several collective meetings and visits held with some relevant public sector institutions, the mission met with private sector potential companies interested to work with contract farmers. A list of these contacts is provided.

2. In the context of the proposed SAP programme's main objectives to support small holder agribusiness and 4P model application –the potential opportunities identified are agriculture product sectors at primary production level. The final list identified is 10 sub sectors with more than 20 products. Added also a second list of products from 5 sub sectors that could also be retained as and when there are feasible proposals for 4Ps are submitted for assistance. Each product has the potential to become a full value chain by integrating the players of downstream of the chain to work in collaboration on a specific role that could be linked to a much broader value chain development approach. This is through integrating producers and other players of the chain to involve in different levels of value addition activities by taking the primary production through different stages of value addition to the end market. This mean that , product sectors identified will not remain necessarily at primary production nature at farm level as eventually SAP could identify with the collaborating private sector partners ,to what extent of value addition could be done at farm level from the production and harvesting stage –to deliver cleaned, sorted , graded , dried , bulk -packed and certified product to next player of the value chain. This will increase, the additional income to farmers and reduction of costs to the players engaged in other levels of value addition of a selected product sector giving naissance to a gradual application of value chain process.

### B. Identification of agribusiness opportunities

3. **Identification process followed and selection criteria.** The 4P (Producer, Private and Public Partnership) approach successfully tested under NADEP, confirms the extensive opportunities available under different agro -based value chains in Sri Lanka for the small holder farmers to produce and supply for increasing important high potential export and local markets through solid partnerships with private sector companies. These companies are essentially strong market partners who are able to connect with the farmers in different regions of the country. The mission identified several of these value chains where there are clear market opportunities connecting through partnerships with private companies linked to the local and export market. Further, the Mission identified that in several value chains/products , that there are clear market opportunities where the private sector lead companies are willing to engage with target smallholders to produce. In this context, a preliminary analysis has been carried out to pre-identify products and related value chains that as of today record higher potential for effective implementation of 4P model approach.

4. The main criteria of identifying these value chains covered three dimensions: (i) economic; (ii) social and (iii) environmental. The economic criteria considered include: (i). Market potential (Local and export) for the products, (ii). Potential increase in income for target producers, (iii) National priority given to promote domestic production including promotion of import substitution through local production, (iv). Experience and lessons of NADEP in supporting selected value chains, (v). Availability of private sector partners (mainly lead companies) interested in partnering with small holder farmers, (vi). Potential linkages to growth of other value chains (i.e. Importance of maize production and soya bean production for animal feed industry and poultry industry, production of vegetable seeds for promotion of other vegetables crops, maize, Big Onions). In addition, the

selection of potential opportunities of product sectors considered social criteria such as: potential involvement of rural women and youth

5. **Key value chains for new opportunities identified.** The pre-identification of potential value chains/ product for SAP supported 4Ps was first established based on: a list of products that are included as value chains already known to NADEP, some other small holder farmer linked product sectors known to SLEDB, sub sectors listed under the agriculture crop production programme of the Ministry of Agriculture, products identified through data and information collected in the course of discussions with the private sector partners and through visits to the field and value chains identified through consultation and review of many documents on agriculture sectors made accessible to the Mission. These sub sectors and products were short-listed based on assessments made through internal discussions with the NADEP staff and assessment of data on production and markets for each product. As a result of this process key sub sectors and products-that could be developed eventually to become operational value chains finally identified to be proposed for the SAP programme and are classified at two levels of priority; (i) high potential value chains and (ii) second level value chains that could be included depending on profitable opportunities emerging from the private sector companies and farmers. A list of these value chains with products identified are listed with details at the end of the annex, and a summary of it is as follows.

6. The first priority level includes the 10 sub-sectors as listed below:

(a) Fruits - Passion fruits, mangoes , pineapples and Papaya

(b) Vegetables - Chillies, low country vegetables

(c) Protected agriculture crops - Bell pepper , gherkins , cucumber , tomatoes

(d) Vegetable Seeds - Approved & traditional vegetables seeds, big onions and maize

(e) Dairy - Small holder dairies

(f) Grains and pulses - Maize, soya bean

(g) Perennial Spices - Pepper, cloves, cinnamon, nutmeg

(h) Oil seeds - Sesame

(i) Treacle - Kitul and Palmyra

(j) Aquaculture - Seaweed

7. The second priority list identified contains the following sub sectors:

(a) Fisheries - Production of Sea bass for exports

(b) Grains and pulses - Green grams, black grams, finger millets ( Kurakkan )

(c) Oil seeds - Ground nuts

(d) Organic agriculture products - Spices, red rice etc.

(e) Bees Honey - as an additional activity for small holder farmers

8. The above selection of value chains in the 1st and 2nd lists is indicative and by no means excludes other potential sectors and products which can be identified during programme implementation under the 4P model that could be considered as high profitable market opportunities that will generate income to small holder farmers and profitable opportunities to partnering companies.

9. **Agribusiness opportunities identified – production data.** The Mission collected preliminary data on some of the selected agriculture crops particularly on planned production acreages, expected production for 2015-2016. The main products of sub sectors identified have an increasing local production carried out by small farmers having high potential for export market or local market. Some of these will have potential to supply both the markets. As per the estimates of production for 2015-16, the sub sectors such as Mangoes accounts for a production of more than 128,000 MT, papaya more than 64,000 MT, green chillies more than 62,000 MT. Maize is cultivated on more than 99,000Ha with

3 to 4 tons per Ha producing more than 390,000 MT. The other products such as exportable low country vegetables, spices and sesame seed have a significant production available for exports while products that are targeting local markets such as grains, seeds and milk, produced by small farmers will be available in commercial quantities. In most of these product sectors access to quality plant materials –seeds and productivity seems to be critical issues. However, with proper consistent guidance, state policy to improve local production of quality seeds, assistance and access to inputs and finance, potential of these sectors to produce in larger volumes is high in the future, so that buyers can focus more on downstream of the value chain activities through processing for local market and exports in some products sectors. Therefore, the key strategies of promoting 4P approach under the SAP programme will be increasing productivity of the sub sectors identified and integration of farmers with downstream partners. The increase of productivity will reduce unit cost and increase the volumes for trade and income to farmers while maintaining competitive prices of supplies. The summary of the details of area under cultivation production based on 2015-16 data for selected crops are given at the end of the annex.

10. **Market potential of agribusiness opportunities identified.** The products or value chains that are proposed to be supported by the proposed SAP programme are identified considering two important market destinations: (a) Global export oriented products and (b). Local market oriented products. Some of the products identified are already connected to assistance under NADEP programme. These product sectors are most of primary production and have the potential to become full value chains with eventual value additions carried out by private sector targeting expanded export and local markets.

11. **Export market-oriented value chains**. In terms of exports, some of the key products and of exports are captured as below:

(a) **Fruits** are the highest potential produce by small holder farmers for exports identified during this Mission. These include mangoes, pineapples, passion fruits and papaya. In 2015/16 period, Sri Lanka recorded a production of more than 236,000 MT of these fruits from which a part of it was exported at a value of more than US$6 million. Main destinations of exports of fruits are EU and Middle East countries and Maldives. The pineapples represent the largest exportable commodity in the fruit sector followed by mangoes and passion fruits while large companies such as Hayleys, HJS Condiments, Cargills, and CBL Natural foods Alloy expo Ltd, and Nelna Co. are among more than 2 dozens of private companies involved in promoting fruits in the local and export markets. However, there is still much to do to develop the downstream of the value chain in fruit sector (collection in bulk, processing, packing, and marketing –export and local) to channel the full benefits of the markets to producers. This is one of the aspects that should be looked in to once the SAP programme is in operation.

(b) **Vegetables** produced by small holders from Sri Lanka are increasingly entering export market of several countries mainly to ethnic and some niche markets. These products include green chilies, Jalapeno pepper, low country vegetables- (bitter gourds and snake gourds), protected agriculture vegetables – (gherkins, bell pepper, cucumber and tomatoes). More than 1 million US$ worth of these products are exported annually to EU, UK, Middle East and to Maldives. Sri Lanka vegetables have a high potential exports markets.

(c) **Spices** represent another specific existing and high potential export commodity produced by small farmers in Sri Lanka. This sub sector includes black pepper, cinnamon, cloves and nutmeg. In 2015, perennial spices recorded more than US$ 630,000 worth of exports in addition to supplies to local market. The main destinations of spices from Sri Lanka are USA, Japan, and ME countries.

(d) The other export oriented products produced by small holder farmers identified are **seaweed**, **sesame seeds** and **organic products** such as red rice. Although, the local production of these products is small, there is an increasing potential market. For instance sea weeds have a high potential market specifically in Japan. The companies such as CBC, HJS condiments are market partners for these products and also for organic products.

12. **Local market-oriented value chains.** Several other value chains are recommended to be promoted mainly due to its significant local market opportunities available.

(a) **Dairy** mainly milk is a large, small holder production sector responding to an expanding local market throughout the country. Several established large companies are engaged in collecting milk for processing in to other products. About 350,000MT are produced annually which meets only a fraction of the local market. Due to this inadequacy, Sri Lanka imports more than 71,000 MT of milk products at a cost of US$400 million annually. Large companies such as CIC, MILCO, Cargills, Nestle, and FONTERA are some of the private sector partners already operating in this sector with small holder producers.

(b) A variety of local **fruits** are in demand in the local market specifically mangoes, pineapples passion fruits and papayas. These are used in the local fruit processing industry and in the fresh fruits markets. Cargills, Hayleys, Lanka Canneries, HJS Condiments and several other companies are partnering with local producers to supply fresh fruits and processed fruit products to local market. The fresh fruit market is expanding and regular price fluctuations depending on seasons are recorded.

(c) Local production of vegetable **seeds**, maize, onions and potatoes are far below the requirements of the country. Not even 75% of country requirements of vegetable seeds and onion seeds are produced locally. Practically total requirements of maize seeds – more than 1,399 MT are imported. There are more than 20 local companies involved in the seed products and some of them such as Hayleys, CIC, Cargills and Land Mark Pvt Ltd are already in contact with NADEP programme for assistance. Increased local production of seeds in SriLanka would save an extensive amount of foreign exchange going out and also it could be a great contributor to support many agriculture value chains. The Department of Agriculture have plans to meet at least 50% of the demand for quality seeds in the vegetable sector through involvement of private and public sector with farmers in the next few years.

(d) **Maize** is an input to a large value chain of animal feed and local maize production in 2015 was estimated to be around 300,000Mt and for 2015-16 it is estimated to be around 394,584 MT for the local market mainly for animal feed industry. The gap of local demand is covered through imports, the costs of import in 2015 was recorded as US$ 24million. Maize is a key input for animal feed industry in Sri Lanka. Therefore, the local market for maize produced by small farmers is enormous and many companies such as Prima , CIC, Plenty food, Nelna Ltd etc. are potential partners in this sector for small farmers .

(e) **Soya beans** are produced locally about 8000 MT. The requirements of soya in form of soya meal are about 235,000MT and bulk of it is imported. The programmeed production in 2015/16 is 24,000MT cultivated on about 12,800 Ha. It is used as an input for several other processed products. CIC Ltd, Plenty Foods, Nelna farm are some of the key partners of this sector. Main issue of local production is inadequate seeds for planting.

(f) **Treacle** - Kitul and Palmyra offers high potential local market products and opportunities for market partnership for producers and private companies. In addition, Japan is a potential destination for treacle if available in terms of quantity and quality. Several established private companies are interested in this sector.

(g) Some varieties of **protected agriculture crops cultivated** such as bell pepper, cherry tomatoes and cucumber are supplied to local up-market .Sri Lankan Air Lines is significant buyer of these products in addition to the super market chain. An Association - Protected Agriculture Entrepreneurs Association based in Kandy district has 500 famer members operating in production of these products .It is a sustainable organization generating its own income.

(h) **Grains and pulses** such as black and green grams, finger millets have stable market locally. The local demand for these products is not yet satisfied by the local production.

Therefore some significant amounts of these are imported to the country. There are private partner companies available to support local farmers in this sector.

(i) **Bees honey** sector is a potential income generating activity as an additional income to farmers and this sector is encouraged by the Ministry of Agriculture. Sri Lanka imports bees honey at present and it is a sector that can contribute to import substitution effectively. Present production of bee honey is about 60 MT and country imports about 110MT (2015). The Ministry of Agriculture has set up 6 training centers in deferent parts of the country , and have trained about 200 bee hives breeders and also small entrepreneurs making bee boxes etc. A bee honey producers association is formed in Wayamba Province. The local trade outlets mainly super market chains and could be potential partners to promote this value chain provided that products are introduced with high quality controls, proper packaging and under brand names.

13. **Geographic distribution and population engaged.** The pre-identified product sectors are produced in a very wide geographic area covering several provinces of the country. Fruits and vegetables have a wide National coverage while some provinces such as Western, North central, North Western, Eastern provinces are more prominent. Spices are mainly grown in the Central and Uva provinces, Kurunagala and Hambantota districts. The dairy sector is widely distributed across many provinces with large numbers of farms in WP, EP, UVA and NP. The Mission did not have access to more details on the population involved in each value chains, but all the sectors account for large numbers of target farmer families with significant participation of women and youth. The Annex 2 provides details of geographic distribution of the products sectors identified for promotion. It may be interesting to do a detail investigation to demarcate regional specialities of the products and select farmers to support accordingly.

14. With regard to population involved, precise data is not available. This can be estimated based on the extent of the area cultivated in some products .The average farmer has a less than 1 acre of land, on this basis, acreage under cultivation can be an indicator to estimate the farmer population involved in each product sector. Discussions held with product officers at the Department of Agriculture suggested some figures such as in the maize sector there is about 130,000 farmers , vegetable sector accounts for about 600,000 farmers , ground nuts sector could involve about 47,000 to 50 ,000 farmers etc. These figures are subject for confirmation. Many farmers in Sri Lanka have small plots of several products; therefore there can be double counting of the same farmer in several products.

### C. Potential commercial partnerships of the opportunities identified

15. All the product sectors identified, whether export oriented or local market oriented have the potential to attract exporters, processors or traders to ensure markets for small farmer level production. There is already number of companies working in some sectors with the facilitation of NADEP. The Annex 3, to this report presents an indicative list of existing processors, exporters or local marketing companies that could be potential partners in promoting the 10 product sectors or in more than 25 value chains linked. The Mission identified, largest numbers of companies operating- 21 in fruit sector, 16 in seeds production sector, 9 in Spices sector , 11 in grains and pulses sector,8 in organic products , 6 in oil seeds, 5 each in vegetables, Soya bean, grains and pulses, sesame seeds , and treacle sub sectors. Several companies such as CIC, Cargills, Harleys, H.J.S Condiments, CR Exports, Plenty Foods, Bio Foods, Expo Lanka, etc. operate in several sectors.

16. The NADEP programme is currently supporting 17 out-grower programmes in 13 sub sectors, all operating with private sector partner enterprises. A list of these 17 out grower programmes is given below in the Table 1. These commercial out grower systems include 13 value chains operating with 6 commercial marketing companies and work with 14469 farmers directly and 2,426 farmers indirectly The Mission noticed that there are several companies contacted NADEP to express interest to start new ventures under 4Ps model. Some of these include seed production for local market, fruits (mangoes and passion fruits) production, vegetable production for local and export markets, and Sesame seeds production. This confirms the interest of private sector to work with small farmer

producers, promote local products in high potential markets with appropriate assistance and support from the public sector.

**Table 1: Outgrower programme progress summary – NADeP**

| No. | Programmes started / mobilized | Partner company | Beneficiary farmers | |
|---|---|---|---|---|
| | | | Actual (direct) | Indirect |
| 1 | Fruits and Mixed Vegetable – | Cargills | 241 | 37 |
| 2 | Backyard Beekeeping- | CBL | 600 | 15 |
| 3 | Seaweed Cultivation- | Hayleys Aqua Agri | 879 | 1564 |
| 4 | Dairy Development – | Cargills Dairy | 2,400 | 262 |
| 5 | Dairy Development – | CIC Dairy | 1,118 | 158 |
| 6 | Gherkin Cultivation | Sunfrost Pvt. Ltd | 1,600 | 254 |
| 7 | Beekeeping | HJS Condiments | 255 | 10 |
| 8 | Seed onion – | Hayleys Agro Farms | 150 | 10 |
| 9 | Jalapeno pepper - | Sunfrost Pvt. Ltd | 152 | 10 |
| 10 | Passion Fruit - | HJS Condiments | 94 | 8 |
| 11 | Hybrid seeds – | Landmark Agro | 400 | 15 |
| 12 | maize production – | Nelna farms | 2000 | 15 |
| 13 | Dairy development – | Fonterra Brands Ltd | 200 | 50 |
| 14 | Dairy development- | cello Dairies Ltd | 100 | 20 |
| 15 | Maize cultivation | CIC | 4080 | |
| 16 | Poultry development | SL Poultry Ltd | 100 | |
| 17 | Kitul products | Lanka eco prod. Ltd | 100 | |
| **Total** | | | **14,469** | **2,426** |

## D. Prospects for value chain development approach of agribusiness opportunities identified: selected examples

17. **Vegetable seeds**. The availability of high quality vegetable seeds in a country is a critical need not only for food production and food security; it is a value chain that leads to supply of inputs to a large number of primary produce vegetable markets and for several other value chains that add value through processing. In the vegetable seeds sector, there should (i) breeder seed (produced by the Department of agriculture exclusively), (ii). basic seeds /registered seeds and (iii) certified seeds or Commercial seeds. The commercial or certified seeds are produced by the Department, private companies directly or the public and private sector get these produced by farmers. At present, Sri Lanka is depends on imports of a large variety of vegetable hybrid seeds and prospects for local production of seeds is yet to be fully harnessed. The trend in the vegetable seeds market is to demand hybrid seeds as against OP (Open Pollinated seeds).The access to high quality basic seeds for normal crops and for seeds crops at affordable prices and at appropriate time appears to be a key issue raised by small holder farmers. To address this situation, the Ministry of agriculture through its departments encourages the local production of a variety of vegetable seeds by the private sector and directly by farmers in SriLanka. At present, Sri Lanka produces a little over 20 % of the countries vegetable seeds requirements through formal and informal systems.

18. The other key crops that need quality seeds include big - onions, potatoes, maize. The seeds for oilseeds varieties (sesame seeds, ground nuts, soya beans) are also important in the small holder agriculture activities and major part of it is imported. In case of soya bean only soya bean meal (cake) can be imported and seeds have to be found locally. The Vegetable seeds requirements in the country comprise mainly of approved varieties by the Department of Agriculture, and traditional vegetable varieties, in addition to big onions, maize, and seed potatoes. There are 18 crops with 65 approved varieties of vegetable seeds by the Department of Agriculture. In addition, there are many

traditional vegetables seeds high in demand by farmers and some companies in the private sector produce these with contract growers on their own certifications.

***(i) Value chain process and players***

19. The vegetable seeds sector comprise of 3 types of seeds – breeder seeds, basic or registered seeds, certified /standard /commercial seeds. The value chain of the vegetable production include: use of basic/ hybrid seeds, or traditional seeds, and other inputs, to produce commercial or certified seeds through contract growing or direct cultivation by private sector dealers or in public sector farms and directly by small farmers, quality inspection, post controls, harvesting and post-harvest operations (drying, cleaning sorting, grading lab testing initial bulk packing) any treatment for preservation whenever necessary, quality control, storage, retail and bulk packing and marketing related activities are carried out by these stakeholders themselves.

20. The Department of Agriculture and other public sector farms, private sector basic seed suppliers or importers, seed farmers, transporters, traders (specialized agri- inputs dealers or general dealers) vegetable farmers is the main players of the chain. In addition, Extension officers, Department of Agriculture, Technical Assistance programmes, banks and MFI s are basically facilitators of the vegetable value chain .There are different production models practiced for seed production. Out grower contract farming system with private seed dealers, direct state and private sector cultivation of seeds, (a proposal to establish a seed production village in Matale district is planned where farmers will grow seeds under contract farming),protected net house seed production, informal local seed production are some of them. NADEP Programme already supports a private sector contract farming model under its ongoing programme.

***(ii) Markets – for Vegetable seeds***

21. Vegetable seeds are essentially for the local market though there are small quantities is exported informally by individuals. As per different data sources consulted,(often unpublished data) SriLanka production and imports of vegetables seeds may be around 2,000 to 2,500 MT of seeds without counting domestic production of uncertified seeds by farmers for own use. This amount does not include imports and local production of seed potatoes more than 2,500MT annually, 75MT of maize and several other oil seeds – sesame, ground nuts etc. It is estimated that from the total requirements of vegetable seeds only about 20% (less than 450MT) under formal system offering certified products. As per the data established of the year 2013 by the Department of Agriculture, the total area went under vegetables in SriLanka was 89,980 Ha and produced an average yield of 10.5MT/Ha. This production is increasing and demand for seeds will an increasing market.

22. Some of the certified vegetables seeds: hot pepper, beans, egg plants cucumber, Okra, big onions, long beans, bitter gourd, sectors which accounts for more than 50% of country requirements are produced locally. The upcountry vegetables seeds such as carrots, cabbage, cauliflower Knol Khol, leeks, lettuce are practically imported to meet country needs and it is unlikely these seeds can be produced locally by the small holder farmers . The data available and discussions with private sector and farmers confirm that there is a high potential market available in SriLanka for vegetable seeds and it is growing and there are opportunities for large numbers of seed farmers to involve and generate a better income from this activity.

***(iii) Constraints***

23. Several constraints to promote local production of vegetable seeds were detected. Tendency to demand hybrid seeds against OP seeds compels to promote increasing quantities of high quality hybrids. Inadequate availability of high quality basic seeds for production of multiplication/ standard seeds, costs of inputs, high costs of imported seeds and high costs of local production, absence of buffer stock of basic seeds, imports of seeds, absence of storage facilities, informal production and marketing of seeds by small farmers and problems related to water availability and climatic changes are more frequently referred as constraints in the seeds production value chain.

***(iv) Prospects for local production***

24. The demand for vegetable seeds including onions, potatoes is far beyond the local production of seeds. Therefore, there is a large market if local seed production of a variety of seeds encouraged accompanied with necessary technical assistance , favorable policy environment and producer – market linkages. The advantages of supporting local seed production through small holder farmers include:

- Meeting of high demand for quality hybrid seeds in a variety of products that now depends on costly imported seeds through local produce
- Respond to growing demand in the regions for traditional vegetable seeds that have advantages in the context of SriLanka such as demand in specific geographic locations ,and climatic conditions , production of high nutritional value vegetables ,
- An additional source of high income for small holder farmers as seed growers ,
- Access to good seeds to farmers in time at affordable prices.
- Incentive to several seed marketing companies –operating in the country in seed production and to connect with small farmers

25. **Fruits value chain – mangoes, pineapples, passion fruit and papaya**. The major types of fruits considered as potential value chains for promotion under 4P programme within the framework of SAP identified are mangoes, pineapples, passion fruits and papayas. These are the most prominent varieties of fruits that have high potential for exports and local market. All four crops are primarily small holder crops except a few large scale commercial plantations. Mangoes and papaya are the most potential high value fruit crops in terms of production and pineapple is most potential at in terms of export earnings.

26. Most of the fruits production such as mangoes and papaya are often seen as a house hold garden crop without much maintenance and organization except a few plantations in some locations the country. Mango production is located mainly in Western, North western, Central, North Eastern and Southern Provinces. In Mahaweli areas, mangoes and papaya are produced in all almost all the districts and pineapples and passion fruits are grown in some districts. Based on 2015-2016 planed production data by the Ministry of Agriculture, production of mangoes expected to be around 128,800 MT in an area of 33,016Ha, Pineapple production expected to be 39,481 MT in 5,845Ha, passion fruit production should be around 3,591MT planted in 1,351Ha and papaya production is expected to be around 64,205 MT grown in some 7,299Ha. Based on the data collected for 2015-2016 , the productivity in all these crops appears to be an issue compared with that of best managed plantations in some countries. Mango production is 3 to 4 MT, pineapples 6 to 7 MT, passion fruits 2 to3 MT, and papaya about 8 to9 MT per Ha.

***(i) Value chain process and players***

27. Generally, the 4 fruits value chains follows a similar pattern from production to market. This include: supply of plant materials and seeds and other inputs , plant nurseries , producers (small , medium and few large holdings), harvesting , collection , delivery to processors , exporters , local market dealers wholesale centers and retailers to consumers .The input supplies are generally plant materials or seeds - grafted plants for mangoes, and planting bags or seeds for papaya and passion fruit and plant material for pineapples. The out- grower system works with mango farmers basically for maintenance and harvesting since the mangoes is a long term crop and it take few years for the first crop. While papaya, passion fruits and pineapples are crops that are considered as crops that can be practiced under out -grower system. The integration of small farmers of fruit crops in the value chain is still limited to primary production. There is not much value addition done at primary production by fruit farmers except in the cases of farms directly linked to exporters and processors. Post-harvest activities from harvesting and integration of farmers in downstream of the chain by fruit farmers is practically absent at present in fruit sector.

28. The players of the fruits sector include –plant nurseries or plant materials suppliers , producers of different scales , collectors , harvesters in some cases such as mangoes and pineapples , transporters processors mainly large companies (such as Hayleys , Cargills ), whole sale dealers , retail dealers and super markets. hotels and restaurants. In addition, Extension officers, Department of Agriculture, TA programmes, banks and MFI s are basically facilitators of the fruit value chain. The different production models practiced for fruits sector are generally sub-contracting of harvesting, and out grower contract farming system with private companies in passion fruit, papaya and pineapple sector. Some of the companies such as Hayleys, Cargills have approached NADEP programme already work under 4P model in the fruit sector.

### *(ii) Markets for Fruits*

29. Fruit value chain, mainly mangoes, and pineapples and some quantities of papayas are marketed as fresh fruits in the local market and some companies use these fruits mainly for production of juices and other processed products such as jams, chutneys and pickles. Limited quantities of fresh fruits are exported to EU countries , Singapore, Middle east and Maldives .The exports values in 2015 was recorded as for Mangoes US $ 379,520, for pineapples US$ 5million, for passion fruits US$ 391,160 and for papaya US4 189,300. More than 20 established companies are engaged in marketing of these fruits including local super market chains. A list of these companies identified is included in the annex 3 of this report. Generally, a larger portion of these fruits produced in Sri Lanka finds itself a large market locally.

### *(iii) Constraints*

30. Several constraints to promote local production of fruits were identified. In the mango sector lack of proper maintenance , inadequate control on fruit flies and phytosanitary regulations for exports , large post-harvest losses, inadequate local value addition, access to export markets , poor harvesting and post harvesting practices , inadequate flow of information and training to producers on new technologies and value addition are prominent constraints in the mango sector . In case of passion fruits and pineapples absence of planting materials and familiarization of best agriculture practices are stated. In case of papaya: its vulnerability to different diseases, difficult adaptability to climatic changes, and marketing issues are noted during the discussions. In terms of exports, all these fruits as fresh are subject to serious phytosanitary controls , standards and certification, and traceability issues.

### *(iv) Prospects for small producer – 4P market linkages*

31. Prospects for Small holder producer in the fruit sector to generate increasing incomes and sustain are in several areas:

- Fruit sector is a high potential local and export market oriented product as even fresh fruits if the proper conditions and requirements are maintained. This is a stable income opportunity for small farmers through guaranteed market though companies in the downstream of the chain.
- The market for value added products in the country is not yet fully harnessed. In addition to fresh exports and value addition to fresh products through processing, products such as mangoes and pineapples have large exports markets as dried products.
- The fruits varieties discussed in this report are available throughout the country and market is extensive. Therefore , if facilities are made available and including access to training , information and other BDS services including financial access , the fruit sector offers an attractive 4P model for private sector to engage in a much sustainable manner for which there are number of established companies interested.

32. **Perennial spices value chain.** The spices sector business opportunities recommended for SAP programme includes mainly pepper, cloves, cinnamon and nutmeg. These represent the high value market oriented products linked to small holders.

33. **Cinnamon value chain.** Cinnamon of Sri Lanka is traditionally known as one of the world best spice products in the spices market. It is cultivated in Southern, Western provinces, Ratnapura district in Sri Lanka and few other places in the Central Province. As per the data available from the Department of Minor Exports Crops and the Ministry of Agriculture, there is around 33,000 Ha under cinnamon cultivation producing around 18,000 MT annually. Cinnamon is an ingredient regularly used in food preparations in many countries and it is considered as a major non-traditional export crop in Sri Lanka.

34. Cinnamon is commercialized in several forms. These include the products such as bark of different grades, cut cinnamon, cinnamon leaf oil, cinnamon bark oil, leaves, cinnamon powder, and a few value added products – cinnamon paste, etc. It is an organic produce used in food and beverage industry, cosmetics, and pharmaceutical industry. The export market for cinnamon is in the increase. The advantages of cinnamon are that Sri Lankan cinnamon is known for its specific qualities, especially for its low coumarin content, and for its medicinal values. It can be grown in different zones, and it can be introduced to gravelly soil. The country has developed the technical knowhow to promote this industry over the years and there is considerable research and extension work carried out and it is also an important income source to small holders in the growing regions. More than 90% of the plantations are less than 1 Ha.

35. Cinnamon production is estimated to be around 20,000 MT, and exports is around 14,000 MT annually and the value of exports in 2015 reported to be around US $15million. The exports are mainly to Mexico, USA, Peru, Colombia, and Ecuador.

36. The key value chain players in the cinnamon industry are producers, processors (peelers), village level collectors, whole sale dealers, processors, traders, exporters. The facilitators in this product sector include Export Agriculture Department, Export Development Board –EDB, Commerce Department and some private sector organizations.

37. Some of the main constraints of the sector are reported as low production, low productivity, and low investments by small holders and slow progress on quality improvement and value addition. Therefore, the key areas of interventions to support this value chain is to encourage small holders to improve productivity and make a better income, promote private sector to invest in processing value added products and establishment of central processing centers so that small holders can be connected, and linked with exporters, and assist in quality improvement, value addition, certification through linking small holder farmer market to export or local buyer.

38. **Nutmeg, clove and pepper value chains. Nutmeg** is a tropical spice tree crop *( My r is t ic a fr agr ans )*, originally from Indonesia and grown in many Asian countries. It is a home garden tree crop of small holder grown mainly by the rural population in Central province, in Kurunegala and Kegalle districts in Sri Lanka. It has two main spice products – the nutmeg seed and the mace which is the dried "lacy" reddish covering of the seed marketed separately. Nutmeg is used as a spice in many countries in different food preparations and has a demand in the local and export markets. Nutmeg is usually used in powdered form in culinary and also several other commercial products including essential oils and extracted oleoresins. The local production is estimated around 1500 MT scattered cultivation in about 1020Ha in the few provinces this crop is grown.

39. **Cloves** is also another spice tree crop (*Syzygium aromaticum***)** grown virtually in the same areas where Nutmeg is grown as home garden crop in the rural areas. Cloves are the unopened pink flower buds of the clove tree. The buds are picked by hand when they are dried until they turn brown. . This product is also used as a spice in deferent food preparations in different countries .In addition, cloves is used to produce essential oils. Cloves is important in Sri Lanka specifically as a non-traditional export tree crop .The production is estimated to be around 8,000 to 9,000MT grown over an area of about 7,000Ha.

40. The key issues in both products are recorded as low production, low productivity, and small size of production by each small holder, and absence of organized producer groups. However, these product sectors have a growing market and demand for exports with stable prices for the producers.

41. **Pepper,** commonly known as black paper (*Piper Nigrum*) cultivated for its fruit and dried to be used as a spice and seasoning. It is a high value small holder spice crop in almost similar regions where nutmeg and cloves are grown in Central, Sabaragamuwa and Wayamba Provinces. The pepper products comprise of – black pepper, white pepper, pepper oil, pepper in brine , pepper oleoresin, crushed pepper, pepper powder, pepper sauce, etc. . Pepper can start production in a shorter period less than 3 years than those of nutmeg and cloves. It is a high value crop grown in many countries in Asia for local consumption and exports. Vietnam is the world largest producer and exporter of black pepper.

42. Pepper could be cultivated in the wet and intermediate zones of the country, elevation up to 900 meters and cropping system is carried out differently to those of Nutmeg and cloves. Generally harvesting is done manually mainly by men and post -harvest drying and other operations are carried out by women. Sri Lankan pepper quality is considered high in piper energy, and oil content. Sri Lanka produces more than 44,000 MT of pepper and exports a larger portion, more than 35,000MT. World demand for pepper is about 350,000 MT. From Sri Lanka, pepper is exported to India, USA EU countries and to Pakistan .The value of exports in 2015 is estimated to be around US$144 million. Pepper is also considered as a potential high income crop to small holders and it is recommended as a crop that can, earn an average gross income / acre more than Rs. 2,250,000 per season if managed properly.

#### *(i) Key players*

43. All three products are considered as a small holder organic crops and the players of the value chain are almost the same. This includes producers, village level collectors, traders, wholesale dealers, processors, local markets and exporters. The product sectors fall in to minor export crop products and are promoted also by the same facilitators of other spices, the Department of Minor Exports, EDB and traders associations. The main advantages of promoting these crops are basically a smallholder crops. grown as an additional income to farmers, considered as an environmentally friendly crop, organic by default , and less input costs. It is considered as an additional income crop for small holder farmers. In addition, these crops could be promoted for further value addition locally and also a source of income for women who get involved mainly in post-harvest operations.

#### *(ii) Prospects for local production and 4Ps*

44. The perennial spice sector is a high potential export oriented product which can easily be qualified as organic products. These sectors are subject for less price fluctuations and could be considered as stable income opportunity for small farmers. In addition, the market for value added products in the country is not yet fully developed. Therefore, focus on organic value added products of spices and integration of producers and their associations in the upstream of the value chain – could generate more income to producers. There are some small holders in the Central Province who have organized in to an association and have started some post-harvest operations such as drying using electric dryers, sorting and grading etc.

### E. Risks

45. Some of the risks identified that will adverse impact the successful implementation of this 4P model in supporting small holder operations in the product sectors selected are of several fold:

(a) High cost of production at farm level and decreasing profits margins to farmers and drop of competitiveness to buying firms which will affect also overall market of the country for the products.

(b) Overall production and price fluctuations due to climate changes, non-availability of planting materials and appropriate extension support

(c) Non -compliance of supply agreements entered in to by farmers with private sector market partners

(d) Non-Conformity on issues of export conditions by small farmers

46. Many farmers complained that, the prices of inputs including seeds in these products are continuously increasing and their profit margins were not increasing proportionately. This creates a situation of frustration of participating farmers and organisations to continue to work under this model. Moreover, the inputs are generally supplied by the buying company and costs are deducted on sales. Under this situation, farmers have no knowledge or information on real prices of inputs and have no control over it.

47. Under the programme, it is expected that the farmers to have an understanding of primary production supplies to companies with whom they entered in to contract. This agreement could be formal or a simple understanding informally which the case often is. It is not always guaranteed, whether the contracts are formal or informal, the farmers will honour the agreements to sell their products to agreed buying partner. It may depend also on the prospects for profits for participating farmers. The farmers may sell the production where they can get better prices.

48. Under this type programmes such as 4P model based SAP programme; the understanding is that some of the products are identified as supplies for exports. The producers' role does not go beyond the production in supplying to exporters. Importing countries EU and Middle East, and Asian countries, USA are increasingly request high quality standards, certifications, traceability of the products supplied from the producer level-particularly from fresh products exported. Complying with these norms becomes increasingly costly and many farmers are not familiar of these. This situation could impact negatively on application of 4P model and prices of products.

49. Their vulnerability of small farmers to climatic changes, sustainability of farmer organisations , capacity of farmers to adapt to new market conditions, access to finance etc., are also some of other risks that could have negative impact in applying 4P model with small holder farmers. These issues are expected to look into by other technical sections of the programme report.

50. The above mentioned risks of economic nature can be mitigated by way of organising farmers for bulk buying of inputs at reduced prices with the assistance of the private sector buyer, and supporting the farmers to increase productivity and to focus on increasing supplies in terms of volumes in order to reduce unit cost and increase profits on volumes rather than depending on unit sales prices. Access to good quality inputs at reasonable costs should be vital aspect arranged by the collaborating partner enterprises.

51. With regard to possible non- compliance of contracts could happen when the farmers have better prices in the market or with other competitors. This risk to buyers is observed in many countries on which the buyers have not much of control. Generally, there are no signed contracts between farmers and buying companies, and activities carried out on trust and mutual agreements. This is a serious challenge to buyers and that should be managed by private sector partners by way of establishing confidence with producers through establishing competitive market prices and facilitating farmers to access services more aggressively than other players in the field. Encouraging private partners to promote engagement of participating farmers, integrating them in the activities connected to downstream of the value chain to play an increasing role in the value chain by way of involving them in post-harvest value addition –such as cleaning, grading, and primary packaging of products at farm level and offering them an incentive remuneration are options to consider to enhance buyer – producer trust and commitments. These types of incentives are practiced in other countries to build farmer buyer trust.

52. Regarding the conformity of export conditions by farmers, whenever necessary, specific assistance programme should be clearly included in the package and agreements, on facilitating training, quality improvements and certifications required. This assistance should be channelled through the participating companies or in collaboration with other private sector facilitating institutions.

### F. Sustainability

53. The sustainability of the promotional mechanisms that will be put in place to promote 4P models by the programme with farmers and private sector partners will largely depend on the

consistent income to participating farmers and consistent supplies to participating companies in required quantities at quality and competitive prices and the sustainability of the institutional mechanisms put in place. Two main producers – buyer models are operating at present within the 4P models: (i) Buying companies work directly with individual farmers (dairy sector with Cargills) and (ii) buying companies work with collective groups or with farmer organisations.

54. The first model is widely applied with more than 2,000 farmers under the Cargills programme. Extension systems, collecting centres are established in many regions of the country and individual agreements are signed with the company by farmers. Both parties receive a competitive price and system, established collecting centres and extension services to farmers seems to continue. There is also strict competition with 3 - 4 other buying companies in dairy sector and all companies try to maintain attractive services and prices to farmers. In addition, these companies are promoting downstream linkages of the value chain – collecting, processing, marketing branded products through the super market chains or through retail shops .Hence, sustainability of this model seems to be promising.

55. The second model working with farmer groups and organisations seems to be the model operating with many companies in other product sectors. This is because; the companies need large quantities of supplies at competitive prices. This can work with economies of scale if supplied collectively. Therefore the sustainability of this system works as long as sustainability of FOs or groups are maintained and able to ensure consistent supplies to buyers and buyers are able to provide services. To achieve this objective, the participating farmer organisations should be assisted and supported to increase their capacity to provide member services delivery and their ability to manage and operate the FOs as business or entrepreneurial ventures starting from the first year. The FOs with the assistance of private sector companies and other facilitators (TA Programmes, Public Sector) should be able establish a road map outlining a clear sustainability interventions action plan from the inception accompanied with appropriate training programs to famer leaders.

### G. Recommendations for follow-up

56. The present analysis of identifying market driven opportunities in selected product sectors operating or potential for small holder farmers and possible application of 4Ps model is a preliminary analysis. In this context, the following recommendations are suggested:

(a) Deepen the analysis of each product sector using value chain approach and identify options where the small holder producers could **go beyond the primary production and integrate themselves further in to downstream activities of the value chain** where links between producer and buying companies could be strengthened and make it more sustainable. As an example, the producers could work with the collaborating companies to carry out certain post- harvest operations – such as cleaning, grading, drying, sorting and bulk packing in the field or at the collecting centres established.

(b) Using the above analysis , in case of export oriented crops producing farmers with links to exporters and processors, identify strategic interventions through which the collaborating private sector partner could assist **small holders to integrate in to export production system** – accessing appropriate certifications (Global Gap , Organic ) where ever required, for cultivation of exportable varieties, use of improved know- how in cultivation , training in proper record keeping systems and maintaining phytosanitary standards . This would have a positive impact on improving collaborative relationship under 4P model to strengthen FOS, increase income to farmers, quality of supplies, competitiveness at farmer level and formalizing small holder businesses to progress towards sustainability.

(c) Identify the best 4Ps models already in in operation –Out grower systems to **replicate or promote sustainable models**, based on a comprehensive analysis of those – Ex. 4P model of a private company collaborating with individual farmers directly (case of Cargills working with individual dairy farmers ) vs collaboration with groups or FOs to supply the produce using out- grower contact system , models of sustainable farmers organisations linked to end market companies – case of Protected Agricultural Entrepreneurs Association (PAEA) operating from Central Province.

**Table 2: Persons and institutions contacted during the mission:**

| # | Institution Contacted | Person contacted -designation | Contact details | Remarks |
|---|---|---|---|---|
| 1 | Ministry Of Agriculture | Dr H.M.S.Heenkenda Additional Secretary | addiselsecagritec@agrimin.gov.lk + 0714455690 | |
| 2 | Department of Agriculture | R.M.Nandasiri –Additional Director General | -rnandasiri@yahoo.com Tel. 077512013 | |
| | | Indika Weerasekara Deputy Director | Tel. 0715347267 Email ,weerasekaradoa@gmail.com | Product contact – vegetables seeds |
| | | Buddhika Abeysinghe _Assistant Director | | Product officer Maize |
| | | Mrs A.M.D. Atapattu | Tel. 0775104040 Email. dlathanet@gmail.com | Product officer bee keeping |
| | | W.R.E.M.S. Weerakone Assistant director | Nishantha.weerakoon.doasl@gmail.co | Product officer Ground nuts |
| 3 | SriLanka Export development Board | Jeevani Siriwardana DG | jeevani@edb.lk Tel. 011 2300675 | |
| 4 | SriLanka Cashew Corporation | Keerthi Jayakodyarachchi GM | Keerthi.jayakodyarachchi@gmail.com Tel. 0714055019 | |
| 5 | Staff of NADEP PMU | Programme director and programmes officers | - | - |
| 6 | Visit to Dairy farmers – Galgamuwa | Members of Cargills | - | Dairy farm operating with Cargills |
| 7 | Maize farmers – Anuradhapura | Supported by Nelna Co Ltd | - | - |
| 8 | Chillies farmers Anuradhapura | Supported by Land mark co | | Chilli seeds producers |
| 9 | Protected agriculture entrepreneurs society -PAES | Kandy | | 500 member farmer group |
| 10 | Land Mark Agro Seeds | Chandana j.Premaratnne Managing partner | agrolinks@sltnet.lk Tel.0776998440 | Seed company |
| 11 | Krushi Sewa Piyasa –Agrolinks Co | Jayasiri Premaratne | agrolinks@sltnet.lk Tel.0777849121 | Seed Co-Land Mark |
| 12 | Hayleys PVT Ltd | Rizvi Zaheed Executive Director | Rizvi.zaheed@halyeys.com Tel,0777355459 | Exporter , Agribusiness Co. |
| 13 | Eden Fresh Pro-Pac | Channa Madawela Chief Operating Officer | channa@nidro-lanka.lk Tel. 077815657 | Agribusiness Co |
| 14 | Vegiland Exporters Pvt.Ltd | K.T. Ainkaran-MD | a_ainkaran@yahoo.com Tel.0773405974 | Exporters agro Products |
| 15 | Nelna Farms | W.E.G.E. Nanayakkara –MD | md@nelna.lk Tel. 0777687535 | Mango producing Co |
| 16 | TJC Mango | -Suresh Ellawela Director | sales@tjcmango.com | Mango producer –exporter |

## Table 3: Value chains identified linked to smallholder farmers - List 1[62]

| # | Product Sector/Value Chain | Supply Chain links to other markets | Local production areas/ Provinces/ Districts | Estimated Local Production 2015 | | Market Potential | | Export Destinations | Imports if any | | Women/ Youth involvement |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Ha. | MT.s | Local market | Exports (US$) | | VOL. (MT.s) | Value (US$) | |
| 1. | **Fruits** | | | | | | | | | | |
| | Mango – Fresh & dried (Estimates 2015/16) | Processed & fresh | WP/NWP/SP/ CP/NEP/NCP | 33,016 | 128,749 | High | 379,520 | Germany/Switzerland/ UAE/Singapore/ Netherlands | NO | NO | X |
| | Pineapple (Estimates 2015/16) | Processed & fresh | WP/NWP/SP/ NEP/NCP | 5,849 | 39,481 | High | 5,060,320 | Germany/UAE/France/ Australia | NO | NO | X |
| | Passion fruits (Estimates 2015/16) | Processed & fresh | WP/NWP/SP/ NEP/NCP | 1,351 | 3,591 | high | 396,160 | UAE<br>High demand for local fruit juice industry | NO | NO | X |
| | Papaya (Estimates 2015/16) | Fresh | WP/NWP/SP/ CP/NEP/NCP | 7,299 | 64,205 | High | 189,300 | Germany/UAE/ Qatar | NO | NO | X |
| 2. | **Vegetables** | | | | | | | | | | |
| | Green Chili | Processed & fresh | WP/NWP/SP/ NEP/NCP | 13,029 | 62,866 | High | 946,565 | Spain/Kuwait/UAE/Maldives | NO | NO | X |
| | Bitter Gourd | Potential exports | CP/NEP/NCP | 4,259 | 43,508 | High | 192,959 | UAE/Kuwait/UK/Germany/France/Maldives | NO | NO | X |
| | Snake Gourd | | CP/NEP/NCP | 2,718 | 44,053 | High | | UAE/Kuwait/UK/Germany/France/Maldives | NO | NO | X |
| 3. | **Protected Agriculture Vegetables** | | | | | | | | | | |
| | Bell Pepper | Increasing local market-Potential export | WP/CP/NCP | - | - | High | Limited | UAE/Kuwait/UK/Germany/France/Maldives | NO | NO | X |
| | Gherkins | | | - | 1,976 | Limited | High | | NO | NO | X |
| | Cucumber | | | - | - | High | -- | | NO | NO | X |
| | Tomato | | | - | - | High | Limited | | NO | NO | X |
| 4. | **Vegetable seeds[63]** | | | | | | | | | | |
| | Vegetable seeds excluding potatoes | Several vegetable sectors | CP/NEP/NCP | - | 430.2 | High | Some small scale exports | -+Local informal exports in small quantities | 1666 | - | X |
| | Big Onion seeds | Big Onion production | CP/NCP | - | 30 | High | 20 | Local only | 17.8 | = | X |
| | Maize | Local Maize production | CP/NEP/NCP | 75 | - | High | - | Local for other value chains-Feed industry | 1,399.5 | | X |

[62] Source: - Different sources – EDB, Ministry of Agriculture, NADEP etc. Some figures are estimated and approximated.
[63] Data taken from Note by Land Mark Company

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **5.** | **Dairy** | | | | | | | | | | |
| | Dairy | | All regions | - | 350,000 | High | - | Local | 71,000 | 400 Million | X |
| **6.** | **Perennial Spices** | | | | | | | | | | |
| | Pepper | Processing for value addition | CP/UP/ Kurunegala/ Ratanapura/ Hambantota | 44,450 | 35,458 | Limited | 144,000,000 | India/Germany/Pakistan/ USA | NO | NO | X |
| | Cloves | | CP/Kurunegala /Kegalle | 7,178 | 8,100 | Limited | 48,000 | India/Germany/Pakistan/ USA/Saudi Arabia | NO | NO | X |
| | Cinnamon | | WP/CP/NWP/ Ratnapura | 32,340 | 18,000 | Limited | 1,31,000,00 0 | Mexico/USA/Peru/ Colombia/Ecuador | NO | NO | X |
| | Nutmeg | | CP/Kurunegala /Kegalle | 1,020 | 1,500 | Limited | 15,000,000 | India/Vietnam/UAE | NO | NO | X |
| **7.** | **Grains/Pulses** | | | | | | | | | | |
| | Maize (Estimates 2015/16) | Animal feed VC | WP/UP/EP/ NCP | 99,841 | 392.259 (400,000) | XX | | Maldives/ Norway | 232,000 | NA | X |
| | Soya Bean | Processed products | NEP/NCP/ Sabaragamuw a | 12,810 | 24,275 | High | NA | - | 143,783 | 78 Million | X |
| **8.** | **Oil Seeds** | | | | | | | | | | |
| | Sesame Seeds (Estimates 2015/16) | | NCP/CP/EP/ | 20,553 | 19,393 | Limited | NA | - | | | X |
| **9.** | **Treacle** | | | | | | | | | | |
| | Kitul/Palmyra | Sweets industry | WP/CP/SP/N P | NA | NA | high | 245 | - | | | X |
| **10** | **Aquaculture** | | | | | | | | | | |
| | Sea weed | Sweets industry | NP/EP | | | | Exports | Japan | | X | X |

**Table 4: Identification of value chains and private sector partners**

| # | Product Sector/ Value Chain | Private companies – marketing partners | Type of partner Private companies | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| # | | | Grower | Retail/ Super Market | Processor | Exporter | Small Co. | Medium Co. | Large Co. |
| 01 | Fruits | | | | | | | | |
| | Mangoes | T JC Mango | X | | | X | | X | |
| | Pineapple | H J S CONDIMENTS LTD | | | x | x | | | X |
| | Passion fruits | GLOBAL TRADING & MARKETING PVT | | X | X | | | | |
| | Papaya | NELNA | X | | | X | | | X |
| | | LANKA CANNERIES LTD | | | x | x | | | X |
| | | AGRI BIO TECH PVT LTD | | | x | x | | x | |
| | | SMAK | | | x | x | | | X |
| | | FOODCITY Supper Market, Cargills | | X | x | | | | X |
| | | ARPICO SUPER MARKET | | X | x | | | | X |
| | | LAUGF SUPER MARKET | | X | | | | | X |
| | | DOLE LANKA PVT LTD | X | | | x | | | X |
| | | C R EXPORTS PVT LTD | | | | X | | | X |
| | | MUBARAK TRADING CO | | | | x | | x | |
| | | EXPOLANKA PVT LTD | | | x | x | | | X |
| | | C B L NATURAL FOODS PVT LTD | | | x | x | | | X |
| | | EASTERN & ALLIED AGENCIES LTD | | | | x | | x | |
| | | NIDRO SUPPLY PVT LTD | | | | x | | x | |
| | | PULSES SPLITTING & PROCE INDUST P L | | X | | X( | | | X |
| | | TARGET AGRICULTURE PVT LTD | | | | x | | x | |
| | | VEGILAND EXPORTERS PVT LTD | X | | | x | | x | |
| | | ISHANA EXPORTS PVT LTD | | X | x | x | | | X |
| | | CONSOLIDATED BUSINESS SYSTEMS PT | | | x | x | | | X |
| | | ALOY EXPO PVT LTD | | | | x | | x | |
| **02.** | **Vegetables** | | Grower | Super Market | Processor | Exporter | Small Co. | Medium Co. | Large Co. |
| | Green Chili | C R EXPORTS PVT LTD | | | | X | | | X |
| | Bitter Gourd | EXPOLANKA PVT LTD | | | x | x | | | X |
| | Snake Gourd | EASTERN & ALLIED AGENCIES LTD | | | | x | | x | |
| | | INTERNATIONAL FOODSTUFF COMPANY | x | | x | x | | | X |
| | | AGRI BIO TECH PVT LTD | | | x | x | | | X |
| 03 | **Protected Agriculture vegetables (Potential for small farmers with higher income groups)** | | | | | | | | |
| | Bell Pepper | H J S CONDIMENTS LTD | | | x | x | | | X |

| | | | Grower | Super Market | Processor | Exporter/importer | Small Co | Medium Co | Large Co |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | PRIMA CEYLON LTD, | | | X | | | | X |
| | | CEYLON GRAIN ELEVATORS | | | X | | | | X |
| | | GOLD COIN FEEDS | | | X | | | | X |
| | | PUSESELLA FARM PVT LTD | | | x | | | | X |
| **07.** | **OIL SEEDS** | | | | | | | | |
| | Sesame Seeds (2015/16 E1stimates) | CIC FEEDS, , | | | X | | | | X |
| | | NELNA FARM PVT LTD | | | X | | | | X |
| | | PLENTY FOODS PVT LTD, | | | x | | | | X |
| | | PRIMA CEYLON LTD, | | | | X | | | X |
| | | CEYLON GRAIN ELEVATORS | | | | X | | | X |
| | | GOLD COIN FEEDS | | | | X | | | X |
| | | PUSESELLA FARM PVT LTD | | | | x | | | X |
| **08** | **Perennial Spices** | | | | | | | | |
| | Pepper<br>Clove<br>Cinnamon<br>Nutmeg | EXPOLANKA PVT LTD | | | x | x | | | X |
| | | BIO EXTRACTS | | | x | x | | | X |
| | | C B L NATURAL FOODS PVT LTD | | | x | x | | | X |
| | | BIO FOODS | | | x | x | | | X |
| | | ADAMEXPO | | | x | x | | | X |
| | | RENUKA AGRO EXPORTS LTD | | | x | x | | | X |
| | | Eos Organic | | | x | x | | | X |
| | | HDDES Pvt | | | x | x | | x | |
| **09** | **Treacle** | | | | | | | | |
| 09 | Kitul/Palmyra | EXPOLANKA PVT LTD | | | x | x | | | X |
| | | INTERNATIONAL FOODSTUFF COMPANY | | | x | x | | | X |
| | | AGRI BIO TECH PVT LTD | | | x | x | | x | |
| | | LAUGF SUPER MARKET | | x | | | | | X |
| | | ARPICO SUPER MARKET/ | | x | | | | | X |
| | | FOODCITY/ | | x | | | | | X |
| **10** | **Aquaculture/ fisheries** | | | | | | | | |
| | Sea Weeds | H J S CONDIMENTS LTD / | | | x | x | | | X |
| | | VELANE FISHERIES CORPORATION- JAFFNA | | | x | x | | | X |

**Table 5: Estimates of productivity of selected crops and dairy**

| # | Product Sector/ Value Chain | Production Areas /districts | Estimated production for 2015-2016 Ministry od agri | | Production Est.Ha |
|---|---|---|---|---|---|
| | | | Ha | MT | MT |
| 1 | **Fruits** | | | | |
| | Mangoes | National | 33,016 | 128,749 | 3 to 4 |
| | Pineapples | 21 districts excluding Mannar, Vauniya, Kilinochchi, Baticaloa, Trinco. | 5,845 | 39481 | 6 to 7 |
| | Passion fruits | 20 Districts excluding Anuradhapura, Trinco, Baticaloa, Kilinochchi, Mannar, Jaffna | 1351 | 3591 | 2 to 3 |
| | Papaya | National | 7299 | 64205 | 8 to 9 |
| 2 | **Vegetables** | | | | |
| | Green Chilies | National | 13,029 | 62,866 | 4 to 5 |
| | Bitter Gourd, | National | 4,259 | 43,508 | 10 to11 |
| | Snake gourd | National | 2,718 | 44,053 | 16 to 17 |
| 3 | **Protected agriculture vegetables Range** | | | | |
| | Bell Pepper | Matale, Nuwaraeliya, Ampara, Trinco, Kurunagala, Puttlam, Anuradhapura, Monaragala, Ratnapura, Mahaweli H area | 194 | 1,976 | |
| | Gherkins | | | | |
| | Cucumber / cherry tomatoes | | | | |
| 4 | **Seeds** | | | | |
| | Vegetable seeds | Nuwera eliya , Kandy , Matele WP , Anuradhapura, Vauniya ,WP | | 418 | |
| | Potatoes | Nuwera Eliya | | 500 | |
| | Big onion Seeds | CP , NCP | | 30 | |
| 5 | **Grains, Pulses** | | | | |
| | Maize | 23 Districts, Excluding Colombo, Kaluthara, Galle, | 99,841 | 394,584 | 3 to 4 |
| | Green grams | 23 Districts, Excluding Colombo, Gampaha, Kaluthara, | 11,346 | 15,055 | 1 to 2 |
| | Black Gramm | 14 districts | 12,305 | 11,900 | < 1 |
| | Kurakkan – Finger millets | 19 Districts | 5,557 | 6,063 | 1 |
| | Soya Bean | 14 Districts | 12,810 | 24,275 | 1 to 2 |
| 6 | **Oil Seeds** | | | | |
| | Sesame seeds | NCP.NPEP, Hambantota District | 20,553 | 19,393 | < 1 |
| | Ground nuts | CP, Wayamba , NCP | 18,623 | 233,016 | 12 to 13 |
| 7 | **Perennial spices** | | | | |
| | Pepper | CP, Ratnapura , Hambantota , Kurunagala | 44,450 | 35,458 | < 1 |
| | Cloves | Central province CP, Kegalla | 7,178 | 8,100 | 1 to 2 |
| | Nutmeg | CP Central province CP, Kegalla ,Kurunagala | 33,340 | 18,000 | < 1 |
| | Cinnamon | SP.WP, Ratnapura | 32,340 | 18,000 | <1 |
| 8 | **Bee-keeping** | National | NA | NA | NA |

| | | | | | |
|---|---|---|---|---|---|
| 9 | **Treacle (Kitul)** | CP, SP | NA | NA | NA |
| 10 | **Dairy** | National - mainly SP, NCP, Wayamba and CP | 29,5481 Registered cattle farms | 350,000 | NA |

**Table 6: Seed Production and Requirement - Estimates**

| **Products** | **Imports** | | | **Local production** | | | **Total needs** | **% Local production** |
|---|---|---|---|---|---|---|---|---|
| **Crop** | **quantity kg** | **1kg price USD** | **total amount USD** | **quantity** | **1kg price USD** | **total Value US$** | **Imports +local Prod KG** | |
| Beans | 109,000.00 | 3.50 | 381,500.00 | 275,000.00 | 5.40 | 1,485,000.00 | 384,000.00 | 71.61% |
| Beet | 25,486.00 | 8.00 | 203,888.00 | | | | | |
| Cucumber | 2,417.00 | 100.00 | 241,700.00 | 1,500.00 | 12.00 | 18,000.00 | 3,917.00 | 38.29% |
| Egg plant | 378.00 | 100.00 | 37,800.00 | 1,500.00 | 12.00 | 18,000.00 | 1,878.00 | 79.87% |
| hot pepper | 2,381.00 | 270.00 | 642,870.00 | 12,000.00 | 5.50 | 66,000.00 | 14,381.00 | 83.44% |
| LUFA | 4,691.00 | 100.00 | 469,100.00 | 2,500.00 | 16.00 | 40,000.00 | | |
| OKRA | 10,411.00 | 15.00 | 156,165.00 | 18,000.00 | 3.00 | 54,000.00 | 35,411.00 | 50.83% |
| BIG ONION | 17,800.00 | 12.00 | 213,600.00 | 30,000.00 | 67.00 | 201,000.00 | 47,800.00 | 62.76% |
| Red onion | 4,000.00 | 20.00 | 80,000.00 | | | | | |
| Pumpkin | 9,107.00 | 90.00 | 819,630.00 | 600.00 | 30.00 | 18,000.00 | 9,707.00 | 6.18% |
| Raddish( Chinese) | 10,632.00 | 7.00 | 74,424.00 | 2,000.00 | 6.50 | 13,000.00 | 12,632.00 | 15.83% |
| Squash(winter Squash) | 3,362.00 | 20.00 | 67,240.00 | - | - | - | - | 0.00% |
| Tomato | 1,210.00 | 540.00 | 653,400.00 | 200.00 | 67.00 | 1,340.00 | 1,410.00 | 14.18% |
| water Convoles | 904.00 | 5.00 | 4,520.00 | - | - | - | - | 0.00% |
| yard long beans | 7,384.00 | 10.00 | 73,840.00 | 25,000.00 | 4.70 | 117,500.00 | 32,384.00 | 77.20% |
| Watermelon | 10,416.00 | 90.00 | 937,440.00 | 200.00 | 13.00 | 2,660.00 | 10,616.00 | 1.88% |
| maize (hybrid corn) | 1,399,552.00 | 3.00 | 4,198,656.00 | 75,000.00 | | | 1,474,552.00 | 5.09% |
| better gourd | 2,925.00 | 90.00 | 263,250.00 | 4,500.00 | 16.00 | 72,000.00 | 7,425.00 | 60.61% |
| Papaya | 42.00 | 2,030.00 | 85,260.00 | 50.00 | | | 92.00 | 54.35% |
| Carrot | 40,782.00 | 13.00 | 530,166.00 | - | | | 40,782.00 | 0.00% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cabbage | 3,907.00 | 240.00 | 937,680.00 | - | | | 3,907.00 | 0.00% |
| cauliflower | 237.00 | 240.00 | 56,880.00 | - | | | 237.00 | 0.00% |
| Chinese kale | 148.00 | 10.00 | 1,480.00 | - | | | 148.00 | 0.00% |
| KNOL KHOL | 2,947.00 | 10.00 | 29,470.00 | - | | | 2,947.00 | 0.00% |
| LEEKS | 12,358.00 | 20.00 | 247,160.00 | - | | | 12,358.00 | 0.00% |
| Lettuce | 803.00 | 15.00 | 12,045.00 | - | | | 803.00 | 0.00% |
| **Sub Total Vegetables** | **1,683,280.00** | | **11,419,164.00** | 448,050.00 | | | 2,131,330.00 | 21.02% |

# Appendix 5: Institutional aspects and implementation arrangements

## A. Organizational framework

1. In general, SAP will largely replicate the institutional and implementation structure of NADeP.

2. **Executing and key agencies**. The executing agency or lead programme agency (LPA) for SAP is the Presidential Secretariat, which by virtue of its high-level status, is best placed to ensure effective mobilisation and coordination amongst the various public agencies (including the Central Bank) and with private sector partners (including financial institutions, companies, associations, etc.) who either directly have implementation responsibilities, or a supporting role (e.g. research, training, mobilisation of farmer organizations, complementary extension services, etc.). In support of farmer organizations and 4Ps covering a range of value chains/ sub-sectors, the key agencies implicated in the programme include: the Mahaweli Authority (especially its well-developed network and organizational structure); Ministry of Agriculture; Department of Export Agriculture; Department of Agriculture; and Exports Development Board.

3. A **National Steering Committee (NSC)** will provide programme oversight and direction, chaired by the Secretary to the President or his representative. The SAP NSC will be based on the NSC for NALeP, with minor adjustments made on one hand to allow for adequate representation by non-government programme stakeholders, while on the other to ensure that the committee remains of a size that is manageable. It will be chaired by the Secretary to the President, and will comprise 11 of the current members representing government or government agencies, plus representatives of the Mahaweli Authority and the Department of Export Agriculture of the Ministry of Primary Industries. It will additionally include representation from the Ceylon Chamber of Commerce (in turn representing the interests of agribusiness) plus a representative of the participating financial institutions. Its full membership will therefore be as shown below:

(a) Secretary to the President, Presidential Secretariat (Chair)

(b) Senior Addl. Secretary to the President, Presidential Secretariat

(c) Director General, Dept. of Programme Management and Monitoring, Ministry of National Policies and Economic Affairs

(d) Director, Dept. of External Resources, Ministry of National Policies and Economic Affairs

(e) Director, Foreign Aid Management, Department of Treasury Operations, Ministry of Finance

(f) Addl. Director General, Dept. of National Planning, Ministry of National Policies and Economic Affairs

(g) Addl. Secretary (Agric. Development), Ministry of Agriculture

(h) Director (Finance), Export Development Board

(i) Addl. Ssecretary, Livestock Development, Ministry of Economic Affairs

(j) Director, Dept. of Agrarian Services, Ministry of Agriculture

(k) Director (Development and Special Programmes), Presidential Secretariat

(l) Director, Regional Development Dept., Central Bank of Sri Lanka

(m) Representative of participating financial institutions

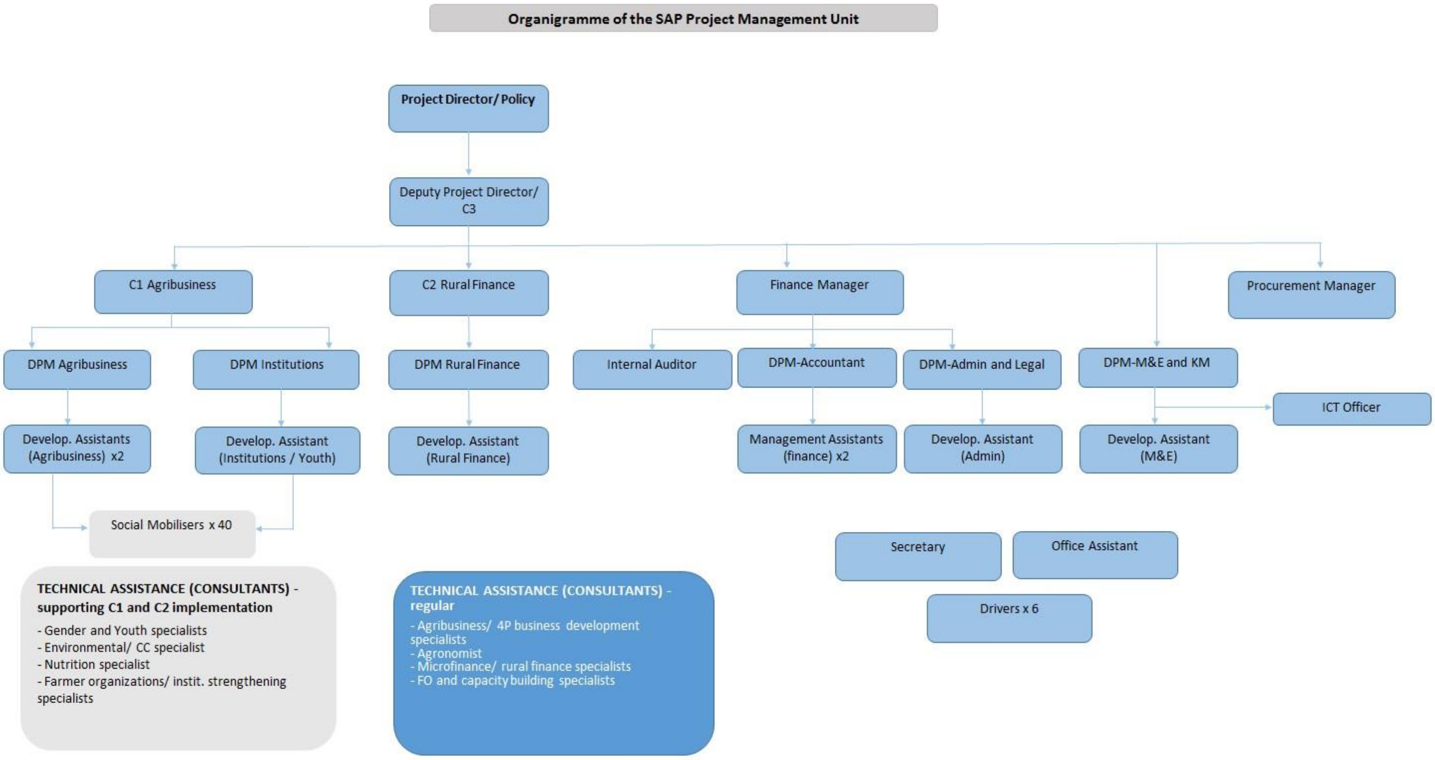
(n) Representative of Ceylon Chamber of Commerce

(o) Representative of Mahaweli Authority

(p) Representative of Department of Export Agriculture, Ministry of Primary Industries.

4. This Committee will meet at least twice-yearly to review and approve the SAP Annual Work Plan and Budgets prior to its submission to IFAD for no objection; and to review programme implementation and financial progress. It will appoint the 4P evaluation committee and endorse the 4P schemes to be submitted to IFAD for no objection; and it will also endorse the policy issues prioritised for follow-up action by the 4P multi-stakeholder meetings and the advocacy strategy developed for each issue policy analysed.

**Figure 1: Proposed SAP PMU organigramme**




5. **Management structure**. Through the LPA, responsibility for programme management is delegated to the Programme Management Unit (PMU) based in Colombo, which will evolve from, and leverage the experience and strong human resources of the current NADeP PMU; the PMU will be further augmented by technical assistance/ consultants who will bring a higher level of business orientation and professionalism to the programme (in respect of the business-oriented nature of the programme). In terms of overall responsibilities, the PMU is tasked with delivery of the programme and its performance; as well, key functions of the PMU relate to planning, coordination, facilitation and brokerage (amongst 4P stakeholders), and monitoring and evaluation. Given the scope of the proposed programme, key managerial positions within the PMU include a Programme Director, Deputy Programme Director, Agribusiness Manager, Rural Finance Manager and Finance (and Admin) Manager, heading competent staff within their respective units; specialists in areas of M&E and gender and youth will also form part of the PMU.

6. In order to support specific interventions (e.g. as relates to institutional strengthening or capacity building or 4P facilitation where required), institutional service providers will be contracted by the PMU.

## B. Summary overview of implementation arrangements and responsibilities by Component and/ or specific interventions

**Component 1**

7. **Implementation responsibilities under Component 1 (4Ps, private sector and FO-led).** The bulk of interventions and activities under Component 1 relate to: (i) the implementation of 4P schemes; and (ii) capacity building/ institutional strengthening of producer/ farmer organizations. With respect to the 4P schemes, the SAP Programme Management Unit (PMU) will have the first level of responsibility for facilitating and brokering the 4Ps, through sensitization and awareness raising in the lead up to SAP effectiveness and within the first six months of implementation. Today, through NADeP, the private sector is cognizant of the 4P model being promoted, but could benefit from further knowledge of the specificities, principles, expectations, responsibilities, limitations and opportunities of the 4P model, and can be encouraged to expand and deepen their participation. In addition to sensitization, the PMU will be responsible for inviting expressions of interest and will conduct a first and independent assessment of the proposals received. Further to this, in terms of 4P development and appraisal, the PMU will take the lead through its in-house specialists, though will mobilise additional resources or facilitators to broker and cement the 4Ps as required.

8. Once the 4P has been approved, it is expected that in the majority of cases, the implicated private sector company will take the lead in brokering the partnership and support of financial institutions leading to tripartite agreements among smallholder producers, PFIs and the private sector company under a viable 4P scheme, and will implement the 4P sub-project at the field-level.

9. With regard to FO involvement in the 4P arrangements, SAP will promote a three pronged approach; a) 4P BPs led by private sector companies with FOs that forsee partnerships between promoter companies and FOs (Type A FO 4P partnerships), b) farmer associations and co-operatives progressively engaged in agribusiness activities (Type A FO 4P partnerships), and c) FOs operating in the Mahawely catchment area (existing or new groups arising from existing FOs for new business ventures / Type A FO 4P partnerships).

10. The selection of business ventures will always follow competitive open selection process accrose the board. For the Type A and Type B of 4P partnerships, the sensitization and selection process will be mirroring the one already identified for private sector led 4Ps. For Type C, the process of sensitization and competitive selection will be, in turn, managed by MASL. The details elements of the selection process is outlined below:

(a) (Type A FO 4P partnerships): the selection of FOs will be at the discretion of the promoter company and the selection will be done by the PMU following the standard procedures set for companies under 4P arragements;

(b) (Type B FO 4P partnerships): the selection will be the responsibility of the Component Leader of PMU through a competitive bidding process. It would be required that these organizations should be formally registered business entitities involving in agribusiness activities for a minimum of 2 years. The objectives of BPs should be to specialize in agriculture, processing of agricultural materials and agribusinesses and / or to deal in agricultural products or services-related. Also they should carry unqualified auditors' opinion for most recent financial statements and a sound financial position as evidence by its financial reports. More importantly, they should have the capacity to provide significant co-financing and technical expertise to members farmers. PMU will develop a set of criteria based on these parameters;

(c) (Type C of FO 4P partnerships): the selection process for this type of partnerships will be preceded, for each system in the Mahaweli area, a large process of sensitization of farmer groups to identify new business ventures and expansion of existing businesses. These business ventures can be undertaken by existing FOs or by farmer groups representing one or more farmer groups that intend to present a business plan together.

MASL head quarters and 9 systems (only 9 out of 10 have FOs currently) will be in charge of the implementation of the key SAP outreach for Type C of 4Ps partnerships with FOs with the support of SAP PMU. These FOs will evolve, as need basis, from initial business ideas to business ventures throughout the period of implementation of SAP programme. As such, it is necessary that MASL will enter into MoU with SAP PMU.

11. The elements of the MoU will comprise the a) provision of a consultant pool of 8 professionals in support of sensitization and FO selection, b) FOs institutional development – development programme tailor made to identified FOs and groups, c) FOs business advisory services and management of the start-up funds, d) deployment of MASL staff at the headquarters and field level for programme implementation, e) BP progress reporting and monitoring, and f) MASL to represent in the SAP NSC. The MoU will specify the responsibilities of both parties on sharing basis. The consultant pool will be stationed at the MASL headquarters attached to its “Business Development” unit whose manadate is the promotion of new businesses, market linkages, investment promotion in agricultural value-addition programmes for Mahaweli FOs. Consultant pool work in close collaboration with MASL’s Institutional Development unit too whose mandate is the registration and the capacity development of FOs. The consultants will report to the Componant Head at the PMU and administratively to the Director, Business Development or any higher officer designated by the Director General of MASL.

12. Consultants’ will support the staff of MASL in the different systems, under the guidance of Business Development Unit, for the identification of potential FOs or group of farmers for BPs and market opportunities with potential private sector partners. Specifically, the responsibilities will be a) together with MASL staff identify FOs and farmer groups already engaged in agribusiness with growth potential, b) identify FOs and farmer groups with new business ideas, c) identify opportunities available under different agro-based value chains in Sri Lanka for the small holder farmers to produce and supply for increasingly important high potential export and local markets, and d) negotiate and develop solid partnerships with private sector companies. The main criteria of identifying these value chains covered three dimensions; a) economic, b) social and c) environmental. The economic criteria considered include, a) Market potential (local and export) for the products, b) Potential increase in income for target producers, c) National priority given to promote domestic production including promotion of import substitution through local production, d) Availability of private sector partners (mainly lead companies) interested in partnering with small holder farmers, and e) Potential linkages to growth of other value chains. In addition, the selection of potential opportunities of product sectors considered social criteria such as potential involvement of rural women and youth.

13. Annex 1 provides details of the selection strategy and the process of each type and the Annex 2 provides the template for business concepts/ideas.

14. Finally, there are several public agencies at the national, provincial and district level that associate with farmers and their organizations for the provision of extension services, technology and support services. In particular, the district level institutions and key responsible officials, have instructions to support FO operations.

**Table 1: District institutions that associate with FOs**

| No. | Title of the District level Institute | Responsible Officials |
|---|---|---|
| 01 | District Secretariat / Government Agent’s Office (DS/GA) | • District Secretary / Government Agent<br>• Divisional Secretaries / Assistant Government Agents<br>• Director / Planning / District Planning Secretariat<br>• Assistant Superintendent of Surveyor<br>• Fisheries Inspector<br>• Samurdhi Niladhari<br>• Development Officers<br>• Agricultural extension officers work at the DS division level |
| 02 | Department of Agriculture | • Deputy Director of Agriculture - Extension<br>• Deputy Director of Agriculture – Seed Production & Farms |

| | | |
|---|---|---|
| | | • Assistant Director Agriculture - Extension |
| 03 | Department of Agrarian Services | • Assistant Commissioner of Agrarian Services<br>• Divisional Officers<br>• Extension officers |
| 04 | Department of Animal Production & Health | • District Veterinary Officer<br>• Veterinary Surgeon<br>• Field Officers |
| 05 | Department of Forest Conservation | • Range Forest officer<br>• District Forest Officer |
| 06 | Department of Cooperative Development | • Assistant Commissioner of Cooperatives |
| 07 | Department of Health & Nutrition | • Regional Director of Health Services (RDHS)<br>• Medical Officer of Health (MOH |
| 08 | Local Authorities Municipal, urban & Pradeshiya Shaba (Local Councils) | • Mayor/Chairman |

15. All these institutions and officials, who are functioning at the district level, will play implementing roles in accordance with the degree of their responsibility to different aspects of FO activities.

16. With regards to youth, a youth strategy will be commissioned as a first starting point to better understand diversity amongst the rural youth, and subsequently their challenges, aspirations, critical needs and the opportunities where SAP can intervene in supporting the youth. This strategy will draw from the consultations with youth in rural communities, the experience and sensitization activities undertaken by the social mobilisers, and via the dialogue with private sector companies.

17. In order to more effectively draw out the demand for products/ services around the 4P, SAP will through its consultation and sensitization activities, encourage the private sector companies to identify the critical product or services gaps along the value chain, and/ or the gaps in human resources capacities. These gaps will be communicated to the youth, to establish their interest and commitment to engage in these particular activities. Social mobilisers, by virtue of their close community-level knowledge and training in the SAP principles and approaches, will communicate SAP's open call for interest for youth to take part in the initiative. To facilitate youth in stepping forward, social mobilisers will provide support to the youth with some initial and basic training on how to develop basic business plans and will work with those youth with potential to finalize their business plans; the social mobilisers will also have the role of connecting the youth to PFIs, who will ultimately appraise the business plan and decide on whether to approve the loan.

18. Once the youth business plan and credit has been approved, the support to youth will also be complemented by capacity building support. A range of topics such as financial literacy, know-your-numbers, and managerial training will be offered, and youth with approved business plans can choose their priority needs; the specific technical training that will also likely be required, has also been provisioned for.

19. To the extent possible, the programme will also attempt to facilitate or broker a mentorship programme for those youth demonstrating strong leadership and entrepreneurial potential, with established business experts.

**Component 2**

20. **Implementation responsibilities under Component 2.** The line of credit shall be set up at the Regional Development Department (RDD) of the CBSL. The RDD is a specialized department managing lines of credit of various donors and government-run schemes. The representative of the Government of Sri Lanka, i.e. Ministry of Finance, and the Monetary Board of the Central Bank of Sri Lanka, shall enter into a Subsidiary Loan Agreement (SLA) on the line of credit. In turn, the Monetary Board of the CBSL will enter into SLAs with PFIs to specify the terms and condition of the sub-loans.

21. Operating Guidelines shall be developed which will outline the eligibility criteria and procedures, type of loan products, collateral requirement, repayment terms etc. which will be used to govern PFIs'

access to the facility, following the details laid down in Appendix 4. Whilst existing operating guidelines are available through NADeP, these will be simply fine-tuned for SAP.

22. The key responsibilities of the GoSL include:

- To make available to the CBSL the loan proceeds/ loan amount on an agreed interest rate, for disbursement of loans to PFIs for onward lending to smallholder farmers and youths under the programme;
- To bear the foreign exchange risk, if any.

23. The key responsibilities of the RDD of the CBSL include:

- To manage the line of credit and pay interest as agreed upon to the Department of Treasury Operations on the loan outstanding from time to time;
- To conduct due diligence assessments on the FIs desirous to participate under the scheme based on the following criteria:
  - Minimum of two years of term lending operations for which audited accounts are available,
  - NPLs below 5%,
  - Compliance with all prudential regulations as required by the CBSL, and
  - Willingness to enter into a tri-partite agreement with the producer and private company.
- PFIs continued participation in the scheme shall depend upon continuous compliance with the above conditions.
- The RDD shall maintain a revolving account and accumulate the funds generated through the repayment of PFIs, and re-lend these to PFIs on the same objective, terms and conditions.

24. The PFI responsibilities include:

- To undertake lending under the SAP under a tripartite agreement with a private company or producer for lending to 4Ps beneficiaries;
- To lend to the youths and smallholder farmers on individual lending basis as facilitated by social mobilisers;
- To actively support the savings mobilization drives of the social mobilizers;
- Where PFIs shall employ adequately trained and dedicated social mobilisers (field officers) who undertake the full gamut of activities attendant on credit delivery;
- To charge a rate of interest on sub-loans that conforms with the rate specified in the Operating Instructions, with a loan maturity varying between 12-60 months;
- To bear the full default risk of the end-borrower.

25. The proponent companies' responsibility includes:

- To facilitate the opening of accounts following KYC requirements of smallholder farmers under the 4Ps and enter into tripartite agreement with the PFI and farmer, agreeing the pre-agreed price based on the quality of produce and commitment to pay the sales proceeds into the famers' bank account;
- To facilitate the deduction at source of loan capital and interest due by farmers prior to paying out of the proceeds to them.

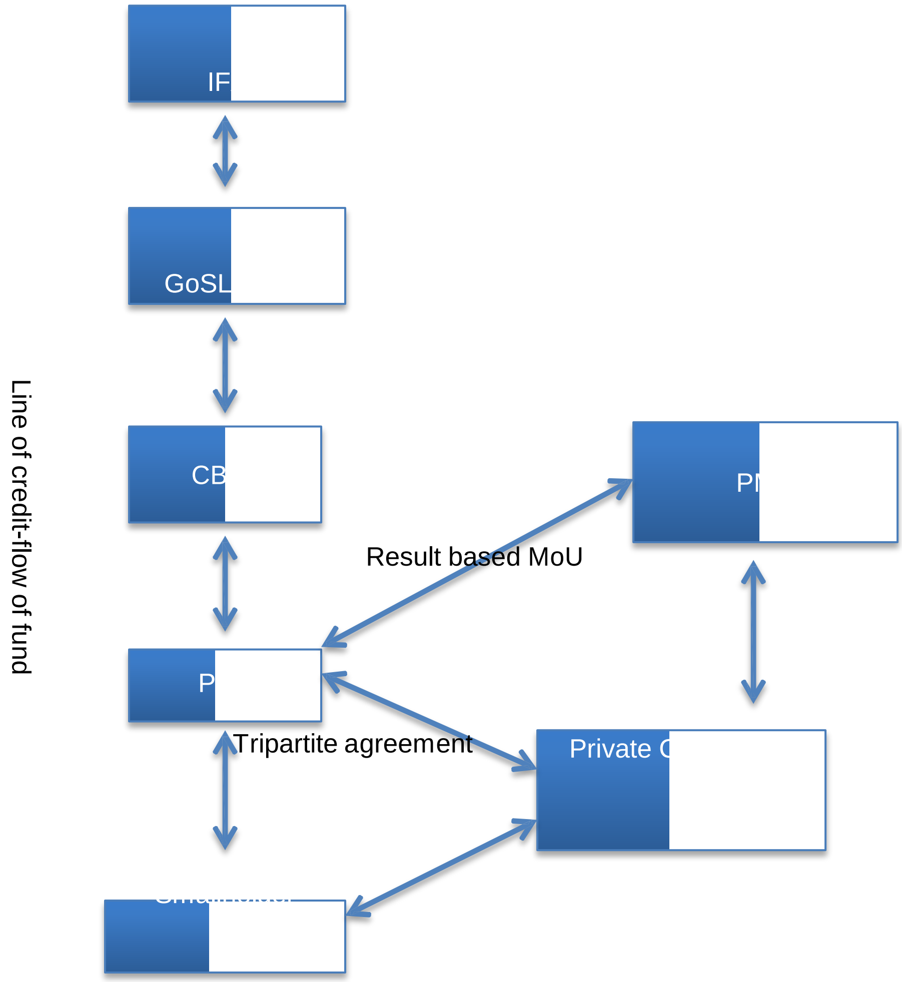
26. The responsibilities of farmers and the youth include:

- To repay the loans to PFIs based on the agreed terms and conditions;
- To honor the commitment under tripartite agreements with respect to quality and quantity of the produce, timeliness of delivery and other points agreed upon.

27. Institutional strengthening and policy support for access to rural finance will be implemented by the PMU through its Annual Work Plan and Budget (AWPB). The PMU will enter into a result-based MoU with the PFIs/CBSL for technical and other support.

28. Details on the financial reporting and monitoring arrangements for the SAP line of credit is provided for under Annex V.

**Figure 2: Institutional and implementation arrangement under Component 2**




**Component 3**

29. **Implementation responsibilities for policy engagement under sub-component 3.2.** Overall responsibility for sub-component 3.2 will lie with the PMU – specifically, the Programme Director, supported by DPM, M&E and KM, as well as the relevant technical specialists within the PMU. His/her main responsibilities will be for:

- Planning and managing the biannual 4P Business Forum, and ensuring that decisions made there are followed up;

- Managing and supervising the processes of conducting policy research and analysis: drawing up terms of reference, identifying potential service providers to conduct the analysis (universities, policy research institutes, consultants), and reviewing drafts of all studies to ensure responsiveness to the TOR and the quality of output;
- Facilitating discussion within the PMU, in order to identify approaches and models to be assessed, with a view to drawing out policy lessons, and managing the process of conducting these assessments;
- Managing the development of issue-specific policy advocacy plans; and
- Presenting prioritised policy issues and advocacy plans to the National Steering Committee for its endorsement.

30. Others with responsibilities would include the National Steering Committee, which will contribute to the process of identifying policy and regulatory issues to be taken up, validating the findings and recommendations of studies, and offering guidance as to next steps in contributing to policy outputs. Specifically it will endorse: (a) as being appropriate for further work by the programme those policy issues prioritised for follow-up action by the 4P multi-stakeholder meetings, and (b) the proposed advocacy strategy developed for each issue policy analysed.

31. The following would also be involved as partners in the implementation of the sub-component:

- Relevant government agencies; organizations of smallholder farmers; representatives of agribusiness – aggregators, processors and exporters etc; academia/policy researchers, as participants in the 4P Multistakeholder Meetings;
- The Institute of Policy Studies, which may be invited to facilitate the 4P Stakeholder Meetings; and
- Universities, policy research institutes and consultants, as contracted service providers to conduct policy analysis.

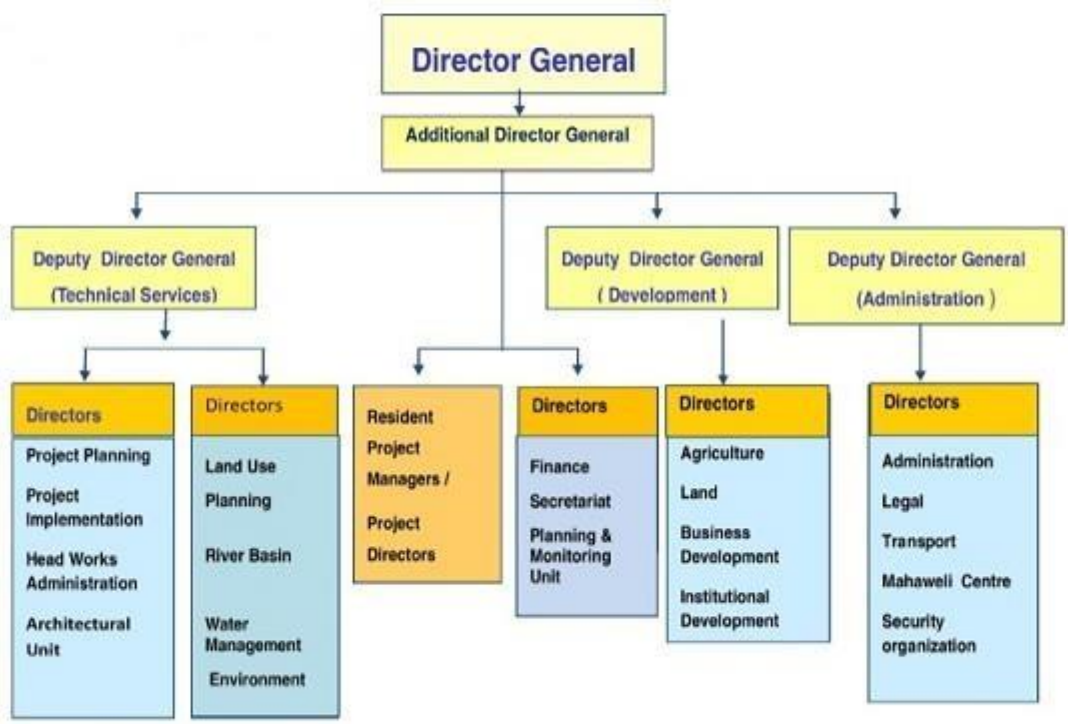
### C. Implementation arrangements via the Mahaweli Authority of Sri Lanka (MASL)

32. **Background on the Mahaweli Authority of Sri Lanka.** The Mahaweli River Development Programme, the largest integrated rural development multi-purpose programme ever undertaken in Sri Lanka was implemented to tap water resources of Mahaweli and allied six river basins. The main objectives were to increase agricultural production, hydro-power generation, employment opportunities, settlement of landless poor and flood control. The programme was originally planned for the implementation over a 35-year period, managed by the Mahaweli Authority of Sri Lanka (MASL).

33. Besides hydropower, the objective of the Mahaweli River Development Programme which covers almost 1/3 of the country, is mainly related with the regional development perspective. Increased agricultural production through opening up of new lands and providing assured irrigation facilities and opening up of new employment opportunities in agricultural sector by settling landless farmers with the assurance of high standards of living conditions are the main objectives of the programme.

34. **MASL organizational structure.** The MASL organizational structure is shown in Figure 2. Mahaweli Areas have been divided into 10 systems for management purposes. Each System is managed by a Resident Programme Manager with 3 to 4 Irrigation Blocks of approximately 3000 Ha. A Block Manager & Irrigation Engineer (IE), Agriculture Officer and Community Development Officers manage each block. Each Block consists of Units of about 500 Ha and is managed by a Unit Manager. The IE at Block Level is assisted by Engineering Assistants (EAs) and Works (WSs) and Turnout Attendants.

**Figure 3: Mahaweli Authority of Sri Lanka Organizational Structure**




35. **MASL services vis-à-vis Farmer Organizations (FOs).** Farmer Organizations (FOs) formed and initiated by Block Manages are responsible for O&M of the tertiary system, which includes Distributary Canals (DCs) and Field Canals (FCs) of an irrigation system. The farmers under each FC are required to select a leader for the canal to represent them at DC level. DC level committee comprises of leaders selected from each FC by the farmers concerned. Water management and maintenance of the irrigation system are the primary responsibilities of FCs in line with MASL technical services. At present, MASL is responsible for managing irrigation water for 175,000 ha. of Irrigable land In the dry zone.

36. As seen in the Figure 3, MASL development services are dedicated to the economic and capacity development of FOs in the system, as follows:

- (a) Agriculture which include livestock development – development of main crop paddy and field crops, dairy, poultry, goat farming etc.
- (b) Business development – promotion of new businesses, market linkages, investment promotion in agricultural value-added programmes,
- (c) Land, and
- (d) Institutional Development – FO registration and capacity development

37. MASL is an autonomous institution vested with powers for FO registration and land distribution in the Mahaweli areas. The Agrarian Development Act No. 46 in 2000 and the Irrigation Ordinance have been revised and the Director General of the MASL has been devolved with such powers. Similarly, powers for the distribution of Mahaweli lands has been devolved with the revisions to the Land Development Ordinance No. 19 of 1935. Effectively, the MASL Director General holds the powers for the distribution of lands on long-term leases for residential, agricultural, industrial and commercial purposes.

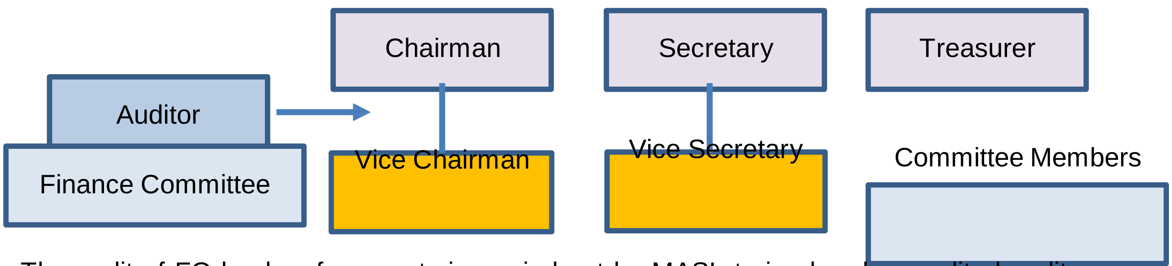
38. Today, there are 1,007 FOs registered and operational in the Mahaweli system. The distribution is shown in Table 2.

**Table 2: Mahaweli Systems and Farmer Organizations**

| | Mahaweli System | No. of FOs |
|---|---|---|
| 01 | System B | 133 |
| 02 | System C | 196 |
| 03 | Walawa | 287 |
| 04 | System H | 225 |
| 05 | Moragahakanda | 44 |
| 06 | Huruluwewa | 82 |
| 07 | Rambakenoya | 08 |
| 08 | Medirigiya | 10 |
| 09 | System L | 22 |
| 10 | Victoria | - |
| Total | | 1,007 |

39. **Structure and functions of Farmer Organizations.** Altogether, some 120,000 farmers are grouped into FOs (20 or above is the lower ceiling to establish a FO and there is no upper ceiling), with a mandate of primarily bulk water management and maintenance of the irrigation system. FOs are also involved in various economic activities, running revolving funds for crop loans and welfare activities.

**Figure 4: Structure of a Farmer Organization**




40. The audit of FO books of accounts is carried out by MASL-trained and accredited auditors on an annual basis. The number of the committee representatives depends on the number of field canals maintained by the FO. In all FOs, financial decisions are taken by a Finance sub-committee and some FOs have sub-committees for credit functions. Office bearers are elected through a general meeting for a one-year term.

41. **Agribusiness activities of FOs**. It is mandatory that all Mahaweli FOs are required to maintain two bank accounts, one for member development and general activities and the other for FO economic transactions. Economic activities generally include: a) undertaking state contracts like road development and canal rehabilitation; b) sale of fertilizer and insecticides; c) crop loans through revolving funds; and d) business linkages with Forward Sales Agreements (FSA). Current FSAs include cultivation and supply of seasonal crops like soya beans (Sri Lanka Thriposha Ltd. and Pleny Foods (Pvt) Ltd.), maize (Prima Ltd), and vegetable (Cargills Inc.). In addition, Mahaweli FOs and farmers are linked to a few established supply chains like dairy, poultry and goat farming. Overall, the Mahaweli system's dairy contribution to the national economy in 2015 was 28 MN liters which accounts for 7 percent of the country's production. Similarly, animal husbandry and inland fisheries have been very popular in the system with sizeable contribution to the economy. In 2015 the production of poultry (4 percent contribution with 6 MT), goat (6 percent contribution with 102 MT) and inland fishery production (15 percent with 11 percent contribution) have been recorded. Several FO

members reported to have run agribusiness enterprises like yoghurt, sweetmeats etc successfully and few of them are linked to the national market as popular brands.

42. **Maturity Assessment of Mahaweli System Farmer Organizations.** As per MASL records, 36 FOs have reached a level of business enterprise, having assets built-up with processing machinery, warehousing, goods transport vehicles, etc. There are 150 FOs categorised as 'enterprising FOs'.[64] MASL recognizes that FOs in Systems B, C, H and Walawa are ahead of others in business enterprise.

43. As relates to SAP, these FOs would be further assessed by MASL and the SAP PMU, as FOs with the potential to engage/ lead in development of 4P schemes. The current MASL maturity assessment tool (template) will be reviewed and adapted to include SAP specificities. Subsequently, the FOs with the highest potential, will undergo further sensitization to determine their interest in becoming more entrepreneurial organizations, and a capacity building plan for their development will be elaborated for SAP support. The MASL official network will take the lead in mobilisation of the farmers and FOs, and these same FOs will continue to benefit from the services rendered by the MASL during implmenetation of the capacity building plan and subsequent 4P programmes; SAP will provide the complementary support where it is identified and required.

[64] MASL document 'Mahaweli Farmer Organizations' Summary'

## Annex I: Selection Process of Farmer Organizations for 4Ps

For the Type A and Type B of 4P partnerships, selection process will be different. For Type A, the selection of FOs will be at the discretion of the promoter company. For Type B, it is the responsibility of the Component Leader of PMU to select appropriate BPs through a competitive bidding process. Selection strategy and process relevant to each Type is illustrated below:

### Type A – SAP, Promoter Company and Farmer Organizations

As in the case of company-led 4Ps, the SAP will invite expressions of interest from reputable agribusiness companies, in this case the companies that are willing to partner with FOs instead of individual farmers, who are then short listed and selected based on a set of criteria including: financial strength; business experience (at least 2 years in business with unqualified audited accounting statements); and commitment and interest in pro-poor development. These companies are subsequently requested to submit proposals in the form of Business Plans (BP) to include an investment plan and an implementation plan. In this early stage, the PMU is forefront in promoting, sensitizing and brokering first contact with the private sector; as the process progresses, the PMU continues its brokerage role and facilitates the negotiations and fine-tuning of the proposals.
Within the PMU, the business development unit, staffed with specialists (i.e. those experienced in private-sector agribusiness, financial and legal sector), and the component head of FO development unit will share responsibility in networking, working with companies on development of BPs, negotiations, on site and off site appraisal. The component head will liaise with PFIs for facilitating credit financing.

Evaluation and appraisal of BPs do not differ from company-led 4Ps which is illustrated in Annex 1 of the Appendix 4. Upon BP submission, the PMU conducts a preliminary assessment and short-listing, and undertakes site-visits to meet with farmer groups and the promoter/ originator company; after this, the PMU facilitates BP development sessions with the company in order to finalize a feasible BP that benefits all parties (with emphasis on financial and economic benefits to the smallholder producer; at this stage, producers are also pre-identified by the company). The BP then undergoes a final appraisal by the PMU team, and is forwarded to the BP Evaluation Committee (comprised of external experts/ target sector specialists from public institutions, PFIs and the private sector) who undertakes further field visits to validate the appraisal and comments on/ proposes further adjustment and finally recommends the BP to the National Steering Committee (NSC) for approval. Simultaneously, District Secretariats are sensitized and informed on the BP.

### Type B – SAP with Farmer companies / co-operatives

4P promoter in this Type is the farmers' company or co-operative. The selection process remain the same but the sole responsibility of preliminary assessment, shortlisting and facilitation lays on the Component Leader of FO Development. It is important that promoter companies / co-operatives demonstrate sound marketing arrangement with documentary evidence.

### Type C – SAP with Farmer Organizations in the Mahaweli catchment area

The selection process of Type C will be different given the fact that the existing FOs that are engaged in agribusinesses and new groups of farmers with good business ideas are expected to partner with SAP and such new groups are expected to develop their business ideas with the support of the consultants pool over a period of time.

| | Action/Activity | Lead responsibility | Support | Results/outcome |
|---|---|---|---|---|
| 01 | Formulate selection strategy, criteria and the process | MASL lead by Director (Business Development) | Consultants pool and MASL System heads | Selection strategy and process for SAP approval |
| 02 | Constitute a | MASL DG/Directors of | Consultants pool | A selection committee comprising |

| | | | | |
|---|---|---|---|---|
| | selection committee | Business Development & Institutional Development | | Mahaweli HQ, Block and Unit level representation |
| 03 | Develop a sensitization strategy to be unfolded in the Mahawheli Systems | MASL lead by Director (Business Development) | Consultant pool | Sensitization strategy developed and process ofr its implementation prepared |
| 04 | Sensitization of 4P BPs | Selection Committee | Consultants pool | Farmers at block level have an understanding of the call for proposals for supppritng their BPs, the criteria and coverage of the selectnion process, the elements to be provided in the template for business ideas |
| 03 | Call for expression of interests/concept notes for 4Ps | Director (Business Development), MASL HQ | MASL Block and Unit Managers to circulate | Concept notes received at MASL System-level<br><br>A list of BPs to be supported under the following categories of 4P FOs/groups;<br>- FOs with capacity for 4P partnerships immediately,<br>- FOs/groups need capacity enhancement,<br>-FOs/groups with solid business ideas but need extensive support to convert them to credible BPs. |
| 04 | Support to the FOs selected to have their business ideas into BPs | Mahaweli HQ, Block and Unit level representation | Consultants pool | Business ideas of FOs are organized ats standard BPs |
| 05 | Implemenation of BPs by FOs | FOs | Mahaweli HQ, Block and Unit level representation & Consultants pool | FOs will be supported throughout the implemenaton of their BPs with the outcome that these FOs will be effectively managing their business, will be equipped with solid governance mechanisms and procedures, will have established contractual relationships with other chain stakeholders and will reach break even point for their business withing a time frame of 3 to 4 years.<br><br>The support will comprise a mix of financing of BPs (under C1) and capacity building support (under C2) |

The objectives of BPs in all types should be to specialize in agriculture, processing of agricultural materials and agribusinesses and / or to deal in agricultural products or services-related. More importantly, they should have the capacity to provide significant co-financing and technical expertise to member farmers. Annex II provides a template for the concept note.

## Annex II: Business Concept Template

| Heading | Details |
|---|---|
| FO Details | - Mahaweli System/Block and Unit details<br>- FO Registration details, number, date etc.<br>- Membership details, number (male/female)<br>- In case of new groups arising from a single FO or more than one FO, details of mother FOs |
| FO current economic activities | List of activities with dated of implementation and progress |
| Details of business idea/concept | - Proposed value chain and intended activities – contract farming, primary processing, storage, transport etc. |
| Market situation | - Current production in the area<br>- Market and marketing |
| Machinery, technology and knowhow | - Types of production machinery required and cost indicators<br>- Technology gaps<br>- capacity building support needed |
| Management arrangements | - Accountability and the responsibility |
| Financial standing of FO | - Accumulated savings<br>- Details of bank financing in the past |
| 4P financial plan | - Approximate cost of the BP<br>- Means of financing proposed |
| If available; FO understanding about -<br>- Implementation plan<br>- Benefits of the programme<br>- Benefits of the programme.<br>- Environmental and risk aspects | |

**Annex III – How to develop a business plan (from IFAD toolkit on *Engaging with farmers' organizations for more effective smallholder development* https://www.ifad.org/topic/fo_resources)**

# How to support FOs in the design of their business plans

## Introduction

The business plan of an FO is a document providing information on how the FO intends to organize and implement activities so that it is profitable and can succeed. It is an essential tool for the planning, managing and running of a business. It clarifies the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be achieved. It may also contain background information about the organization that is attempting to reach those goals.

**Why should FOs design business plans?** Farming is a business, and farmers and their organizations need to develop their activities following a sound business plan that outlines the economic and financial forecasts of these activities. The business plan is the operational tool that directs each and every step in the business of an FO.

The business plan serves several important purposes:

- It helps determine the viability of the FO's enterprise in a designated market.
- It provides guidance to the FO in organizing planning activities.
- It serves as an important tool to obtain financing/funding.

**When should a business plan be designed?** A business plan is not developed each time a given strategy is modified. It should be developed when an FO launches a new major initiative, and should cover a period of 3 to 5 years.

### Contents of a business plan

The necessary elements to be included in a business plan are presented below.

#### 1. Executive summary

A typical business plan begins with an executive summary that is prepared after the plan is written. Its purpose is to communicate the plan in a convincing way to important audiences (e.g. financial institutions or possible partners/investors).

#### 2. Introduction/background

A summary of the business activities of the FO, its history and its position in the marketplace should be provided here. This part gives an overview of the FO, its vision and objectives, including the following elements:

a) Presentation of the FO

Creation date, geographic area, number of members (database of farmer members attached), types of commodities/products, plot size operated by each farmer member, number of staff, ongoing services provided by the FO, property, equipment and infrastructure.

b) Focus of the business the FO wants to develop

Overview of the business the FO is aiming to develop within its business plan.

c) Vision and mission

The vision is what the FO aspires to and what it will concentrate its energies and resources on to make the business profitable. The mission is to be achieved through the objectives of the FO's business plan.

d) Objectives/goals

This section includes production and/or financial-related objectives specific to the plan. There should not be more than five objectives for the business. Objectives should be SMART:

**S – Specific**. Objectives should be specific and not vague. They should clearly state exactly what the FO wants to achieve.

**M – Measurable**. Objectives should be measurable or it will not be possible to assess their achievement accurately.

**A – Achievable**. Available or potential resources needed to achieve the objectives should be taken into account.

**R – Realistic**. Unrealistic objectives that are impossible to achieve should be avoided.

**T – Time frame**. Objectives need to be reachable over a specific period of time so that they can be measured and an estimate made of how long it will take to achieve them.

*N.B.*

**Tips for writing a business plan**

**Contents**. The text of a business plan must be concise and yet must contain as much information as possible. This sounds like a contradiction, but it can be resolved by using the *keyword approach*:

1. Write the following keywords on a card and keep it in front of you while writing: **Who/What/Where/When/Why/How/How Much**
2. Answer all the questions in one paragraph at the beginning of each section of the business plan.
3. Expand the contents by adding more about each item in the text that follows.

**Length***.* There is no set length for the development of a business plan. Nonetheless, an average of 30 to 40 pages, including the supporting documents section, should be respected.

**Approach**. Writing an effective business plan requires discipline, time and privacy.

**Tip***:* You will save time by compiling your list of supporting documents while writing the text.

*Objectives should be linked to expected outcomes and need to be thought through thoroughly. Are they in line with expected achievements as outlined in the business plan? Do they have an outcome that will contribute to reaching the outlined vision?*

**Example of an objective:** Grow production volumes to 600 metric tons by 2017.

## 3. Market and supply analysis

a) Market overview

- Brief introduction on the current market for the product that the FO is focusing on in the country/region/subregion: current marketing and pricing systems, potential buyers of produce.
- Brief introduction on the type of product targeted by the FO/cooperative (conventional sector, organic, fair trade, raw, processed, etc.).
- Areas to improve efficiency of marketing system: what are the potential areas where the FO could improve efficiency and reduce the costs of the current marketing system (transport, processing, etc.)?
- Possibility of market development: what is the potential for the development of new markets? Is there potential for the FO to directly market produce nationally, internationally, etc.? If there is, would this be a more profitable option?

b) How is the FO currently dealing with the running of its economic services?

- Current produce volumes and prices from potential membership: what prices are members receiving for produce, who do they sell produce to, what are transport arrangements, etc.
- Current buyers of crops produced by potential members: who are the key buyers of members' produce, what are the 'links in the chain' after the initial purchase is made.
- Current volume of input purchase, current suppliers of inputs, prices of inputs, input supply marketing channels.
- Current assets and equipment (warehouses, production and/or processing equipment).
- Characterization of the FO/cooperative business partnerships with buyers, types of contracts, price, quantity, etc.
- Differences between sales through the FO and sales without involvement of the FO (prices, terms and conditions, etc.).

c) SWOT analysis of the ongoing capacities of the FO/cooperative (diagnostic elements) to manage its economic services in relation to the planned business:

- Production
- Processing of products
- Marketing
- Export
- Certification
- Financial management
- Administration
- Management
- Managing the strategy of the FO/cooperative

**Guiding questions to help design a strategy**

- Given the potential marketing and supply volumes, is the membership of the FO large enough to sustain itself? Is it too large?
- Given the crops produced, supplies required and other indicated needs and problems, what services should the FO develop?
- Given farmer locations, volumes, sizes, etc., what structure and facilities will the FO need to develop its strategic plan?

## 4. Plan for the development of the FO/cooperative

- Strategy to increase production
- Strategy to increase product quality
- Business strategy
- Managerial strategy
- Financial resources plan: finances required, fixed investments and working capital requirements, sources, terms of loans, members' own funds + proposed solutions to address issues in terms of pre-financing (loans, private investors, etc.)
- Communication strategy and support to farmer-based organizations
- Benefits for farmer members: level of benefits and programmeions

## 5. Business plan in Excel file

See Annex IV for an example in an Excel file.

## Reviewing FO incomes/expenditures to identify the break-even point

### What is needed?

- Forecasts of programmeed volumes of products to market and prices expected
- Cash flow statement[65] and financing of activities
- Membership fees and share capital requirements
- Programmeed assets, liabilities and member equity
- General activity workplan with considerations of time frame, party responsible, monitoring and indicators
- Budget

**Once stock is taken of fixed costs and variable costs (see below), the break-even point is determined (economic equilibrium).**

### Investments

This includes warehouses, vehicles, computer equipment, office furniture, equipment to support the production/processing of products, and small equipment (scales, etc.).

A given programme can provide funding for initial investments to enable an FO to quick-start its activities. The total amount of these investments will not be covered by the FO benefits but will be taken into account in its five-year amortization plan.

### Determination of variable costs

This section details all the costs that vary with the volumes produced and sold. These are:

- Working capital for economic services: inputs, processing, marketing, etc. The amount of working capital depends on: (i) the plot size planted by members (for inputs funds); and (ii) the volume of products sold (for marketing funds)
- Packaging and/or packaging material products (bags, etc.): unit price
- Cost of loading the goods onto trucks (price per bag usually)
- Premium for collection: sometimes within local groups of farmer members of the FO, one person is empowered to collect the products and is rewarded with a premium incentive to collect more bags (cost per bag delivered to the cooperative)

### Determination of fixed costs

Fixed costs are independent of the volumes produced and sold (they are often operating costs). They include:

- Salaries of the cooperative (manager, accounting, warehouse keeper, driver, guard, etc.)
- Expenses for meetings of board of directors and general assembly
- Repairs and maintenance (vehicles, equipment, buildings)
- Current operating costs: office rent, office supplies, fuel for vehicles and/or generators, electricity costs, communication costs (telephone, internet, radio, media)

[65] A cash flow statement (budget) is a programmeion of your business plan in terms of USD (or any currency used in your country). It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.

### Determination of FO incomes

FO incomes vary with the production/marketing plan of the various products marketed and the membership of the FO. Revenue is calculated using the following:

- Revenues from sales of products (to be differentiated by product based on acreages and planned annual returns)
- Revenues from any services provided
- Sampling of the FO for management and operation (e.g. 5 FCFA per kilo of rice sold)
- Administrative income (membership fees)

### Determination of the break-even point

- Calculation of gross and net margins
- Gross margin ( + or -) = revenue - variable costs - fixed costs
- Net margin ( + or -) = gross margin - depreciation

## Methodology for supporting an FO in developing its business plan

**Step 1** **Collecting data**
By-laws and internal rules of the cooperative, action plan, list of employees, contracts with buyers, database of producer members, other documents available

**Step 2** **Working with the manager on the financial situation of the FO/cooperative**
Determination of fixed and variable costs and revenues of the FO/cooperative

**Step 3** **Meeting with the board of directors of the FO/cooperative for a simulation of the cooperative equilibrium** (½ day)

**Step 4** **Meeting with the board of directors of the FO/cooperative to discuss the list of responsibilities and skills in terms of FO/cooperative management** (between ½ and 1 working day)

**Step 5** **Meeting with the board of directors of the FO/cooperative to discuss strategies to develop cooperatives** (between ½ and 1 working day)

**Step 6** **Presentation and finalization of the business plan**

**Supporting documents to be collected**

- Legal documents
- List of members, location, acreages, productions
- Contracts with suppliers, clients, processors
- Profiles and resumes of managers and/or other human resources

## Annex IV: Example of Excel file for business plan

| Activities | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|
| **a) Investments costs** | | | | | | |
| ***Investments costs are not taken into account in this example of a business plan – they may be covered by an IFAD-funded programme on the basis of FO performance over the five-year duration of the programme. However, amortization costs (see line "Amortization") are included in order to anticipate their replacement.*** | | | | | | |
| Vehicles | 50 000 | - | - | - | 55 000 | 105 000 |
| Motorbike | - | - | - | - | - | - |
| Generator | 4 500 | - | - | 4 800 | - | 9 300 |
| Scales | 7 400 | - | 1 850 | - | - | 9 250 |
| Production equipment | 2 000 | - | - | 2 500 | - | 4 500 |
| Processing equipment | 26 200 | - | - | - | - | 26 200 |
| Warehouses | 9 000 | 6 000 | - | - | - | 15 000 |
| Office furniture and IT equipment | 400 | - | - | - | - | 400 |
| **Total investment costs** | | | | | | |
| **b) Variable costs (capital expenditure)** | | | | | | |
| Working capital inputs | 7 200 | 3 600 | 3 600 | 3 600 | 3 600 | 21 600 |
| Working capital marketing | 500 | 750 | 900 | 1 000 | 1 000 | 4 150 |
| Packaging material | - | - | - | 37 451 | 56 176 | 93 626 |
| Costs for truck loading | - | - | - | 4 028 | 4 028 | 8 056 |
| Premium for collectors | 2 700 | 5 400 | 11 340 | 17 010 | 25 515 | 61 965 |
| **Total variable costs** | **10 400** | **9 750** | **15 840** | **63 089** | **90 319** | **189 398** |

| Activities | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|
| **c) Fixed costs (operational expenditure)** | | | | | | |
| Salaries | **33 900** | **33 900** | **33 900** | **33 900** | **33 900** | **169 500** |
| Board of directors and general assembly costs | **840** | **890** | **940** | **990** | **1 040** | **4 700** |
| Office rent | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 | 5 000 |
| Maintenance and repair of vehicles | - | - | - | - | - | - |
| Warehouse maintenance | 4 200 | 5 400 | 6 000 | 6 600 | 10 800 | 33 000 |
| Bike maintenance | 4 200 | 4 620 | 5 040 | 5 460 | 5 880 | 25 200 |
| Office maintenance | 250 | 250 | 250 | 250 | 250 | 1 250 |
| Solar dryer maintenance | - | 100 | 100 | 100 | 100 | 400 |
| Office supplies | 1 500 | 1 800 | 2 100 | 2 400 | 2 700 | 10 500 |
| Communication costs (phone, internet, radio, media) | 4 680 | 5 280 | 5 880 | 7 200 | 9 000 | 32 040 |
| Electricity costs | 700 | - | 800 | - | 1 100 | 2 600 |
| Fuel for transportation and generator | 9 600 | 10 800 | 12 000 | 14 400 | 18 000 | 64 800 |
| **Total fixed costs** | **60 870** | **64 040** | **68 010** | **72 300** | **83 770** | **348 990** |
| **Fixed costs + variable costs** | **71 270** | **73 790** | **83 850** | **135 389** | **174 089** | **538 388** |
| **d) Income of FO** | | | | | | |
| Quantities of product X to market | 210 | 420 | 882 | 1 323 | 1 985 | 4 820 |
| Quantities of product Y to market | 70 | 140 | 187 | 249 | 249 | 894 |
| **Total quantities to market** | **280** | **560** | **1069** | **1572** | **2 233** | **5 714** |
| Price (X) | $1.04 | $1.15 | $1.32 | $1.52 | $1.52 | |
| Price (Y) | $1.04 | $1.15 | $1.32 | $1.52 | $1.52 | |
| **Income out of sales** | | | | | | |

| Activities | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|
| Product X | 21 000 | 42 000 | 88 200 | 132 300 | 198 450 | 481 950 |
| Product Y | 7 000 | 14 000 | 18 667 | 24 889 | 24 889 | 89 444 |
| **Total income from sales** | **28 000** | **56 000** | **106 867** | **157 189** | **223 339** | **571 394** |
| **Administrative income** | | | | | | |
| Shares of members (a/member) | 4 167 | 5 556 | 6 944 | 10 667 | 12 987 | 40 320 |
| Membership fees (b/member) | 2 083 | 3 472 | 5 000 | 6 667 | 8 117 | 25 339 |
| **Total administrative income** | **6 250** | **9 028** | **11 944** | **17 333** | **21 104** | **65 659** |
| **Other income** | | | | | | |
| Payback of equipment | 2 160 | 3 240 | 5 040 | 3 600 | 3 600 | 17 640 |
| **Total other income** | **2 160** | **3 240** | **5 040** | **3 600** | **3 600** | **17 640** |
| **Total income of FO** | **36 410** | **68 268** | **123 851** | **178 122** | **248 043** | **654 694** |
| **SUMMARY BUSINESS PLAN** | | | | | | |
| *Total variable costs* | *10 400* | *9 750* | *15 840* | *63 089* | *90 319* | *189 398* |
| *Total fixed costs* | *60 870* | *64 040* | *68 010* | *72 300* | *83 770* | *348 990* |
| **Fixed costs + variable costs** | **71 270** | **73 790** | **83 850** | **135 389** | **174 089** | **538 388** |
| *Total income from sales* | *28 000* | *56 000* | *106 867* | *157 189* | *223 339* | *571 394* |
| *Product X* | *21 000* | *42 000* | *88 200* | *132 300* | *198 450* | *481 950* |
| *Product Y* | *7 000* | *14 000* | *18 667* | *24 889* | *24 889* | *89 444* |
| *Total administrative income* | *6 250* | *9 028* | *11 944* | *17 333* | *21 104* | *65 659* |
| *Total other income* | *2 160* | *3 240* | *5 040* | *3 600* | *3 600* | *17 640* |
| **Total income of FO** | **36 410** | **68 268** | **123 851** | **178 122** | **248 043** | **654 694** |
| **GROSS MARGIN (+) / (-)** | **-34 860** | **-5 522** | **40 001** | **42 734** | **73 954** | **116 306** |
| **Amortization** | **21 206** | **21 206** | **21 206** | **21 206** | **21 206** | **106 031** |
| **NET MARGIN (+) / (-)** | **56 066** | **-26 728** | **18 795** | **21 527** | **52 748** | **10 275** |

**Annex V: Supervision, management and oversight (finanical reporting and monitoring) of the SAP Line of Credit (LOC)**

The SAP line of credit, administered by the Regional Development Department (RDD) of the Central Bank of Sri Lanka (CBSL), represents three loan products:

1) Working capital loans for farmers engaged in 4P arrangements;
2) Term loans for investments in equipment and machinery up to a duration of five years for farmers engaged in 4P arrangements;
3) Working capital and investment loans for a duration of up to two years for youths, which may be combined with start-up funds.

The mechanism for disbursing these credit facilities to beneficiaries will be in line with the terms and conditions of the subsidiary loan agreements (SLAs) signed between GOSL and CBSL. CBSL will subsequently sign separate SLAs with the participating financial institutions (PFIs) and RDD/CBSL will provide the operational guidelines for each category of loans mentioned above. All SLAs will be transmitted to IFAD.

**Financial reporting and monitoring arrangements**. There are several institutions involved in the process to maintain a better control (financial reporting and monitoring) over the LOC and the transfer of funds. Each institution has a separate role to play in this respect, as indicated below.

**1. Participatory Financial Institutions (PFIs)**

- For youth and 4P borrowers, the Social Mobilisers and Agro-business companies send the list of potential borrowers to the PFIs for appraisal and onward registration with CBSL
- Conduct the pre-supervision and post-supervision of the loan
- Use PFI's own funds to disburse loans (pre-finance) to the registered beneficiaries as per the operating instructions issued by Regional Development Department of CBSL (RDD)
- Submits claims for re-financing to the RDD
- Report physical and financial progress of fund disbursement and refinance to PMU on a monthly basis

**2. The Regional Development Department of CBSL**

- Act as the Fund Manager of the SAP LOC
- Issue Operating Instructions to PFIs on each credit (loan product) line and regularize fund disbursement
- Register beneficiary applications for loans submitted by PFIs
- Make sure sufficient funds are available for refinance
- Request adequate funds from PMU for re-finance
- Release re-finance to the PFIs as and when PFIs submits re-finance applications
- Maintenance of the financial documents within the CBSL for the purpose of releasing re-finance to PFIs
- Maintain separate General Ledgers (GL) for each loan product
- Maintain two accounts
    - Account for disbursement to the PFIs
    - Revolving Account in which PFIs pay the repayment
- Submit monthly statements of Bank Accounts to PMU
- Submit comprehensive disbursement list quarterly to the PMU for each loan product
- RDD will automate their operations, thus improving the processing time to register the clients as well as produce timely reports

**3. Programme Management Unit (PMU)**

- Acts as the implementing agency of micro credits

- Verifies the fund requests submit by RDD with PFIs
- Maintains a fund register to record and control the funds
- Maintains a data base for micro finance under NADeP
- Monitor the re-finance account balances held with RDD through the monthly bank statements and through the statements pertaining to release of re-finance by RDD
- Prepare the withdrawal application as per the request of RDD
- Processes the fund requirement applications submitted by RDD and submit it to the Presidential Secretariat for the recommendation
- Programme Manager and Finance Manager are the two authorized signatories for the withdrawal application
- Coordinate and conduct monthly review meetings with PFIs and CBSL to evaluate the progress of the credit disbursements by the PFIs, ascertain the re-finance position, identify the challenges and issues and address them to find solutions
- Conduct of sample based verification at the grassroots level to verify the performance of the client's projects
- Conduct baseline studies
- Conduct appropriate skill training programmes to beneficiaries and to PFI officials
- Social mobilizers appointed by PMU act as a catalyzing agent at the grass root level facilitating linkage between youth/ 4Ps and Borrowers
- Report fund utilization and performance based results to NSC and the LPA on a monthly basis

**4. Presidential Secretariat Division (PSD)**

- Act as the Lead Agency of SAP
- Verify and recommends to the Department of Treasury Operations, the fund withdrawal requests forwarded by PMU

**5. Department of Treasury Operations**

- Act as the authority of the fund on behalf of the Government of Sri Lanka (GOSL)
- Verify and authorize the withdrawal application and instruct the Chief Accountant of the Finance Department of CBSL to effect the withdrawal and transfer the requested funds to the RDD of the CBSL

**Audit arrangements**. The CBSL has an internal audit department, reporting to the Monetary Board of CBSL. CBSL is also externally audited by a private audit firm on an annual basis. Each PFI has internal audit arrangements, and are externally audited on an annual basis; PFIs as deposit-taking institutions, are as well regularly monitored by the CBSL banking supervision (inspection) department. Under SAP, the SLA between CBSL and GOSL will specify the need for a separate audit of the CBSL SAP LOC account, and the CBSL annual audit should be submitted to the PMU. The SLA between CBSL and PFIs, will also make provision for the need for PFIs to submit annual audited statements.

**Leveraging the existing Lines of Credit**

The SAP line of credit will include reflows from existing/ previous IFAD-financed lines of credit – notably funds provided under the NADeP, SPEnDP and Dry Zone projects. At present, RDD/CBSL maintains a separate revolving account for each of these sources of funds, into which the PFIs make repayments. Whilst repayments have been (and continue to be) made into these revolving accounts, the funds are not currently being revolved, pending the operationalization of SAP. For the purposes of SAP, the SLAs between the GOSL and CBSL governing these existing funds (NADeP, SPEnDP and Dry Zone) will be amended to consolidate the three sources of funds into one revolving account for SAP. Once SAP becomes operational and the (existing) funds are leveraged and consolidated in one revolving account, the funds will be revolved.

The recovered amount and projected inflows into the revolving accounts held by the RDD/CBSL of the existing lines of credit (NADeP, SPEnDP and Dry Zone projects) is as follows:

| Existing line of credit LKR in Million | Loan Out. | Yet to disburse | *Projected Inflows* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | *Year 1 (JAN 2018)* | *Year 2 (2019)* | *Year 3 (2020)* | *year 4 (2021)* | *Year 5 (2022)* | *Year 6 (2023)* | *Total* |
| NADeP | 836 | 887 | *168* | *210* | *263* | *328* | *410* | *513* | *1,891* |
| SPENdP | Nill | Nill | *473* | - | - | - | - | - | *473* |
| Dry Zone | 200 | Nill | *40* | *40* | *40* | *40* | *40* | *40* | *240* |
| **Total in LKR in million** | **1036** | **887** | ***681*** | ***250*** | ***303*** | ***368*** | ***450*** | ***553*** | ***2,605*** |
| **Total in USD in Million (1 USD= 150 LKR)** | **6,9** | **6** | ***4,5*** | ***1,6*** | ***2,0*** | ***2,5*** | ***3,0*** | ***3,7*** | ***17.3*** |

**Snapshot of the NADeP Line of Credit (as at end 2016)**

| NADeP Micro Finance Loans - end 2016 | | | | | | |
|---|---|---|---|---|---|---|
| Name of PFIs | Committed | | Disbursed | | Balance to be disbursed | Refinanced |
| | Amount | No of Persons | Amount | No of Persons | Amount | Amount |
| Bank of Ceylon | 180 000 000.00 | 1 816 | 180 000 000.00 | 1 816 | 0.00 | 180 000 000.00 |
| RDB | 359 430 000.00 | 3 856 | 359 430 000.00 | 3 856 | 0.00 | 353 705 000.00 |
| Commercial Bank | 30 000 000.00 | 174 | 30 000 000.00 | 174 | 0.00 | 22 175 000.00 |
| HDFC bank | 74 330 000.00 | 570 | 74 330 000.00 | 570 | 0.00 | 74 330 000.00 |
| Peoples Bank | 74 945 000.00 | 397 | 74 945 000.00 | 397 | 0.00 | 74 945 000.00 |
| SANASA Bank | 100 000 000.00 | 563 | 100 000 000.00 | 563 | 0.00 | 100 000 000.00 |
| HNB | 50 000 000.00 | 300 | 50 000 000.00 | 300 | 0.00 | 50 000 000.00 |
| **Total** | **868 705 000.00** | **7 676** | **868 705 000.00** | **7 676** | **0.00** | **855 155 000.00** |

| NADeP Youth Loans - end 2016 | | | | | | |
|---|---|---|---|---|---|---|
| | Commited | | Disbursed | | Balance to be disbursed | Refinanced |
| Name of PFI | Number of loans | Amt. | Number of loans | Amt. | Amt. | Amt. |
| Bank of Ceylon | 1028 | 94 220 000.00 | 126 | 21 535 000.00 | 72 685 000.00 | 21 535 000.00 |
| Regional Development Bank | 821 | 91 313 000.00 | 694 | 54 000 000.00 | 37 313 000.00 | 16 370 000.00 |
| HDFC | 185 | 19 350 000.00 | 77 | 7 700 000.00 | 11 650 000.00 | |
| Pending | | 20 117 000.00 | | | 20 117 000.00 | |
| **Total** | **2034** | **225 000 000.00** | **897** | **83 235 000.00** | **141 765 000.00** | **37 905 000.00** |

**NADeP 4P loans - end 2016**

| Name of Project | PFI | Commited | | | | Disbursed | | Balance | Refinance Claimed by PFIs | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Number | Capital | Seasonal | Total | Number | Amt. | Amt. | Number | Amt. |
| Dairy Development-Cargills | Cargills | 293 | 15 500 000.00 | 0.00 | 15 055 817.00 | 293 | 15 055 817.00 | 0.00 | 293 | 15 055 817.00 |
| Seed Onion Production- Hayleys Agro Farms Pvt. Ltd. | RDB | 150 | 17 550 000.00 | 2 890 000.00 | 20 440 000.00 | | | 20 440 000.00 | | |
| Jalapeno pepper - Sunfrost Pvt. Ltd | Pending | 217 | 0.00 | 9 660 000.00 | 9 660 000.00 | | | 9 660 000.00 | | |
| Passion Fruit - HJS Condiments | Pending | 94 | | 2 950 000.00 | 2 950 000.00 | | | 2 950 000.00 | | |
| Hybrid seeds – Landmark Agro | BoC | 400 | 31 600 000.00 | 0.00 | 31 600 000.00 | | | 31 600 000.00 | | |
| Organic maize cultivation-Nelna Farm Pvt. Ltd. | RDB | 2000 | 82 620 000.00 | 38 960 000.00 | 121 580 000.00 | 1120 | 66 000 000.00 | 55 580 000.00 | 297 | 6 014 250.00 |
| Dairy Development – Chello Dairy Farm Pvt. Ltd. | RDB | 100 | 1 000 000.00 | 3 400 000.00 | 4 400 000.00 | | | 4 400 000.00 | | |
| Dairy Development – Fonterra Brands Lanka Pvt. Ltd. | BoC | 200 | 8 980 000.00 | 150 000.00 | 9 130 000.00 | | | 9 130 000.00 | | |
| Maize Cultivation - CIC Grains Pvt. Ltd. | BoC | 4080 | 0.00 | 268 830 000.00 | 268 830 000.00 | 530 | 53 000 000.00 | 215 830 000.00 | 220 | 13 745 000.00 |
| Kitul related products – Lanka eco products pvt Ltd | BoC | 100 | 0.00 | 6 000 000.00 | 6 000 000.00 | | | 6 000 000.00 | | |
| Poultry Development – SriLanka Poultry Development Co. Ltd | Pending | 100 | 0.00 | 31 550 000.00 | 31 550 000.00 | | | 31 550 000.00 | | |
| **Total** | | **7734** | **157 250 000.00** | **364 390 000.00** | **521 195 817.00** | **1943** | **134 055 817.00** | **387 140 000.00** | **810.00** | **34 815 067.00** |

# Appendix 6: Planning, M&E and learning and knowledge management

**Log-frame and Annual Work Plan and Budgets (AWPB):**

1. The programme log-frame shows the main expected activities for the life of the programme and will be the basis for the definition of the AWPB. The programme log-frame is sufficiently detailed; but it will need to be periodically reviewed and, as necessary, refined to reflect the current situation during the programme life. The AWPB would represent the key planning document of the SAP. It would serve as the instrument for identifying the specific targets relative to the agreed programme outcomes and outputs and the activities to be carried out in order to achieve them; as well as integrating management priorities for implementation, forecasting procurement requirements and facilitating the mobilization of staff and financial resources SAP is a national scope hence the AWPB will not need to include a geographical classification of targets. Immediate responsibility for the preparation of the AWPB process would be assumed by the two component heads (agribusiness and rural finance), under the guidance of the Programme Director and with the assistance of the heads of finance and M&E. Following Year 1 however, the process of developing the AWPB is expected to be an increasingly participatory process, and to involve the broader staff of the PMU.

2. The Programme Director (PD) will coordinate the preparation of a consolidated AWPB, which would be finalized with the approval of the Programme Steering Committee (PSC). The AWPB would be submitted to IFAD for its concurrence. If required, the PMU may propose adjustments in the AWPB during the relevant programme year. Although annual in scope, the AWPB would be disaggregated into quarterly segments for ease of implementation. It is also the foundation for monitoring the progress at the activity level and regarding resource use/allocation. IFAD guidelines would be used for the preparation of the AWPB.

**Monitoring & Evaluation:**

3. **Introduction and Scope.** The main purpose of an M&E system is to provide comprehensive, frequent and reliable data and information for sound result-based management and decision-making. M&E lies at the heart of ‘managing for impact’, by which is meant the need to respond to changing circumstances and increased understanding, and managing adaptively so that the programme is more likely to achieve its intended impacts. It is thus intended to be **management tool** that can inform programme management of whether implementation is going as planned or corrective action is needed. Beyond that however, it should also contribute to the programme’s **learning agenda** as to what works, what doesn’t and why; and it should promote **accountability** – enabling the PMU to report to Government and IFAD on its performance and impact. Ultimately, it should serve to satisfy the five standard evaluation questions at the end of the programme:

(a) Relevance - Does the programme deals with target group priorities;

(b) Effectiveness - Have the planned purpose and component objectives, outputs and activities been achieved;

(c) Efficiency - Were inputs (resources and time) used in the best possible way to achieve out-comes? What could do differently to improve implementation, there-by maximizing impact, at an acceptable and sustainable cost;

(d) Impact - To what extent has the programme contributed towards its longer-term goals? What unanticipated positive or negative consequences did the programme have? To what extent has the programme contributed towards poverty reduction? What unanticipated positive or negative consequences did the programme have;

(e) Sustainability - Will there be continued positive impacts as a result of the programme once it has completed.

4. The M&E system should generate comprehensive and reliable information to improve planning and decision making for results-based management during the programme life. The system would be expected to provide data on the following:

(a) Output monitoring; focusing on physical and financial inputs, activities and outputs;

(b) Outcome monitoring; assessing the use of outputs and measuring benefits; and

(c) Impact assessment; assessing impact for target groups in comparison with objectives.

5. The performance indicators at each of these levels identified in the programme log-frame would be further refined during implementation. Progress monitoring would focus on the financial and physical performance of the programme. Quarterly and annual reports would be produced which would contain data relevant to programme inputs, outputs and emerging outcome/impact.

6. The output indicators would include the number of private sector-led and FO-led 4P BPs developed and financed, number of FOs formed and strengthened, number of men and women members, number trained, and number provided financial services, number and types of employment generated by 4P BPs, number of people trained in technical skills and sustainable resource management, etc. The service provider/(s) recruited to undertake capacity building programmes for FOs would be required to provide regular reports on FO registration data, achievement of FOs, etc.

7. The main impact indicators that would be used to monitor and assess programme impact are the two anchor indicators used by IFAD to assess programme impact namely; a) the number of households with improvement in household asset ownership index; and b) percentage reduction in the prevalence of child malnutrition. The former is an indicator of increased income and the latter, an indicator of reduction in hunger. A few 2nd level RIMS indicators relevant for the programme have been identified and are given in the programme log-frame.66

8. All M&E activities would be based on the IFAD Guidelines for programme M&E, as well as the IFAD RIMS Handbooks for first and second level Indicators. IFAD would provide M&E and RIMS training to those involved in the implementation of the programme. All indicators would be disaggregated according to gender and socio-economic status so as to enable a proper assessment as to whether the programme is reaching its intended target beneficiaries, poor households, women, youth and vulnerable households. To ensure gender and youth-sensitive M&E, the programme staff responsible for data collection and monitoring would be trained in understanding and using gender indicators, and detailed gender-sensitive indicators for the programme M&E system will be developed with the support of the gender and youth specialist. Among other indicators, the M&E system will report in a sex and age disaggregated manner on the performance of loans and organizations/groups.

9. **Implementation Responsibilities**. M&E tasks will not be the sole responsibility of M&E staff only. Rather, they should be seen as functions of all the staff and the responsibility needs to be shared with component heads. Making the M&E system and processes more participatory means sharing these functions, and it makes shared learning through M&E possible. A distribution of such tasks among the PMU staff, and individual staff objectives and responsibilities in M&E, need to be articulated to ensure the delivery of the PMU's key M&E functions.

10. Having said that, overall responsibility for the programme M&E activities will lie with the Deputy Programme Manager, M&E in the PMU, assisted by two other development assistants, M&E. In broad terms, some of the key and priority tasks to be undertaken by the PMU in terms of M&E would be as follows:

[66] Since 2004, IFAD has promoted the Results and Impact Measurement System (RIMS) as a standardized system of reporting programme results and impact which all IFAD-funded programmes must provide to the Fund. RIMS currently attempts to measure results at the three levels of the logical framework concerned with outputs (level one), effects (level 2) and impact (level 3). It relies on specific indicators as instruments to measure results at each level. Each AWPB and annual report would be supplemented with selected RIMS indicators which have been specially identified in the programme log-frame to enable the programme to report on these indicators of special importance to IFAD. However, a new set of RIMS guidelines are expected to be released in 2017; and these new indicators will be reflected in the programme M&E frame.

(a) Define clear and easily measurable indicators (disaggregated according to gender, age and socio-economic status) as well as their baseline measurement requirements – Year 1;

(b) Launch the baseline data collection, including a baseline survey for 3rd level (impact) indicators – Year 1;

(c) Develop a detailed M&E plan which articulates, inter alia, methods and resources for collecting data, responsibility for data collection or for analysis, frequency of data collection, resources needed for collection and analysis, reporting and use of analyzed data. Responsibilities specified under the plan should be discussed with key partners that will be involved in data collection and analysis – Year 1 onwards with changes applicable;

(d) Develop a programme MIS to store and collate data and facilitate data analysis;

(e) Train the Social Mobilisers in data collection and inputting;

(f) Enable the programme partners, companies, FOs and PFIs, to become effective participants in the programme M&E system;

(g) Co-ordinate with IFAD to arrange M&E and RIMS training;

(h) Integrate lessons learned from presently on-going IFAD-funded NADeP in particular;

(i) Develop a learning agenda around key models and approaches being promoted under the programme; and

(j) Timely fine-tune log-frame to ensure clear outcome statements that define the change required for the target group and the scale of that change.

11. In consideration of SAP's operational modalities, in particular its reliance on business models (4P) and related partnership agreements with the private sector and FOs for delivering benefits to the target group and fulfilling the programme's objectives, responsibilities for monitoring programme inputs, outputs and outcomes will involve a range of programme stakeholders. Responsibility for collection and inputing of data would thus be decentralised and diffused, lying with: (a) the 40 Social Mobilisers employed under the programme (who will all be provided with tablets for data entry); (b) the private sector agribusiness companies; (c) the participating financial institutions; and (d) the service providers responsible for strengthening the capacity of farmer organizations; all of whom would follow agreed reporting formats and schedules. In building this multi-partner M&E system (which will be based on that already been established under NADeP) key roles for the DPM M&E will thus be to:

(a) communicate to programme partners the information requirements of the programme;

(b) advise/assist programme partners in establishing their results measurement systems and, jointly with such partners, select the most appropriate methods to meet the information needs of the PMU and of different partners;

(c) collect information at the central level, and validate the reliability and accuracy of collected data;

(d) collate, analyse and share submitted data, as well as relevant secondary data, to assess the efficacy of the programme in meeting its objectives (including targeting and outreach to women / youth);

(e) track whether the pace of implementation progress and the quality of partners' execution of agreements are adequate (including, inter alia, determine farm gate prices, accurate reporting on post-harvest operating costs, adequate cash flow, etc.); and

(f) produce written reports or other knowledge products that disseminate programme achievements / experience to different stakeholders - ranging from participating rural youth, women and men, to FOs and private company partners, PFIs, policy makers in Government, and IFAD.

12. The M&E system will be web-based – the system has already been developed under NADeP; and this will make it possible for the various programme stakeholders responsible for data collection to input data simply and in real time using smart phones or tablets, and for that key data to be immediately analysed, presented and shared among the programme stakeholders.

13. **Impact assessment.** To capture baseline information relevant for the programme, several baseline questionnaires would be developed and administered to participating households and FOs under each approved 4P scheme (i.e. sub-project), in order to capture the impact of scheme/ sub-project activities. These questionnaires would capture the socio-economic status of the households and FOs before the implementation of the sub-project activities. The multiple 4P baseline survey (BLS) would be contracted to a third party service provider, if the combination of the PMU and private sector are unable to conduct the survey; in any case, the baseline survey should be undertaken within six months of the sub-project being approved. Comparison with a control group may also be undertaken to identify and isolate programme specific impact. The sample size for the survey would be based on a 95% level of confidence. At the end of the programme implementation period, a completion evaluation would be conducted through a formal survey to assess impact, and the same households and societies would be tracked. This evaluation will serve to assess the contribution of the programme towards achieving the development objective, relying heavily, though not exclusively, on the rigorous monitoring and evaluation of the financed 4P schemes (sub-project) and their results; a final survey will be conducted, which will collect data and information related to the RIMS impact-level indicators (household assets, child malnutrition, etc.). IFAD itself may also undertake a formal evaluation of the programme through its Independent Office of Evaluation (IOE).

14. Impact monitoring would focus on the outcome and impact level indicators specified in the programme log-frame. Surveys would be undertaken at critical times during the programme to measure changes in these indicators. The impact surveys would be outsourced to a third party firm skilled in such surveys. Various methods of impact monitoring and evaluation would be used including: participatory impact assessment as an annual exercise to review activities and plans by beneficiaries / FOs and record any change achieved, whether positive or negative, in the lives of the beneficiaries / FOs due to programme interventions. Special studies would be undertaken from time to time to examine certain aspects of programme implementation.

15. **Mid-Term Review (MTR).** A Mid-term review would be conducted at the end of programme year three, Its purpose will be to: (i) review and evaluate the scope, design, and implementation arrangements of the Programme; (ii) evaluate the progress of the institutional development and capacity of the implementing agencies; (iii) identify changes needed in any of the areas mentioned above; (iv) assess the implementation performance against agreed Programme indicators and targets; (v) review and establish compliance with the loan covenants; and (vi) identify critical issues, problems, and constraints, and, as necessary, recommend adjustments in Programme design or implementation strategy and arrangements – and associated financial allocations – in order to ensure the full achievement of the programme impact. The MTR would be carried out jointly by the Presidential Secretariat, as the lead implementing agency, and assess the role of the participating FOs, the role of the private sector and government, PFIs, etc.

16. A Programme Completion Report (PCR) will be conducted within 6 months of physical completion of the Programme, according to standard IFAD requirements.

**Learning and knowledge management:**

17. Learning and knowledge management would be a key underlining theme of the SAP. The main purpose of KM processes within SAP would be to ensure that knowledge generated is systematically identified, analyzed, documented, used to improve programme performance; communicated to policy makers to inform Government's policy making process; and shared with key stakeholders. SAP would

be expected to provide opportunities for considerable learning at the policy and operational level given that it would include certain novel features to pro-poor business partnering and rural financing.

18. Business models like 4P currently being practiced by NADeP are expected to broaden to include a FO-led 4P model, and understanding the benefits and costs of the 4P model and its variants, as compared to other approaches to smallholder agricultural development, will be valuable. So too will be to understand better different models of farmer organization, and alternative approaches to supporting these to become more commercially oriented and play a more active role in agricultural value chains; alternative approaches for supporting rural youth employability, and creation of opportunities for employment and self-employment; approaches and technologies for promoting lower use of agro-chemicals and climate-resilient production; and the responses of participating dfinancial institutions to the incentives and institutional strengthening provided udner the programme. Success with any of these elements would have a significant impact on the strategies currently used in the business modeling and rural finance sector; and it would be important to document the experience and disseminate the results for wider policy impact. The programme would provide the opportunity to compile and disseminate and share the lessons in a systematic manner. Provision would be made in the budget for preparation of case studies of success and failure and for technical and learning notes on key aspects of the programme.

# Appendix 7: Financial management and disbursement arrangements

### Financial Management (FM) Assessment

1. The Borrower and the lead project agency are required to maintain acceptable financial management systems including accounting, financial reporting, and auditing systems. A financial management assessment of the Smallholder Agribusiness Partnership project (herein referred to as "SAP" or the "Project") was carried out in accordance with IFAD's Guidance Note on Undertaking Financial Management Assessment at Design, issued in 2012. The objective of the FM assessment was to determine whether the Presidential Secretariat, as the lead project agency of the Project, has acceptable FM systems to provide IFAD reasonable assurance that funds will be used for the intended purpose and enable project development objectives to be met. On the understanding that SAP will be implemented by the PMU currently managing NADeP, the assessment has found the proposed arrangements to be acceptable.

2. The assessed FM risk of the project is considered medium as summarized in Table 1.

### Programme Financial Profile

3. Total IFAD financing available for the project is US$ 105 million, of which US$ 54.5 million is in the form of a loan from IFAD. Additional contributions are expected to be provided by both public and private partners as follows:

- GoSL – US$ 19.6 million
- Private sector – US$ 17 million
- Participating Financial Institutions – US$ 9.5 million
- Beneficiaries – US$ 4.5 million

4. The proposed project will have the following components with their respective cost allocation:

- Component 1 – Access to commercial partnerships (US$ 53.5 million)
- Component 2 – Access to rural finance (US$ 45.4 million)
- Component 3 – Project management and policy dialogue (US$ 6.1 million)

5. SAP involves 4P approaches governed by multi-partite agreements between LPA, participating financial institutions, private sector companies and project beneficiaries, including farmers' organisations, through provision of grants, loans and services to farmers.

### Lead Programme Agency (LPA)

6. The Presidential Secretariat, headed by the Secretary, is the office of the President of Sri Lanka. It provides the administrative and institutional framework for the exercise of the duties, responsibilities and powers vested in the President by the Constitution.

7. The Presidential Secretariat has ongoing experience in the implementation of an IFAD-funded project, NADEP, whose Project Management Unit will manage SAP. The Project will be implemented using GOSL financial regulations, complemented by project-specific guidelines, as the basis for budgeting, accounting and internal controls, and auditing.

### PFM and Governance

8. Sri Lanka is a lower middle-income country with a total population of 21 million people. Following a 30 year civil war that ended in 2009, Sri Lanka's economy has grown at an average 6.4 percent between 2010-2015, transitioning from a previously predominantly rural-based agriculture economy towards a more urbanized economy driven by services.

9. In terms of governance, IFAD classifies Sri Lanka as a medium risk environment. With a rating of 37, Transparency International ranked Sri Lanka 83rd out of 175 in 2015 in the Corruption

Perceptions Index, a slight deterioration compared to 38 in 2014. Corruption remains a problem in the country. Institutional reforms are hampered by party politics, as illustrated by the resignation of the head of the anti-corruption body in October 2016. Poor whistle-blower protection has a negative impact on citizen's willingness to stand up against corruption. In terms of Ease of Doing Business (World Bank), there has been an improving trend which ranked Sri Lanka 107th out of 189 in 2016, compared to 113 in 2015.

10. The findings of a Public Expenditure and Financial Accountability (PEFA) report conducted in 2013 were not made publicly available. According to a study conducted by USAID in 2015, PFM in Sri Lanka is fragmented and unable to ensure adequate and efficient use of public resources. The study reports that the PFM administration is rather obsolete, that mismanaged organizational changes have worsened the situation as new civil servants and political appointees take time to learn the system they operate in or initiate changes without taking into account the limitations and opportunities of the current system and operations.

11. PFM is highly discretionary as line ministries and agencies can make separate decisions and work under their own operational rules, deciding on projects, surpassing budget ceilings, and controlling allocations and flow of funds. On the surface, the decentralized approach allows for flexibility at line ministry level. However, planning resources, spending funds unaligned with a national strategy, and disregarding budget constraints, all introduce financial risks that initially appear as fiscal imbalances but in fact, can be interpreted as mismanagement and misappropriation of public resources by high ranking officials in charge of those entities.

12. The USAID report assesses the present capacity of MOF as insufficient and inadequate to manage the expansion, implementation, and oversight of the national budget, which has grown dramatically in size and complexity in recent years. The regulatory framework, information technology (IT) capacity, and human resources to elaborate and execute the budget have seen few updates over the past twenty years, however some efforts to modernize management and operations at the MOF are ongoing, including a project (ADB funded) to introduce and roll out a Financial Management Information System (FMIS). The number of employees within MOF has more than doubled in past years, but this has not contributed to significantly increasing the ministry’s efficiency given the lack of knowledge, experience, and training of the new employees. Manual, paper-based processes still prevail across line-ministries and government agencies.

13. IFAD projects are partially aligned to Sri Lanka PFM systems. Projects are managed by coordination units embedded within executing agencies and are staffed by a mix of civil servants and contracted staff. Funds flow through Treasury systems, with USD ledger accounts. Executing agencies may hold Rupee accounts at State commercial banks, which are part of the Treasury system. Projects’ annual accounts are audited by the supreme audit institution, the Auditor General of Sri Lanka.

14. Government reporting systems are partially used for IFAD and other donors’ projects, but do not allow sufficient detail to meet donor requirements for reporting expenditure. In terms of oversight, donors do not generally rely on internal audit systems due to insufficient capacities, the services of private audit firms are sometimes used to complement the internal audit function. Sri Lanka has a vibrant accountancy profession in the corporate sector with five professional accountancy organizations, however the public sector fails to draw good capacity given low salary scales. CASL, the promulgator of accounting and auditing standards in the country, has launched a series of initiatives to enhance public sector accounting and reporting practices. Sri Lanka is in transition to IPSAS. Accrual accounting has not yet been adopted in the public sector.

**Risk Assessment and Mitigation**

15. The summary risk analysis provided in this section has been developed on the assumption that SAP will be implemented by the PMU currently managing NADeP. Table 1 identifies the key risks related to the Project’s financial management and suggests how such risks can be mitigated.

**Table 1: Key Financial Management Risks and Mitigation Measures**

| Type of risk | Risk rating | Risk mitigating measures | Residual risk rating |
|---|---|---|---|
| Inherent Risks | | | |
| | Medium | | Medium |
| Project Control Risks | | | |
| **Organization and Staffing**<br>Insufficient capacity of finance function; high turnover | Medium | SAP is expected to be implemented by the PMU managing NADEP, which will ensure continuity. NADEP's finance unit is adequately staffed in terms of numbers and capacity, and may be complemented on a needs basis for SAP | Low |
| **Budgeting**<br>Inadequate budget planning (national budget) resulting in insufficient appropriation of IFAD and Government funds<br><br>Delays in preparation of AWPBs weaken project implementation<br><br>Weak budget monitoring capacity | Medium | Additional appropriations can be obtained through supplemental processes<br><br>AWPB planning will begin three months prior to year end to ensure timely approvals by NSC and IFAD<br><br>The automated accounting and financial reporting system which is currently under procurement will enhance the capacity to monitor budget execution | Low |
| **Funds Flow**<br>The project has insufficient liquidity and cannot pay suppliers timely<br><br>Delays in certification processes by promoter companies cause grants to take longer than intended to reach beneficiaries, resulting in goods and works having to be pre-financed by participating companies<br><br>Delays in availability of counterpart funding | Medium | The designated account will carry a six-month advance that should be sufficient to ensure adequate liquidity but may be adjusted based on requirements. Automated financial reporting on accruals basis will facilitate efficient treasury forecasting<br><br>Dedicated PMU staff and contracted social mobilisers will monitor the execution of 4P contracts, to ensure timely certification processes<br><br>Government counterpart will consist of taxes and some salaries, in addition to LOC refinance resources. NADEP PMU has successfully mobilized counterpart funding to date through monthly requests | Medium |
| **Internal Controls**<br>Weak internal control framework leads to diluted accountabilities and potential misuse of resources or/and ineligible expenditure | Low | NADEP has strong, documented, internal controls based on Government Financial Regulations, with clearly segregated roles and responsibilities. NADEP's finance manual will be finalised and approved by March 2017 and will form the basis for SAP manual, which will be a disbursement condition for SAP financing | Low |
| **Accounting**<br>Failure to maintain accurate and timely accounting information due to manual accounting systems | High | An multi-project off-the-shelf accounting software is under procurement to record NADEP expenditure up until closure in 2018. The contract will foresee a provision for customisation to meet IFAD reporting requirements and after-sales services. It has been agreed with the Auditor General that AG staff will be involved in the training to be provided.<br><br>Procedures for using the software will be documented in the project's finance manual. | Medium |
| **Financial Reporting**<br>Manual accounting systems limit the reliability and usefulness of financial reporting | High | By the time SAP has been launched, the finance unit will be fully trained with the use of the automated system currently under procurement and familiar with its capabilities. The continued use of an automated system will be foreseen as a legal covenant for SAP.<br><br>Quarterly Interim Financial Reports (IFRs) will be prepared by the PMU and submitted to IFAD within 30 days after the end of each calendar quarter. The format of these IFRs will be agreed in advance and specified in the LTB and finance manual | Medium |

| | | | |
|---|---|---|---|
| **Internal Audit**<br>Lack of adequate manpower to provide internal audit services | Medium | An internal auditor hired by NADEP at the end of 2016 is currently providing related services, reporting to the project manager. This arrangement will be re-assessed in 2017, as best practice would dictate segregation of project management and internal audit functions. The LPA's internal audit unit will be requested to include SAP (and NADEP, up until closure) in its annual work planning.<br><br>Separate internal audit arrangements are in place for the line of credit managed by CBSL RDD for NADEP and other LOCs, will continue to be foreseen for the … merged LOC Fund under SAP. | Medium |
| **External audit**<br>Audits are received late and do not meet IFAD's requirements<br><br>Annual audits do not provide useful information on compliance with contracts under the 4P scheme and refinance components | High | In line with its constitutional mandate, external audit is conducted by the Auditor General of Sri Lanka, the supreme audit institution. To mitigate the risk of late submission, SAP will be required to submit its unaudited financial statements to AG within two months of year end.<br><br>NADEP audit arrangements foresee a supplemental opinion on the usage of resources under the 4P contracts. A similar arrangement will be put in place for SAP, which will also foresee additional audit requirements for MoUs with farmers organisations and the Mahaweli authority. | Medium |
| CONTROL RISK | Medium | | Medium |
| **OVERALL RISK** | **Medium** | | **Medium** |

**Organization and Staffing**

16. A Project Management Unit, headed by a Project Director, was created by the LPA in 2015 to implement the NADEP project, under the oversight of a steering committee chaired by the Presidential Secretary. The scope of the PMU will be extended to cover SAP project.

17. The Finance Unit is composed of four full-time staff. The Finance Manager is a chartered accountant with 24 years' experience in GoSL and a Master in Public Management. She is assisted by a Deputy Finance Manager with a Master in Public Management and ongoing qualification as chartered accountant and by two accounts assistants, both University graduates. The Finance Manager and Deputy Finance Manager are seconded GoSL staff, whereas the accounts assistants have annual contracts renewed on performance.

18. The Finance Manager has attended two IFAD FM events in 2014 and 2016, and is certified under IFAD's FM e-learning programme. The remaining staff are recent recruits and are scheduled to take the e-learning certificate by March 2017.

19. The duties, responsibilities, lines of supervision, and limits of authority of finance staff are defined in their TOR and will be documented in the SAP finance manual.

20. The finance and accounting function under NADEP is staffed adequately, in terms of numbers and qualifications. Although there may be a brief overlapping period between SAP and NADEP, which completes in December 2017, the current staff complement is expected to be sufficient.

**Budgeting**

21. In terms of Government systems, budgetary appropriation processes initiate in the summer and conclude with parliamentary authorisation in November. Projects are required to submit separate allocations under donor and Government funding. Supplementary budget requests may be submitted to meet short-falls in case of budget under-estimation.

22. The detailed AWPB for the project is prepared under the PM's leadership with the full involvement of the PMU. The AWPB is approved by the National Steering committee (NSC) prior to

IFAD no objection. The submission of NADEP's 2016 budget was delayed due to a category reallocation and irregular NSC sessions. To allow sufficient lead-time for approvals, the AWPB should be finalised in October. NADEP's AWPBs are broken down by component and expenditure category. The finance unit has a manual system in place to track budget usage at Government budget and AWPB level. Monthly and annual progress reports are prepared showing both physical and financial progress against targets.

**Funds Flow and Disbursements**

23. Funds for SAP will flow to a designated account (DA) in Central Bank of Sri Lanka (CBSL), managed by the Treasury. Based on the system in place for NADEP, on request from the PMU, cleared by the LPA, the Treasury transfers funds on an imprest basis from the DA to an operational account with the Bank of Ceylon, operated under dual signature by the Project Manager (PM) and Finance Manager (FM). Following the same mechanism, the Treasury transfers funds to the counterpart fund held in Bank of Ceylon, also operated by the PM and FM. Transfers under the NADEP credit component follow the same procedures, but are transferred to an account held by CBSL for the refinancing facility. The flow of funds for SAP is detailed in Annex 1.

24. Transfers of grants to beneficiaries will be made directly to beneficiaries' bank accounts, on the basis of certification by the Promoter companies that goods or works have been duly received or completed.

25. Transfers to entities implementing SAP activities, including farmers' organisations, will be governed by legal agreements (MoUs or contracts). Transfers will be treated as advances, with monthly reporting on the use of funds, and these accounts will appear as reconciling items on the DA reconciliation statement until they have been accounted for and liquidated.

26. The NADEP PMU has sufficient experience in submitting applications for IFAD disbursement, meeting IFAD's quality standards. SOE-based disbursement is to be used for reimbursement of eligible expenditures and liquidation of advances to the DA. The SOE ceiling will initially be set as US$50,000 equivalent, the threshold applying to the value of the contract. SOE records including the full set of documentation, will be filed to facilitate ready review by supervision and audit missions.

27. Disbursement methods will involve advances and direct payments. Reimbursements will also be available. Direct payments are documented by records and may be used for payments of USD 100,000 equivalent, or as specified in the Letter to the Borrower (LTB).

28. A start-up advance may be provided once the financing agreement has become effective, to facilitate implementation readiness activity pending satisfaction of the disbursement conditions specified in the financing agreement. The ceiling of the start-up advance will not normally exceed USD 300,000 and will be agreed at negotiations.

29. Disbursement procedures and other instructions will be detailed in the LTB which will be issued when the financing becomes effective.

**Internal Controls**

30. NADEP operates under a strong regulatory framework. The Government Established code, Financial Regulations and Administrative Circulars are followed, in addition to which project-specific procedures are documented and being integrated in the finance section of NADEP's PIM, which will form the basis of SAP's finance manual. Disbursement conditions for SAP financing will include the approval of the finance manual.

31. Roles and duties for processing, reviewing, recording, custody and authorization of financial transactions under NADEP are appropriately segregated. GOSL funding is subject to Government controls, which are adequate. Appropriate controls are in place for the liquidation of advances to staff and petty cash, and the finance unit's filing system is adequate. Documentary evidence is available to confirm delivery and acceptance of contracted goods, works or services, a contract register and contract monitoring forms are maintained. Suppliers are paid on a timely basis. Proper and up to date

records are maintained for fixed assets following Government requirements. A "Board of Survey" is conducted on an annual basis whereby all fixed assets and inventories are physically verified. Logbooks are maintained for vehicles while consumption of fuel of vehicles is maintained through a "Running Chart". Bank accounts are reconciled on a monthly basis. Travel authorisation, including expense approvals and supporting documents are appropriately maintained and filed.

**Accounting**

32. NADEP accounts are kept on a dual entry, accrual basis, following Sri Lanka accounting standards. Treasury chart of accounts is used. Records are maintained timely and regularly. Counterpart funds are appropriately recorded and reported.

33. Accounting records are maintained manually in physical books with detailed analysis performed using Excel. Books maintained include the Cash register, Inventory register, Contract register, Advance register, Ledgers and other subsidiary registers meet with this requirement.

34. In addition, aggregate monthly summaries of IFAD and Government funded expenditure, reconciled to the relevant Treasury printout, are recorded in the Government CIGAS system by the Treasury Operations Department and the LPA respectively for IFAD and GoSL funding.

35. The prevalence of manual financial reporting systems has been a shortcoming of NADEP financial management to date. However the procurement of a multi-project, off-the-shelf software is ongoing to cover NADEP until closure and to be support SAP from start-up. The software will be customised to provide information useful to PMU management and meeting IFAD's requirements for financial reporting. The contract with the software vendor will also envisage after-sales support for a minimum period of one year, including a training package for finance staff. The Auditor General has agreed to the automation of the project's accounts, subject to AG staff involvement in the installation and training of the software.

**Financial Reporting**

36. The PMU under NADEP has established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and the frequency of production (monthly, quarterly, annually [audited]).

37. The procurement of an automated accounting system, as described above, is expected to significantly enhance the reliability of financial reports and the PMU's reporting capabilities, which for SAP will include submission of interim financial reports to IFAD.

38. The PMU's capacity to record in-kind contributions of private companies, beneficiaries and PFIs will need to be enhanced. In this connection, NADEP has recently created an MIS system with direct inputs of grant transfers to beneficiaries by the finance unit. The system will need to be adapted to SAP purposes at start-up and will need to be improved as regards transfers under the credit line.

39. To avoid delays with the submission of audit reports, unaudited annual financial statements will be required to be submitted to IFAD and to the Auditor General within two months after the close of the calendar year.

**Internal Audit**

40. Internal audit is foreseen for donor-funded projects in Sri Lanka, under a circular issued by Ministry of Finance Department of Management Audit dated July 2010.

41. NADEP has recently appointed an internal auditor, reporting to the Project Manager. This arrangement will be re-assessed in 2017, as best practice would suggest segregation of project management and internal audit functions. For SAP it is foreseen that the LPA's Internal Audit unit will be requested to include the project in its annual work-plan, following risk-based approaches. The frequency and scope will be determined based on the IA methodology, with modalities to be agreed at negotiations. Internal audit reports will be submitted to IFAD.

42. As for the line of credit, CBSL has an internal audit department which reports to the Monetary Board of CBSL.

**External Audit**

43. The supreme audit institution, the Auditor General of Sri Lanka (AG), performs the external audit of NADEP's financial reports. AG is an independent office which was given the mandate under the Sri Lanka Constitution to audit all accounts pertaining to government revenues and the use of public resources. The AG is progressively converging to international auditing standards as promulgated by INTOSAI.

44. In line with IFAD's guidelines, the scope of annual audits includes a review of the financial statements, designated account and expenditure reported in statements of expenditure. Audit reports should be submitted to IFAD six months after the end of each calendar year.

45. Audit reports for IFAD-funded projects in Sri Lanka are generally submitted with some delay (two to four months) and do not always fully meet IFAD's standards and guidelines. However, communication between IFAD and AG has recently been strengthened and improvements are noted.

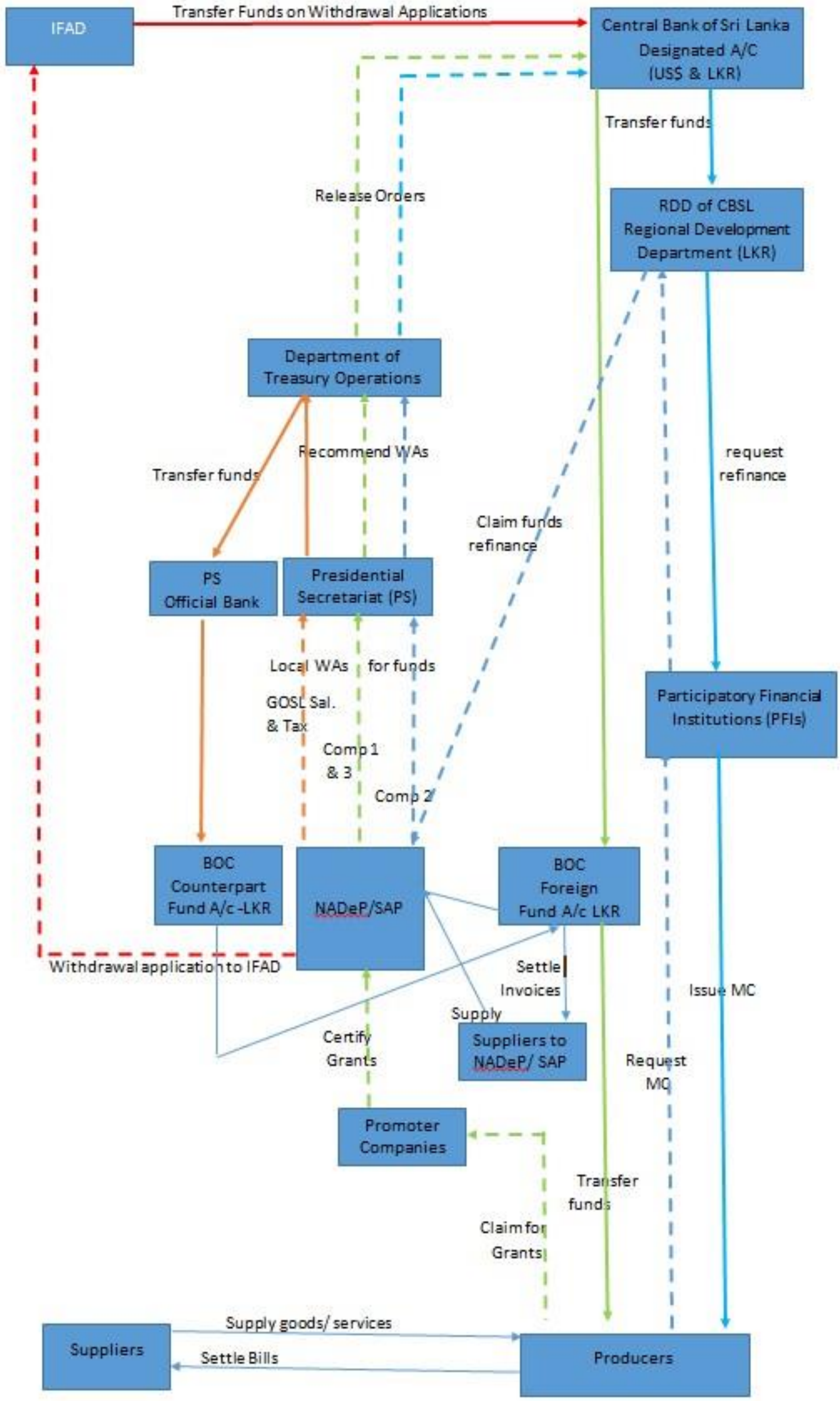
46. NADEP audit arrangements foresee a supplemental opinion on the usage of resources under the 4P contracts. A similar arrangement will be put in place for SAP, which will also foresee additional audit requirements for MoUs with farmers' organisations and the Mahaweli authority.

47. The lines of credit managed by CBSL's RDD for NADEP are subject to annual audit. The SLA for the management of the line of credit under SAP will require an audit opinion pertaining to the operation of the SAP LOC.

**Supervision**

48. FM implementation review shall be undertaken at least annually, with additional support missions as necessary, during project implementation to ensure that the loan proceeds are used for the purpose it was granted, which may take at the most two weeks. The scope of the supervision is left to the professional judgment of the FM specialist. It may cover any of the following: (1) review of the continuous maintenance of adequate FM system by DTI; (2) review of IFRs; (3) follow up of timeliness of FM reporting and actions taken on issues raised by external auditors; (4) review of the project's financial reports; (5) follow up of the status of the any agreed action; and (6) review of compliance with the financial covenants. In addition, the FM implementation review should include desk review of the quarterly IFRs and audited financial statements and management letter submitted to the IFAD.

## Annex 1: Fund Flows



# Appendix 8: Procurement

*This appendix will be revised and updated prior to finalization of the PIM with input from the APR senior procurement specialist*

## A. Country-level procurement framework

1. Despite that no Act of Parliament has been passed for public procurement, the Government of Sri Lanka (GoSL) does have a functional public procurement system in place. The 'National Procurement Guidelines' and 'Guidelines on Selection and Employment of Consultants' were issued in 2006 and 2007 respectively, with the approval of the Cabinet of Ministers under a presidential directive. In the absence of a codified public procurement statue, these guidelines have the force and effect of law. In supplement to the guidelines, detailed manuals on procedural aspects for procurement of goods and works and recruitment of consultants have also been issued, as well as standard bidding documents (SBDs) issued by the Institute for Construction Training and Development (ICTAD) for procurement of civil works. Together, these guidelines, manuals and SBDs are applicable to all government (ministries, departments) and semi-government institutions, as well as provincial councils without any exception. Furthermore, the national guidelines have provision for International Competitive Bidding procedures, and it is also stated within the guidelines, that *in case of conflict in the applicability of national provisions with that of development partners, the procedures of the development partners will be applicable depending on the financing*.

2. The mission is of the view that the National Procurement Guidelines that were drafted in association with major funding agencies are largely consistent with IFAD guidelines and robust enough to meet the procurement requirements of the Programme. However, in case of any inconsistency, IFAD guidelines would supersede National Procurement Guidelines. It is also noted that all IFAD funded programmes in Sri Lanka have and continue to adopt the National Procurement Guidelines.

3. As part of the reform agenda the Government of Sri Lanka (GoSL) recently enacted 19$^{th}$ Amendment to the Constitution, establishing National Procurement Commission, Audit Commission and widening the scope of the “Commission to Investigate Allegations of Briary or Corruption”. The law provides for measures to implement the UN Convention against Corruption and any other international conventions relating to the prevention of corruption. Whilst the National Audit Commission ensures independency of the Auditor General Department to conduct government audit which includes all public procurements, the National Procurement Commission to be appointed by the President, will be entrusted with the function of formulating fair, equitable, transparent, competitive and cost effective procedures and guidelines for the procurement of goods and services, works, consultancy services and information systems by the government institutions. The Commission has legal power to summon any public officer before the Commission and investigate any complaint relating to public procurement and file legal action for any fraud or malpractices. In addition, the newly set-up Financial Crime Investigation Division (FCID) under the Police Department has been provided with specially trained officers to investigate financial crimes.

4. The Transparency International (TI) corruption perception index for Sri Lanka is 37.

## B. Procurement arrangements under SAP

5. Procurement of goods, works and services financed from resources provided or administered by IFAD will be undertaken in accordance with the National Procurement Guidelines to the extent that there is no contradiction between the National Guidelines and IFAD Guidelines. In the case of any inconsistency, IFAD Guidelines will supersede the National Guidelines.

6. The SAP programme will be managed the SAP Programme Management Unit (PMU), based in Colombo, and tasked with delivery of the programme and its performance; the PMU is therefore also responsible for fiduciary performance, including procurement. In order to augment capacity and facilitate timely procurement activities, a procurement manager will be recruited within the PMU.

7. **Procurement plan**. The PMU will be responsible for preparing and submitting the SAP procurement plans to IFAD for its review and No Objection on an annual basis, and 60 days prior to the commencement of the relevant financial year. Subsequently, procurement will be done according to the approved procurement plan and AWPB of the programme. As a minimum, the procurement plan to be submitted by the PMU would include as a minimum, the following:

- A brief description of each procurement activity to be undertaken during the period and name of the implementing agency responsible for the procurement;
- The estimated value of each procurement activity;
- The method of procurement to be adopted for each procurement activity; and
- The method of review IFAD will undertake for each procurement activity indicating either post review or prior review.

8. Any changes and amendments to the procurement plan shall be subject to IFAD's No Objection. However, it should be noted that procurement plan should always be in line with the Annual Work Plan and Budget (AWPB) of the programme.

## C. Procurement method and thresholds

9. In the case where the programme through its PMU (and the Programme Procurement Committee (PPC)) will be directly responsible for procurement, International Competitive Bidding (ICB) shall be the mandatory method of procurement for contracts above the following values:

(a) Goods: above USD 200,000 equivalent

(b) Civil works: above USD 1,000,000 equivalent; and

(c) Services: above USD 100,000 equivalent.

10. Apart from ICB, the following methods for procurement per thresholds is provided below.

11. **Procurement of Goods and Works**.

(a) Goods

i. National Competitive Bidding (NCB), for contract values greater than USD 20,000 equivalent;
ii. National shopping for contracts less than USD 20,000 up to USD 2,000 equivalent;
iii. Direct contracting for contracts below USD 2,000 equivalent.
iv. N.B. Procurement involving community participation below a threshold of USD 10,000 equivalent through direct contract or local shopping.

(b) Works

i. National Competitive Bidding (NCB), for contract values greater than USD 50,000 equivalent;
ii. National shopping for contracts less than USD 50,000 up to USD 2,000 equivalent;
iii. Direct contracting for contracts below USD 2,000 equivalent.
iv. N.B. Procurement involving community participation below a threshold of USD 10,000 equivalent through direct contract or local shopping.

15. **Consultancy and Services**. Consulting services may include programme management technical assistance, 4P brokerage, implementation support technical assistance for different components, conducting studies, mobilisation/establishment of farmer/ producer groups, technical training; capacity building and strengthening of farmer/ producer groups and organizations, and monitoring and evaluation. Services could be provided by both consulting firms and individual consultants.

16. Each contract for the selection of consultancy services estimated to cost USD 50,000 equivalent or above, shall be selected in accordance with the National Procurement Guidelines following any one of the selection methods listed below:

- Quality and Cost Based Selection

- Fixed Budget Selection
- Least Cost Selection

17. Each contract for the selection of consultancy services estimated to cost below USD 50,000 equivalent, shall be selected in accordance with the National Procurement Guidelines following any one of the selection methods listed below:

- Quality and Cost Based Selection
- Fixed Budget Selection
- Least Cost Selection
- Selection Based on Consultants Qualification
- Single Source Selection

18. **Selection of individual consultants**. Individual consultants are selected on the basis of their qualifications for the assignment. They shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the PMU. Individuals employed by the programme shall meet all relevant qualifications and shall be fully capable of carrying out the assignment. Capability is judged on the basis of academic background, experience and, as appropriate, knowledge of the local conditions, such as local language, culture, administrative system, and government organization.

19. Consultancy services and individuals consultants may be selected on a **sole-source basis** with due justification in exceptional cases such as: (a) tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively; (b) assignments lasting less than six months; (c) emergency situations resulting from natural disasters; and (d) when the individual consultant or consulting firm is the only consultant qualified for the assignment. All proposals for contracts on Sole Source basis will require IFAD's prior review. For facilitating IFAD's prior review, justification for resorting to SSS, the detailed proposal including budget from the sole source agency/institution or individual, and recommendation and approval following internal approval procedures are to be submitted to IFAD.

## D. Review of procurement decisions by IFAD

20. IFAD will undertake to review the provisions for the procurement of good, works and services to ensure that the procurement process is carried out in conformity with its Procurement Guidelines. For the purposes of IFAD's Procurement Guidelines, the following procurement decisions shall be subject to prior review by IFAD for the award of any contract for goods, equipment, materials, works, consultancy and services under SAP.

(c) Procurement of goods, materials and works:

  i. Prequalification documents and shortlist (when applicable);
  ii. Bid documents for goods, materials and works;
  iii. Evaluation report and recommendation for award; and
  iv. Draft contract and amendments.

(d) Procurement of consultancy services and services:

  i. Prequalification documents and shortlist (when applicable);
  ii. Request for Proposal;
  iii. Technical evaluation report;
  iv. Combined (technical and financial) evaluation report and the recommendation for award; and
  v. Draft contract and amendments.

21. **Prior or Post Review**. Except as IFAD may otherwise agree, the prior or post review which applies to various procurement of good, works and consultant recruitments shall be defined as follows:

| Procurement Method | Type of Review Prior or Post | Comments |
|---|---|---|
| **Procurement of Goods and Works** | | |

| | | |
|---|---|---|
| ICB Works and Goods | Prior | All Contracts |
| NCB Works and Goods | Prior | Except procurement valued below USD 100,000 |
| Shopping for works (quotations) | Post | |
| Shopping for goods (quotations) | Post | |
| Direct Works | Prior | Except procurement valued below USD 2,000 |
| Direct Goods | Prior | Except procurement valued below USD 2,000 |
| **Recruitment of Consulting Firms** | | |
| Quality and Cost-Based Selection (QCBS) | Prior | Except procurement valued below USD 50,000 |
| Fixed Budged Selection (FBS) | Prior | Except procurement valued below USD 50,000 |
| Least Cost Selection (LCS) | Prior | Except procurement valued below USD 50,000 |
| Selection Based of Consultants Qualification | Prior | Except procurement valued below USD 50,000 |
| Sole Source Selection (SSS) | Prior | All contracts |
| **Recruitment of Individual Consultants** | | |
| Individual Consultants | Prior | Except procurement valued below USD 20,000 |

# Appendix 9: Programme cost and financing

## Programme costs

1. The total investment and recurrent costs, including physical and price contingencies, is estimated at USD 105 million (LKR 17.1 billion). Table 1 below presents the programme costs by components; Table 2 shows the programme costs with contingencies, by component and by year. All tables are in thousands of USD or Sri Lankan Rupee.

2. Of the total forecast programme total base costs, USD 51.2 million (or 51% of the total) will go to finance Component 1, USD 43.6 million (or 43% of the total) to finance Component 2 and USD 5.8 million (or 6%) for Component 3, with a remaining USD 4.4 million (or 4% of the total) for contingencies. Please see table 1.

### Table 1: Programme Costs by Component

| | (LKR '000) | | | (US$ '000) | | | % Foreign Exchange | % Total Base Costs |
|---|---|---|---|---|---|---|---|---|
| | Local | Foreign | Total | Local | Foreign | Total | | |
| 1. C1: Access to Commercial Partnerships | 7,573,226.8 | - | 7,573,226.8 | 51,170.5 | - | 51,170.5 | - | 51 |
| 2. C2: Access to Rural Finance | 6,455,967.3 | - | 6,455,967.3 | 43,621.4 | - | 43,621.4 | - | 43 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 803,730.0 | 51,504.0 | 855,234.0 | 5,430.6 | 348.0 | 5,778.6 | 6 | 6 |
| **Total BASELINE COSTS** | 14,832,924.1 | 51,504.0 | 14,884,428.1 | 100,222.5 | 348.0 | 100,570.5 | - | 100 |
| Physical Contingencies | 1,165.4 | 1,172.2 | 2,337.6 | 7.9 | 7.9 | 15.8 | 50 | - |
| Price Contingencies | 2,278,404.5 | 5,669.2 | 2,284,073.7 | 4,435.8 | 8.4 | 4,444.2 | - | 4 |
| **Total PROJECT COSTS** | 17,112,494.0 | 58,345.3 | 17,170,839.4 | 104,666.1 | 364.4 | 105,030.5 | - | 104 |

### Table 2: Programme Components by Year – Including Contingencies

| | (LKR '000) | | | (US$ '000) | | | % Foreign Exchange | % Total Base Costs |
|---|---|---|---|---|---|---|---|---|
| | Local | Foreign | Total | Local | Foreign | Total | | |
| 1. C1: Access to Commercial Partnerships | 7,573,226.8 | - | 7,573,226.8 | 51,170.5 | - | 51,170.5 | - | 51 |
| 2. C2: Access to Rural Finance | 6,455,967.3 | - | 6,455,967.3 | 43,621.4 | - | 43,621.4 | - | 43 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 803,730.0 | 51,504.0 | 855,234.0 | 5,430.6 | 348.0 | 5,778.6 | 6 | 6 |
| **Total BASELINE COSTS** | 14,832,924.1 | 51,504.0 | 14,884,428.1 | 100,222.5 | 348.0 | 100,570.5 | - | 100 |
| Physical Contingencies | 1,165.4 | 1,172.2 | 2,337.6 | 7.9 | 7.9 | 15.8 | 50 | - |
| Price Contingencies | 2,278,404.5 | 5,669.2 | 2,284,073.7 | 4,435.8 | 8.4 | 4,444.2 | - | 4 |
| **Total PROJECT COSTS** | 17,112,494.0 | 58,345.3 | 17,170,839.4 | 104,666.1 | 364.4 | 105,030.5 | - | 104 |

## Programme financing

3. The IFAD loan of USD 54.4 million will fund 52% of total programme costs, of which 68%, 28% and 89% will go to fund components 1, 2 and 3, respectively, as in Table 3 below. Of the IFAD loan, 67%, 23% and 10% will go to fund components 1, 2 and 3, respectively.

4. The Government will forgo on USD 0.64 million of taxes and duties as part of a total contribution of USD 19.3 million or 18.4% of total programme value.[67] Government contributions include 0.3% of Component 1, 41% of Component 2 and 12% of Component 3. The biggest ticket item under finance by Government is the financing of credit for primary beneficiaries through repaid loans of revolving funds - a total of USD 18.5 million. This is equal to 40.7% of component 2, as in table 3 below.

5. Private financial institutions will participate in the provisioning of investment (term) and working capital loans to farmers, farmer organizations and agribusinesses on a degressive basis, as well as youth loans to a lesser extent. The total contribution to programme financing is USD 9.8 million over the lifetime of the programme. Private sector contributions, as a part of the one-third financing rule for the 4Ps, are just under a total of USD 17 million. Beneficiary contributions are based on an increasing level of contribution, during the lifespan of the programme, with a total estimated contribution of USD 4.5 million. Please see table 3 below.

[67] Taxes foregone by the government are limited since credit and grant budget items carry no VAT liability.

## Table 3: Components by Financiers

| | IFAD Loan | | Private Financial Institutions | | Private Sector Partners | | Government (incl. taxes) | | Beneficiary Contribution | | Total | | For. Exch. | Local (Excl. Taxes) | Duties & Taxes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | | | |
| 1. C1: Access to Commercial Partnerships | 36,312.0 | 67.9 | - | - | 16,967.0 | 31.7 | 184.5 | 0.3 | - | - | 53,463.4 | 50.9 | - | 53,279.0 | 184.5 |
| 2. C2: Access to Rural Finance | 12,641.3 | 27.8 | 9,820.7 | 21.6 | - | - | 18,469.7 | 40.7 | 4,494.3 | 9.9 | 45,425.9 | 43.3 | - | 45,328.5 | 97.4 |
| 3. C3: Project Management, KM, M&E, Croscutting Issues | 5,436.0 | 88.5 | - | - | - | - | 705.1 | 11.5 | - | - | 6,141.1 | 5.8 | 364.4 | 5,416.5 | 360.2 |
| **Total PROJECT COSTS** | 54,389.3 | 51.8 | 9,820.7 | 9.4 | 16,967.0 | 16.2 | 19,359.3 | 18.4 | 4,494.3 | 4.3 | 105,030.5 | 100.0 | 364.4 | 104,024.0 | 642.1 |

6. The main expenditure items under the programme are grants and credit, forming 43.5% and 42.4% of planned expenditure. Contributions to the line of credit are as follows: Government 41.3%, IFAD 27.3% and PFIs 21.3%. An additional 10.1% from beneficiaries will contribute to the programme's line of credit. Grants are mainly financed by the IFAD loan, contributing 63% of the total amount, with private sector partners making up the remaining 37%. Please see table 4, below. Detailed tables are in annex 1, below.

## Table 4: Expenditure Accounts by Financiers

| | IFAD Loan | | Private Financial Institutions | | Private Sector Partners | | Government (incl. taxes) | | Beneficiary Contribution | | Total | | For. Exch. | Local (Excl. Taxes) | Duties & Taxes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | Amount | % | | | |
| **I. Investment Costs** | | | | | | | | | | | | | | | |
| A. Consultancies /a | 6,352.2 | 96.9 | 99.9 | 1.5 | - | - | 106.2 | 1.6 | - | - | 6,558.3 | 6.2 | 17.8 | 6,434.4 | 106.2 |
| B. Equipment and Materials /b | 711.1 | 87.0 | - | - | - | - | 106.6 | 13.0 | - | - | 817.8 | 0.8 | 49.2 | 661.9 | 106.6 |
| C. Credit | 12,156.4 | 27.3 | 9,504.8 | 21.3 | - | - | 18,372.3 | 41.3 | 4,494.3 | 10.1 | 44,527.8 | 42.4 | - | 44,527.8 | - |
| D. Grants and Subsidies | 28,748.9 | 62.9 | - | - | 16,967.0 | 37.1 | - | - | - | - | 45,715.8 | 43.5 | - | 45,715.8 | - |
| E. Workshops | 700.5 | 92.5 | 7.7 | 1.0 | - | - | 48.9 | 6.5 | - | - | 757.0 | 0.7 | - | 708.1 | 48.9 |
| F. Training | 2,898.8 | 86.1 | 208.3 | 6.2 | - | - | 260.3 | 7.7 | - | - | 3,367.4 | 3.2 | 155.3 | 2,951.8 | 260.3 |
| G. Vehicles | 246.1 | 87.0 | - | - | - | - | 36.9 | 13.0 | - | - | 283.0 | 0.3 | 142.0 | 104.1 | 36.9 |
| **Total Investment Costs** | 51,814.0 | 50.8 | 9,820.7 | 9.6 | 16,967.0 | 16.6 | 18,931.2 | 18.6 | 4,494.3 | 4.4 | 102,027.2 | 97.1 | 364.4 | 101,103.9 | 558.9 |
| **II. Recurrent Costs** | | | | | | | | | | | | | | | |
| A. Salaries and Allowances | 2,020.7 | 85.4 | - | - | - | - | 344.9 | 14.6 | - | - | 2,365.5 | 2.3 | - | 2,365.5 | - |
| B. Operating Costs | 554.6 | 87.0 | - | - | - | - | 83.2 | 13.0 | - | - | 637.8 | 0.6 | - | 554.6 | 83.2 |
| **Total Recurrent Costs** | 2,575.3 | 85.7 | - | - | - | - | 428.0 | 14.3 | - | - | 3,003.3 | 2.9 | - | 2,920.2 | 83.2 |
| **Total PROJECT COSTS** | 54,389.3 | 51.8 | 9,820.7 | 9.4 | 16,967.0 | 16.2 | 19,359.3 | 18.4 | 4,494.3 | 4.3 | 105,030.5 | 100.0 | 364.4 | 104,024.0 | 642.1 |

\a Including technical assistance
\b Including goods, services and inputs.

## ANNEX I: Detailed Cost Tables

### List of Tables

# Table 1: Detailed Cost Table – Component 1: Access to Commercial Partnerships

| | | Quantities | | | | | | | Unit Cost | Base Cost (US$ '000) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | (US$) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | |
| **A. C1.1. Matching Grants and Start-Up Funds** | | | | | | | | | | | | | | | | |
| **1. Individual Farmer-led 4Ps** | | | | | | | | | | | | | | | | |
| **a. New 4Ps** | | | | | | | | | | | | | | | | |
| New 4Ps - Individual financed private sector-led (project) | lump sum | 6,000 | 6,000 | 6,000 | 3,000 | - | - | 21,000 | 500 | 3,000.0 | 3,000.0 | 3,000.0 | 1,500.0 | - | - | 10,500.0 |
| Scaled up Individual Nadep 4Ps (project) | lump sum | 4,000 | 4,000 | 2,000 | - | - | - | 10,000 | 500 | 2,000.0 | 2,000.0 | 1,000.0 | - | - | - | 5,000.0 |
| Start Up funds involving FOs | lump sum | 2,000 | 2,000 | - | - | - | - | 4,000 | 500 | 1,000.0 | 1,000.0 | - | - | - | - | 2,000.0 |
| Private sector contribution to individual 4Ps | lump sum | 11,000 | 11,000 | 8,000 | 3,000 | - | - | 33,000 | 500 | 5,500.0 | 5,500.0 | 4,000.0 | 1,500.0 | - | - | 16,500.0 |
| **Subtotal** | | | | | | | | | | 11,500.0 | 11,500.0 | 8,000.0 | 3,000.0 | - | - | 34,000.0 |
| **2. Youth Start Up Fund and Expansion** | | | | | | | | | | | | | | | | |
| a. Youth Start Up Fund | lump sum | - | 1,000 | 1,000 | 500 | - | - | 2,500 | 500 | - | 500.0 | 500.0 | 250.0 | - | - | 1,250.0 |
| b. Youth Start Up Expansion phase /a | lump sum | - | 1 | 1 | 1 | - | - | 3 | 400,000 | - | 400.0 | 400.0 | 400.0 | - | - | 1,200.0 |
| **Subtotal** | | | | | | | | | | - | 900.0 | 900.0 | 650.0 | - | - | 2,450.0 |
| **3. Farmer Organzition-led 4Ps: FO Start-Up Funds** | | | | | | | | | | | | | | | | |
| **a. New 4Ps private sector led with FOs** | | | | | | | | | | | | | | | | |
| New 4Ps private sector led with FOs | lump sum | 10 | 10 | - | - | - | - | 20 | 50,000 | 500.0 | 500.0 | - | - | - | - | 1,000.0 |
| Provision for New 4Ps private sector led with FOs /b | lump sum | - | - | - | 1 | 1 | 1 | 3 | 500,000 | - | - | - | 500.0 | 500.0 | 500.0 | 1,500.0 |
| **Subtotal** | | | | | | | | | | 500.0 | 500.0 | - | 500.0 | 500.0 | 500.0 | 2,500.0 |
| **b. FO led 4Ps - Coops in business** | | | | | | | | | | | | | | | | |
| FOs led 4Ps - Coops in business | lump sum | 5 | 5 | - | - | - | - | 10 | 50,000 | 250.0 | 250.0 | - | - | - | - | 500.0 |
| Provision for FO led 4Ps - Coops in business /c | lump sum | - | - | - | 1 | 1 | 1 | 3 | 250,000 | - | - | - | 250.0 | 250.0 | 250.0 | 750.0 |
| **Subtotal** | | | | | | | | | | 250.0 | 250.0 | - | 250.0 | 250.0 | 250.0 | 1,250.0 |
| **c. FO led 4Ps - new FOs (Mahaweli)** | | | | | | | | | | | | | | | | |
| FO led 4Ps - new FOs (Mahaweli) | lump sum | 12 | 16 | 8 | 4 | - | - | 40 | 50,000 | 600.0 | 800.0 | 400.0 | 200.0 | - | - | 2,000.0 |
| Provision for FO led 4Ps /d | lump sum | - | - | - | 0.75 | 1 | 0.75 | 2.5 | 800,000 | - | - | - | 600.0 | 800.0 | 600.0 | 2,000.0 |
| **Subtotal** | | | | | | | | | | 600.0 | 800.0 | 400.0 | 800.0 | 800.0 | 600.0 | 4,000.0 |
| **Subtotal** | | | | | | | | | | 1,350.0 | 1,550.0 | 400.0 | 1,550.0 | 1,550.0 | 1,350.0 | 7,750.0 |
| **4. 4P Sensitization / Consultation** | | | | | | | | | | | | | | | | |
| **a. General 4P Sensitization / Consultation** | | | | | | | | | | | | | | | | |
| Sensitization workshop/training on 4P principles and cross-cutting (e.g. CC, youth) | lump sum | 1 | 1 | - | - | - | - | 2 | 10,000 | 10.0 | 10.0 | - | - | - | - | 20.0 |
| 4P advertisement | lump sum | 1 | 1 | 1 | - | - | - | 3 | 6,000 | 6.0 | 6.0 | 6.0 | - | - | - | 18.0 |
| 4P consultation workshop process (one national; four field level) | lump sum | 1 | 1 | 1 | 1 | - | - | 4 | 5,000 | 5.0 | 5.0 | 5.0 | 5.0 | - | - | 20.0 |
| 4P development process | lump sum | 1 | 1 | 1 | 1 | - | - | 4 | 2,000 | 2.0 | 2.0 | 2.0 | 2.0 | - | - | 8.0 |
| 4P Biannual review workshop | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 2,000 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 12.0 |
| Farmer training (VC awareness) | lump sum | 1 | 1 | 1 | 1 | - | - | 4 | 5,000 | 5.0 | 5.0 | 5.0 | 5.0 | - | - | 20.0 |
| **Subtotal** | | | | | | | | | | 30.0 | 30.0 | 20.0 | 14.0 | 2.0 | 2.0 | 98.0 |
| b. Senstitization process for FO /e | lump sum | 3 | 3 | 3 | 2 | 2 | 2 | 15 | 10,000 | 30.0 | 30.0 | 30.0 | 20.0 | 20.0 | 20.0 | 150.0 |
| **Subtotal** | | | | | | | | | | 60.0 | 60.0 | 50.0 | 34.0 | 22.0 | 22.0 | 248.0 |
| **Subtotal** | | | | | | | | | | 12,910.0 | 14,010.0 | 9,350.0 | 5,234.0 | 1,572.0 | 1,372.0 | 44,448.0 |
| **B. C1.2. Institutional Strenghthening of Farmer Organizations** | | | | | | | | | | | | | | | | |
| **1. For Coops in business** | | | | | | | | | | | | | | | | |
| a. Technical Assistance /f | lump sum | 5 | 10 | 10 | 10 | 10 | 10 | 55 | 5,000 | 25.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 275.0 |
| **2. New 4Ps private sector led with FOs** | | | | | | | | | | | | | | | | |
| a. Technical Assistance /g | lump sum | 10 | 20 | 16.6778 | 35.3333 | 28.6667 | 16.8889 | 127.5666 | 9,000 | 90.0 | 180.0 | 150.1 | 318.0 | 258.0 | 152.0 | 1,148.1 |
| **3. For new FOs (Mahaweli)** | | | | | | | | | | | | | | | | |
| a. Technical Assistance /h | lump sum | 20 | 40 | 33.3333 | 60 | 34.6667 | 16 | 204 | 9,000 | 180.0 | 360.0 | 300.0 | 540.0 | 312.0 | 144.0 | 1,836.0 |
| b. Mahaweli Authority consultant pool /i | pers-year | 8 | 8 | 8 | 8 | 8 | 8 | 48 | 12,400 | 99.2 | 99.2 | 99.2 | 99.2 | 99.2 | 99.2 | 595.2 |
| **Subtotal** | | | | | | | | | | 279.2 | 459.2 | 399.2 | 639.2 | 411.2 | 243.2 | 2,431.2 |
| **4. Training and exchange visits for all FOs (under all categories)** | | | | | | | | | | | | | | | | |
| a. Exchange visit at domestic level | unit | 1 | 1 | 1 | - | - | - | 3 | 30,000 | 30.0 | 30.0 | 30.0 | - | - | - | 90.0 |
| b. Exchange visit in the Asia region | unit | 1 | 1.5 | 1.5 | - | - | - | 4 | 100,000 | 100.0 | 150.0 | 150.0 | - | - | - | 400.0 |
| c. Trainings | unit | 1 | 2 | 2 | - | - | - | 5 | 100,000 | 100.0 | 200.0 | 200.0 | - | - | - | 500.0 |
| d. Business advisory services (TA for all FOs) | unit | 2 | 4 | 4 | - | - | - | 10 | 12,000 | 24.0 | 48.0 | 48.0 | - | - | - | 120.0 |
| e. Lump sum provisioning for Yrs 4-6 /j | unit | - | - | - | 0.5935 | 1 | 1 | 2.5935 | 428,000 | - | - | - | 254.0 | 428.0 | 428.0 | 1,110.0 |
| **Subtotal** | | | | | | | | | | 254.0 | 428.0 | 428.0 | 254.0 | 428.0 | 428.0 | 2,220.0 |
| **ubtotal** | | | | | | | | | | 648.2 | 1,117.2 | 1,027.3 | 1,261.2 | 1,147.2 | 873.2 | 6,074.3 |
| **. Social mobilizers and equipment** | | | | | | | | | | | | | | | | |
| 1. Tablets for data entry by social mobilizers /k | unit | 40 | 5 | 5 | 5 | 5 | 5 | 65 | 250 | 10.0 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 16.3 |
| 2. Training of social mobilizers | lump sum | 1 | 1 | 1 | 1 | - | - | 4 | 4,000 | 4.0 | 4.0 | 4.0 | 4.0 | - | - | 16.0 |
| 3. Social mobilizers | Person | 40 | 40 | 40 | 40 | 40 | 40 | 240 | 3,600 | 144.0 | 144.0 | 144.0 | 144.0 | 144.0 | 144.0 | 864.0 |
| 4. Record keeping books | unit | 15,000 | 15,000 | 15,000 | 5,000 | - | - | 50,000 | 2 | 30.0 | 30.0 | 30.0 | 10.0 | - | - | 100.0 |
| **Subtotal** | | | | | | | | | | 188.0 | 179.3 | 179.3 | 159.3 | 145.3 | 145.3 | 996.3 |
| **Total** | | | | | | | | | | 13,746.2 | 15,306.5 | 10,556.5 | 6,654.4 | 2,864.5 | 2,390.5 | 51,518.5 |

\a To improve employability, work placements, etc.
\b Years 4-6
\c Years 4-6
\d Years 4-6
\e Specifically targeting FOs. Lump sum figures do not connote the number of workshops per year.
\f Includes full-time manager and accountant, with lump sum provision for Yrs 4-6
\g Includes full-time manager and accountant on a degressive basis, with lump sum provision for Yrs 4-6
\h Includes full-time manager and accountant on a degressive basis, with lump sum provision for Yrs 4-6 on a 70% and 40% declining level of support basis
\i Eight consultants (2 on institutional development and 3 on business mentoring and 3 on start up fund management
\j Provisioned for training and exchange visits
\k USD 250 per tablet plus additional for breakage

# Detailed Cost Table – Component 1: Access to Commercial Partnerships… continued

| | Totals Including Contingencies (US$ '000) | | | | | | | Parameters (in %) | | | Summary Divisions |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Phy. Cont. | For. | Gross | |
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | Rate | Exch. | Tax Rate | Expenditure Account |
| **I. Investment Costs** | | | | | | | | | | | |
| **A. C1.1. Matching Grants and Start-Up Funds** | | | | | | | | | | | |
| **1. Individual Farmer-led 4Ps** | | | | | | | | | | | |
| **a. New 4Ps** | | | | | | | | | | | |
| New 4Ps - Individual financed private sector-led (project) | 3,019.3 | 3,071.8 | 3,147.2 | 1,603.7 | - | - | 10,842.0 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Scaled up Individual Nadep 4Ps (project) | 2,012.9 | 2,047.9 | 1,049.1 | - | - | - | 5,109.8 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Start Up funds involving FOs | 1,006.4 | 1,023.9 | - | - | - | - | 2,030.4 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Private sector contribution to individual 4Ps | 5,535.4 | 5,631.6 | 4,196.3 | 1,603.7 | - | - | 16,967.0 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| **Subtotal** | 11,574.0 | 11,775.3 | 8,392.5 | 3,207.4 | - | - | 34,949.1 | | | | |
| **2. Youth Start Up Fund and Expansion** | | | | | | | | | | | |
| a. Youth Start Up Fund | - | 512.0 | 524.5 | 267.3 | - | - | 1,303.8 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| b. Youth Start Up Expansion phase /a | - | 409.6 | 419.6 | 427.6 | - | - | 1,256.9 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| **Subtotal** | - | 921.5 | 944.2 | 694.9 | - | - | 2,560.6 | | | | |
| **3. Farmer Organzition-led 4Ps: FO Start-Up Funds** | | | | | | | | | | | |
| **a. New 4Ps private sector led with FOs** | | | | | | | | | | | |
| New 4Ps private sector led with FOs | 503.2 | 512.0 | - | - | - | - | 1,015.2 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Provision for New 4Ps private sector led with FOs /b | - | - | - | 534.6 | 542.2 | 556.6 | 1,633.3 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| **Subtotal** | 503.2 | 512.0 | - | 534.6 | 542.2 | 556.6 | 2,648.5 | | | | |
| **b. FO led 4Ps - Coops in business** | | | | | | | | | | | |
| FOs led 4Ps - Coops in business | 251.6 | 256.0 | - | - | - | - | 507.6 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Provision for FO led 4Ps - Coops in business /c | - | - | - | 267.3 | 271.1 | 278.3 | 816.7 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| **Subtotal** | 251.6 | 256.0 | - | 267.3 | 271.1 | 278.3 | 1,324.3 | | | | |
| **c. FO led 4Ps - new FOs (Mahaweli)** | | | | | | | | | | | |
| FO led 4Ps - new FOs (Mahaweli) | 603.9 | 819.1 | 419.6 | 213.8 | - | - | 2,056.5 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| Provision for FO led 4Ps /d | - | - | - | 641.5 | 867.4 | 667.9 | 2,176.9 | 0.0 | 0.0 | 0.0 | GRANTS_SUBSIDIES |
| **Subtotal** | 603.9 | 819.1 | 419.6 | 855.3 | 867.4 | 667.9 | 4,233.3 | | | | |
| **Subtotal** | 1,358.7 | 1,587.1 | 419.6 | 1,657.1 | 1,680.7 | 1,502.9 | 8,206.1 | | | | |
| **4. 4P Sensitization / Consultation** | | | | | | | | | | | |
| **a. General 4P Sensitization / Consultation** | | | | | | | | | | | |
| Sensitization workshop/training on 4P principles and cross-cutting (e.g. CC, youth) | 10.1 | 10.2 | - | - | - | - | 20.3 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| 4P advertisement | 6.0 | 6.1 | 6.3 | - | - | - | 18.5 | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS |
| 4P consultation workshop process (one national; four field level) | 5.0 | 5.1 | 5.2 | 5.3 | - | - | 20.7 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| 4P development process | 2.0 | 2.0 | 2.1 | 2.1 | - | - | 8.3 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| 4P Biannual review workshop | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | 12.7 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| Farmer training (VC awareness) | 5.0 | 5.1 | 5.2 | 5.3 | - | - | 20.7 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| **Subtotal** | 30.2 | 30.7 | 21.0 | 15.0 | 2.2 | 2.2 | 101.3 | | | | |
| b. Senstitization process for FO /e | 30.2 | 30.7 | 31.5 | 21.4 | 21.7 | 22.3 | 157.7 | 0.0 | 0.0 | 13.0 | WORKSHOPS |
| **ubtotal** | 60.4 | 61.4 | 52.5 | 36.4 | 23.9 | 24.5 | 259.0 | | | | |
| **Subtotal** | 12,993.0 | 14,345.3 | 9,808.8 | 5,595.8 | 1,704.5 | 1,527.3 | 45,974.8 | | | | |
| **B. C1.2. Institutional Strenghthening of Farmer Organizations** | | | | | | | | | | | |
| **1. For Coops in business** | | | | | | | | | | | |
| a. Technical Assistance /f | 25.2 | 51.2 | 52.5 | 53.5 | 54.2 | 55.7 | 292.1 | 0.0 | 0.0 | 0.0 | CONSULTANCIES |
| **2. New 4Ps private sector led with FOs** | | | | | | | | | | | |
| a. Technical Assistance /g | 90.6 | 184.3 | 157.5 | 340.0 | 279.8 | 169.2 | 1,221.3 | 0.0 | 0.0 | 0.0 | CONSULTANCIES |
| **3. For new FOs (Mahaweli)** | | | | | | | | | | | |
| a. Technical Assistance /h | 181.2 | 368.6 | 314.7 | 577.3 | 338.3 | 160.3 | 1,940.4 | 0.0 | 0.0 | 0.0 | CONSULTANCIES |
| b. Mahaweli Authority consultant pool /i | 99.8 | 101.6 | 104.1 | 106.1 | 107.6 | 110.4 | 629.5 | 0.0 | 0.0 | 0.0 | CONSULTANCIES |
| **Subtotal** | 281.0 | 470.2 | 418.8 | 683.4 | 445.9 | 270.7 | 2,570.0 | | | | |
| **4. Training and exchange visits for all FOs (under all categories)** | | | | | | | | | | | |
| a. Exchange visit at domestic level | 30.2 | 30.7 | 31.5 | - | - | - | 92.4 | 0.0 | 0.0 | 13.0 | TRAINING |
| b. Exchange visit in the Asia region | 100.6 | 153.6 | 157.4 | - | - | - | 411.6 | 0.0 | 0.0 | 13.0 | TRAINING |
| c. Trainings | 100.6 | 204.8 | 209.8 | - | - | - | 515.2 | 0.0 | 0.0 | 13.0 | TRAINING |
| d. Business advisory services (TA for all FOs) | 24.2 | 49.1 | 50.4 | - | - | - | 123.7 | 0.0 | 0.0 | 0.0 | TRAINING |
| e. Lump sum provisioning for Yrs 4-6 /j | - | - | - | 271.6 | 464.1 | 476.5 | 1,212.1 | 0.0 | 0.0 | 0.0 | TRAINING |
| **Subtotal** | 255.6 | 438.2 | 449.0 | 271.6 | 464.1 | 476.5 | 2,355.0 | | | | |
| **Subtotal** | 652.4 | 1,143.9 | 1,077.7 | 1,348.4 | 1,243.9 | 972.1 | 6,438.4 | | | | |
| **C. Social mobilizers and equipment** | | | | | | | | | | | |
| 1. Tablets for data entry by social mobilizers /k | 10.1 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 16.7 | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS |
| 2. Training of social mobilizers | 4.0 | 4.1 | 4.2 | 4.3 | - | - | 16.6 | 0.0 | 0.0 | 13.0 | TRAINING |
| 3. Social mobilizers | 144.9 | 147.4 | 151.1 | 154.0 | 156.1 | 160.3 | 913.8 | 0.0 | 0.0 | 0.0 | CONSULTANCIES |
| 4. Record keeping books | 30.2 | 30.7 | 31.5 | 10.7 | - | - | 103.1 | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS |
| **ubtotal** | 189.2 | 183.5 | 188.0 | 170.3 | 157.5 | 161.7 | 1,050.2 | | | | |
| **Total** | 13,834.6 | 15,672.8 | 11,074.5 | 7,114.4 | 3,106.0 | 2,661.1 | 53,463.4 | | | | |

# Detailed Cost Table – Component 1: Access to Commercial Partnerships… continued

| | Expenditures by Financiers (US$ '000) | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | IFAD Loan | | | | | | | Private Sector Partners | | | | | | | Government (incl. taxes) | | | | | | |
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | | | | | | |
| **A. C1.1. Matching Grants and Start-Up Funds** | | | | | | | | | | | | | | | | | | | | | |
| **1. Individual Farmer-led 4Ps** | | | | | | | | | | | | | | | | | | | | | |
| **a. New 4Ps** | | | | | | | | | | | | | | | | | | | | | |
| New 4Ps - Individual financed private sector-led (project) | 3,019.3 | 3,071.8 | 3,147.2 | 1,603.7 | - | - | 10,842.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Scaled up Individual Nadep 4Ps (project) | 2,012.9 | 2,047.9 | 1,049.1 | - | - | - | 5,109.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Start Up funds involving FOs | 1,006.4 | 1,023.9 | - | - | - | - | 2,030.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Private sector contribution to individual 4Ps | - | - | - | - | - | - | - | 5,535.4 | 5,631.6 | 4,196.3 | 1,603.7 | - | - | 16,967.0 | - | - | - | - | - | - | - |
| **Subtotal** | 6,038.6 | 6,143.6 | 4,196.3 | 1,603.7 | - | - | 17,982.2 | 5,535.4 | 5,631.6 | 4,196.3 | 1,603.7 | - | - | 16,967.0 | - | - | - | - | - | - | - |
| **2. Youth Start Up Fund and Expansion** | | | | | | | | | | | | | | | | | | | | | |
| a. Youth Start Up Fund | - | 512.0 | 524.5 | 267.3 | - | - | 1,303.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b. Youth Start Up Expansion phase /a | - | 409.6 | 419.6 | 427.6 | - | - | 1,256.9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | | - | 921.5 | 944.2 | 694.9 | - | - | 2,560.6 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | | | | - |
| **3. Farmer Organzition-led 4Ps: FO Start-Up Funds** | | | | | | | | | | | | | | | | | | | | | |
| **a. New 4Ps private sector led with FOs** | | | | | | | | | | | | | | | | | | | | | |
| New 4Ps private sector led with FOs | 503.2 | 512.0 | - | - | - | - | 1,015.2 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Provision for New 4Ps private sector led with FOs /b | - | - | - | 534.6 | 542.2 | 556.6 | 1,633.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | | 503.2 | 512.0 | - | 534.6 | 542.2 | 556.6 | 2,648.5 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | | | | - |
| **b. FO led 4Ps - Coops in business** | | | | | | | | | | | | | | | | | | | | | |
| FOs led 4Ps - Coops in business | | 251.6 | 256.0 | - | - | - | - | 507.6 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Provision for FO led 4Ps - Coops in business /c | - | - | - | 267.3 | 271.1 | 278.3 | 816.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | | 251.6 | 256.0 | - | 267.3 | 271.1 | 278.3 | 1,324.3 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | | | | | | | | | | | - |
| **c. FO led 4Ps - new FOs (Mahaweli)** | | | | | | | | | | | | | | | | | | | | | |
| FO led 4Ps - new FOs (Mahaweli) | 603.9 | 819.1 | 419.6 | 213.8 | - | - | 2,056.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Provision for FO led 4Ps /d | - | - | - | 641.5 | 867.4 | 667.9 | 2,176.9 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | 603.9 | 819.1 | 419.6 | 855.3 | 867.4 | 667.9 | 4,233.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | 1,358.7 | 1,587.1 | 419.6 | 1,657.1 | 1,680.7 | 1,502.9 | 8,206.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **4. 4P Sensitization / Consultation** | | | | | | | | | | | | | | | | | | | | | |
| **a. General 4P Sensitization / Consultation** | | | | | | | | | | | | | | | | | | | | | |
| Sensitization workshop/training on 4P principles and cross-cutting (e.g. CC, youth) | 8.8 | 8.9 | - | - | - | - | 17.7 | - | - | - | - | - | - | - | 1.3 | 1.3 | - | - | - | - | 2.6 |
| 4P advertisement | 5.3 | 5.3 | 5.5 | - | - | - | 16.1 | - | - | - | - | - | - | - | 0.8 | 0.8 | 0.8 | - | - | - | 2.4 |
| 4P consultation workshop process (one national; four field level) | 4.4 | 4.5 | 4.6 | 4.6 | - | - | 18.0 | - | - | - | - | - | - | - | 0.7 | 0.7 | 0.7 | 0.7 | - | - | 2.7 |
| 4P development process | 1.8 | 1.8 | 1.8 | 1.9 | - | - | 7.2 | - | - | - | - | - | - | - | 0.3 | 0.3 | 0.3 | 0.3 | - | - | 1.1 |
| 4P Biannual review workshop | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 | 11.0 | - | - | - | - | - | - | - | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.7 |
| Farmer training (VC awareness) | 4.4 | 4.5 | 4.6 | 4.6 | - | - | 18.0 | - | - | - | - | - | - | - | 0.7 | 0.7 | 0.7 | 0.7 | - | - | 2.7 |
| **Subtotal** | 26.3 | 26.7 | 18.2 | 13.0 | 1.9 | 1.9 | 88.1 | - | - | - | - | - | - | - | 3.9 | 4.0 | 2.7 | 2.0 | 0.3 | 0.3 | 13.2 |
| b. Senstitization process for FO /e | 26.3 | 26.7 | 27.4 | 18.6 | 18.9 | 19.4 | 137.2 | - | - | - | - | - | - | - | 3.9 | 4.0 | 4.1 | 2.8 | 2.8 | 2.9 | 20.6 |
| **Subtotal** | 52.5 | 53.4 | 45.6 | 31.6 | 20.7 | 21.3 | 225.2 | - | - | - | - | - | - | - | 7.9 | 8.0 | 6.8 | 4.7 | 3.1 | 3.2 | 33.8 |
| **Subtotal** | 7,449.8 | 8,705.7 | 5,605.7 | 3,987.4 | 1,701.4 | 1,524.2 | 28,974.1 | 5,535.4 | 5,631.6 | 4,196.3 | 1,603.7 | - | - | 16,967.0 | 7.9 | 8.0 | 6.8 | 4.7 | 3.1 | 3.2 | 33.8 |
| **B. C1.2. Institutional Strenghthening of Farmer Organizations** | | | | | | | | | | | | | | | | | | | | | |
| **1. For Coops in business** | | | | | | | | | | | | | | | | | | | | | |
| a. Technical Assistance /f | 25.2 | 51.2 | 52.5 | 53.5 | 54.2 | 55.7 | 292.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **2. New 4Ps private sector led with FOs** | | | | | | | | | | | | | | | | | | | | | |
| a. Technical Assistance /g | 90.6 | 184.3 | 157.5 | 340.0 | 279.8 | 169.2 | 1,221.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **3. For new FOs (Mahaweli)** | | | | | | | | | | | | | | | | | | | | | |
| a. Technical Assistance /h | 181.2 | 368.6 | 314.7 | 577.3 | 338.3 | 160.3 | 1,940.4 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| b. Mahaweli Authority consultant pool /i | 99.8 | 101.6 | 104.1 | 106.1 | 107.6 | 110.4 | 629.5 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | 281.0 | 470.2 | 418.8 | 683.4 | 445.9 | 270.7 | 2,570.0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **4. Training and exchange visits for all FOs (under all categories)** | | | | | | | | | | | | | | | | | | | | | |
| a. Exchange visit at domestic level | 26.3 | 26.7 | 27.4 | - | - | - | 80.3 | - | - | - | - | - | - | - | 3.9 | 4.0 | 4.1 | - | - | - | 12.0 |
| b. Exchange visit in the Asia region | 87.5 | 133.6 | 136.8 | - | - | - | 357.9 | - | - | - | - | - | - | - | 13.1 | 20.0 | 20.5 | - | - | - | 53.7 |
| c. Trainings | 87.5 | 178.1 | 182.5 | - | - | - | 448.1 | - | - | - | - | - | - | - | 13.1 | 26.7 | 27.4 | - | - | - | 67.2 |
| d. Business advisory services (TA for all FOs) | 24.2 | 49.1 | 50.4 | - | - | - | 123.7 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| e. Lump sum provisioning for Yrs 4-6 /j | - | - | - | 271.6 | 464.1 | 476.5 | 1,212.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | 225.4 | 387.5 | 397.0 | 271.6 | 464.1 | 476.5 | 2,222.1 | - | - | - | - | - | - | - | 30.2 | 50.7 | 52.0 | - | - | - | 132.9 |
| **Subtotal** | 622.2 | 1,093.2 | 1,025.7 | 1,348.4 | 1,243.9 | 972.1 | 6,305.5 | - | - | - | - | - | - | - | 30.2 | 50.7 | 52.0 | - | - | - | 132.9 |
| **C. Social mobilizers and equipment** | | | | | | | | | | | | | | | | | | | | | |
| 1. Tablets for data entry by social mobilizers /k | 8.8 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 14.6 | - | - | - | - | - | - | - | 1.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 2.2 |
| 2. Training of social mobilizers | 3.5 | 3.6 | 3.6 | 3.7 | - | - | 14.4 | - | - | - | - | - | - | - | 0.5 | 0.5 | 0.5 | 0.6 | - | - | 2.2 |
| 3. Social mobilizers | 144.9 | 147.4 | 151.1 | 154.0 | 156.1 | 160.3 | 913.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 4. Record keeping books | 26.3 | 26.7 | 27.4 | 9.3 | - | - | 89.6 | - | - | - | - | - | - | - | 3.9 | 4.0 | 4.1 | 1.4 | - | - | 13.4 |
| **Subtotal** | 183.4 | 178.8 | 183.2 | 168.1 | 157.3 | 161.5 | 1,032.5 | - | - | - | - | - | - | - | 5.8 | 4.7 | 4.8 | 2.1 | 0.2 | 0.2 | 17.8 |
| **Total** | 8,255.4 | 9,977.7 | 6,814.6 | 5,503.9 | 3,102.7 | 2,657.7 | 36,312.0 | 5,535.4 | 5,631.6 | 4,196.3 | 1,603.7 | - | - | 16,967.0 | 43.8 | 63.5 | 63.6 | 6.9 | 3.3 | 3.4 | 184.5 |

# Table 2: Detailed Cost Table – Component 2: Access to Rural Finance

| | | Quantities | | | | | | | Unit Cost | Base Cost (US$ '000) | | | | | | | Totals Including Contingencies (US$ '000) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | (US$) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | | | | | | | | |
| **A. Credit Lines** | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Line of Credit | lump sum | 7.4988 | 4.5017 | - | - | - | - | 12.0005 | 1,000,000 | 7,498.8 | 4,501.7 | - | - | - | - | 12,000.5 | 7,547.0 | 4,609.4 | - | - | - | - | 12,156.4 |
| 2. Revolving Fund (GoSL) | lump sum | 4.5412 | 1.6667 | 2.0167 | 2.4542 | 3.001 | 3.6846 | 17.3644 | 1,000,000 | 4,541.2 | 1,666.7 | 2,016.7 | 2,454.2 | 3,001.0 | 3,684.6 | 17,364.4 | 4,570.4 | 1,706.6 | 2,115.6 | 2,623.8 | 3,254.1 | 4,101.8 | 18,372.3 |
| 3. Private Financial Institutions (PFIs) | lump sum | 3.44 | 3.7917 | 2.0592 | - | - | - | 9.2908 | 1,000,000 | 3,440.0 | 3,791.7 | 2,059.2 | - | - | - | 9,290.8 | 3,462.1 | 3,882.4 | 2,160.2 | - | - | - | 9,504.8 |
| 4. Farmer Organization Contribution | lump sum | 1.72 | 1.5733 | 1.0983 | - | - | - | 4.3917 | 1,000,000 | 1,720.0 | 1,573.3 | 1,098.3 | - | - | - | 4,391.7 | 1,731.1 | 1,611.0 | 1,152.2 | - | - | - | 4,494.3 |
| **Subtotal** | | | | | | | | | | 17,200.0 | 11,533.3 | 5,174.2 | 2,454.2 | 3,001.0 | 3,684.6 | 43,047.3 | 17,310.6 | 11,809.4 | 5,428.1 | 2,623.8 | 3,254.1 | 4,101.8 | 44,527.8 |
| **B. Institutional Strengthening to CBSL and PFI /a** | | | | | | | | | | | | | | | | | | | | | | | |
| **1. Central Bank of Sri Lanka** | | | | | | | | | | | | | | | | | | | | | | | |
| Technical assistance in formulating the MF guidelines /b | pers-month | 2 | - | - | - | - | - | 2 | 27,920 | 55.8 | - | - | - | - | - | 55.8 | 56.2 | - | - | - | - | - | 56.2 |
| Technical assistance in formulating the MF guidelines | pers-month | 2 | 2 | - | - | - | - | 4 | 12,450 | 24.9 | 24.9 | - | - | - | - | 49.8 | 25.1 | 25.5 | - | - | - | - | 50.6 |
| Workshops with stakeholders | workshop | 5 | 4 | - | - | - | - | 9 | 1,000 | 5.0 | 4.0 | - | - | - | - | 9.0 | 5.0 | 4.1 | - | - | - | - | 9.1 |
| Conferences for stakeholders | number | - | 1 | - | - | - | - | 1 | 20,000 | - | 20.0 | - | - | - | - | 20.0 | - | 20.5 | - | - | - | - | 20.5 |
| Training of MFIs on new policies | lump sum | - | 2 | 2 | - | - | - | 4 | 8,500 | - | 17.0 | 17.0 | - | - | - | 34.0 | - | 17.4 | 17.8 | - | - | - | 35.2 |
| **Subtotal** | | | | | | | | | | 85.7 | 65.9 | 17.0 | - | - | - | 168.6 | 86.3 | 67.5 | 17.8 | - | - | - | 171.6 |
| **2. Technical assistance to PFIs** | | | | | | | | | | | | | | | | | | | | | | | |
| Training of PFIs on agriculture/micro-/group finance /c | number | 3 | 5 | 5 | 3 | - | - | 16 | 10,000 | 30.0 | 50.0 | 50.0 | 30.0 | - | - | 160.0 | 30.2 | 51.2 | 52.5 | 32.1 | - | - | 165.9 |
| Training on systems development for MFIs /d | number | - | 3 | 3 | - | - | - | 6 | 7,000 | - | 21.0 | 21.0 | - | - | - | 42.0 | - | 21.5 | 22.0 | - | - | - | 43.5 |
| PFI training on technical issues, incl. appraisal /e | number | 5 | 8 | 8 | 5 | - | - | 26 | 10,000 | 50.0 | 80.0 | 80.0 | 50.0 | - | - | 260.0 | 50.3 | 81.9 | 83.9 | 53.5 | - | - | 269.6 |
| ITA on systems development and training of staff | pers-month | 2 | 3 | 3 | - | - | - | 8 | 27,920 | 55.8 | 83.8 | 83.8 | - | - | - | 223.4 | 56.2 | 85.8 | 87.9 | - | - | - | 229.8 |
| Sensitization workshops with PFIs | workshop | 2 | 2 | - | - | - | - | 4 | 600 | 1.2 | 1.2 | - | - | - | - | 2.4 | 1.2 | 1.2 | - | - | - | - | 2.4 |
| PMU-CBSL-PFI reviews of procedures /f | workshop | 4 | 4 | 4 | 4 | 4 | 4 | 24 | 600 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 14.4 | 2.4 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 | 15.2 |
| **Subtotal** | | | | | | | | | | 139.4 | 238.4 | 237.2 | 82.4 | 2.4 | 2.4 | 702.2 | 140.3 | 244.1 | 248.8 | 88.1 | 2.6 | 2.7 | 726.6 |
| **Subtotal** | | | | | | | | | | 225.2 | 304.3 | 254.2 | 82.4 | 2.4 | 2.4 | 870.8 | 226.6 | 311.5 | 266.6 | 88.1 | 2.6 | 2.7 | 898.2 |
| **Total** | | | | | | | | | | 17,425.2 | 11,837.6 | 5,428.3 | 2,536.6 | 3,003.4 | 3,687.0 | 43,918.1 | 17,537.3 | 12,120.9 | 5,694.7 | 2,711.9 | 3,256.7 | 4,104.5 | 45,425.9 |

\a For all training and meetings it is assumed that the PFIs cover the costs of their own staff, incl. transport, board and lodging.
\b International TA.
\c Two-day training event.
\d Three-day event.
\e Two-day event.
\f Half a day meeting

Table 2: Detailed Cost Table – Component 2: Access to Rural Finance...continued

| | Parameters (in %) Phy. Cont. Rate | For. Exch. | Gross Tax Rate | Summary Divisions Expenditure Account | IFAD Loan 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **I. Investment Costs** | | | | | | | | | | | |
| **A. Credit Lines** | | | | | | | | | | | |
| 1. Line of Credit | 0.0 | 0.0 | 0.0 | CREDIT | 7,547.0 | 4,609.4 | - | - | - | - | 12,156.4 |
| 2. Revolving Fund (GoSL) | 0.0 | 0.0 | 0.0 | CREDIT | - | - | - | - | - | - | - |
| 3. Private Financial Institutions (PFIs) | 0.0 | 0.0 | 0.0 | CREDIT | - | - | - | - | - | - | - |
| 4. Farmer Organization Contribution | 0.0 | 0.0 | 0.0 | CREDIT | - | - | - | - | - | - | - |
| **Subtotal** | | | | | 7,547.0 | 4,609.4 | - | - | - | - | 12,156.4 |
| **B. Institutional Strengthening to CBSL and PFI /a** | | | | | | | | | | | |
| **1. Central Bank of Sri Lanka** | | | | | | | | | | | |
| Technical assistance in formulating the MF guidelines /b | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 56.2 | - | - | - | - | - | 56.2 |
| Technical assistance in formulating the MF guidelines | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 25.1 | 25.5 | - | - | - | - | 50.6 |
| Workshops with stakeholders | 0.0 | 0.0 | 0.0 | WORKSHOPS | 5.0 | 4.1 | - | - | - | - | 9.1 |
| Conferences for stakeholders | 0.0 | 0.0 | 13.0 | WORKSHOPS | - | 17.8 | - | - | - | - | 17.8 |
| Training of MFIs on new policies | 0.0 | 0.0 | 0.0 | TRAINING | - | 17.4 | 17.8 | - | - | - | 35.2 |
| **Subtotal** | | | | | 86.3 | 64.8 | 17.8 | - | - | - | 168.9 |
| **2. Technical assistance to PFIs** | | | | | | | | | | | |
| Training of PFIs on agriculture/micro-/group finance /c | 0.0 | 0.0 | 13.0 | TRAINING | 13.1 | 22.3 | 22.8 | 13.9 | - | - | 72.1 |
| Training on systems development for MFIs /d | 0.0 | 0.0 | 13.0 | TRAINING | - | 9.3 | 9.6 | - | - | - | 18.9 |
| PFI training on technical issues, incl. appraisal /e | 0.0 | 0.0 | 13.0 | TRAINING | 21.9 | 35.6 | 36.5 | 23.2 | - | - | 117.2 |
| ITA on systems development and training of staff | 0.0 | 0.0 | 13.0 | CONSULTANCIES | 24.4 | 37.3 | 38.2 | - | - | - | 99.9 |
| Sensitization workshops with PFIs | 0.0 | 0.0 | 13.0 | WORKSHOPS | 0.5 | 0.5 | - | - | - | - | 1.1 |
| PMU-CBSL-PFI reviews of procedures /f | 0.0 | 0.0 | 13.0 | WORKSHOPS | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 6.6 |
| **Subtotal** | | | | | 61.0 | 106.1 | 108.2 | 38.3 | 1.1 | 1.2 | 315.9 |
| **Subtotal** | | | | | 147.3 | 170.9 | 126.0 | 38.3 | 1.1 | 1.2 | 484.8 |
| **Total** | | | | | 7,694.3 | 4,780.3 | 126.0 | 38.3 | 1.1 | 1.2 | 12,641.3 |

## Table 2: Detailed Cost Table – Component 2: Access to Rural Finance...continued

Expenditures by Financiers (US$ '000)

| | Private Financial Institutions | | | | | | | Government (incl. taxes) | | | | | | | Beneficiary Contribution | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | | | | | | |
| **A. Credit Lines** | | | | | | | | | | | | | | | | | | | | | |
| 1. Line of Credit | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2. Revolving Fund (GoSL) | - | - | - | - | - | - | - | 4,570.4 | 1,706.6 | 2,115.6 | 2,623.8 | 3,254.1 | 4,101.8 | 18,372.3 | - | - | - | - | - | - | - |
| 3. Private Financial Institutions (PFIs) | 3,462.1 | 3,882.4 | 2,160.2 | - | - | - | 9,504.8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 4. Farmer Organization Contribution | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,731.1 | 1,611.0 | 1,152.2 | - | - | - | 4,494.3 |
| **Subtotal** | 3,462.1 | 3,882.4 | 2,160.2 | - | - | - | 9,504.8 | 4,570.4 | 1,706.6 | 2,115.6 | 2,623.8 | 3,254.1 | 4,101.8 | 18,372.3 | 1,731.1 | 1,611.0 | 1,152.2 | - | - | - | 4,494.3 |
| **B. Institutional Strengthening to CBSL and PFI /a** | | | | | | | | | | | | | | | | | | | | | |
| **1. Central Bank of Sri Lanka** | | | | | | | | | | | | | | | | | | | | | |
| Technical assistance in formulating the MF guidelines /b | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Technical assistance in formulating the MF guidelines | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Workshops with stakeholders | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Conferences for stakeholders | - | - | - | - | - | - | - | - | 2.7 | - | - | - | - | 2.7 | - | - | - | - | - | - | - |
| Training of MFIs on new policies | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal** | - | - | - | - | - | - | - | - | 2.7 | - | - | - | - | 2.7 | - | - | - | - | - | - | - |
| **2. Technical assistance to PFIs** | | | | | | | | | | | | | | | | | | | | | |
| Training of PFIs on agriculture/micro-/group finance /c | 13.1 | 22.3 | 22.8 | 13.9 | - | - | 72.1 | 3.9 | 6.7 | 6.8 | 4.2 | - | - | 21.6 | - | - | - | - | - | - | - |
| Training on systems development for MFIs /d | - | 9.3 | 9.6 | - | - | - | 18.9 | - | 2.8 | 2.9 | - | - | - | 5.7 | - | - | - | - | - | - | - |
| PFI training on technical issues, incl. appraisal /e | 21.9 | 35.6 | 36.5 | 23.2 | - | - | 117.2 | 6.6 | 10.7 | 10.9 | 7.0 | - | - | 35.2 | - | - | - | - | - | - | - |
| ITA on systems development and training of staff | 24.4 | 37.3 | 38.2 | - | - | - | 99.9 | 7.3 | 11.2 | 11.5 | - | - | - | 30.0 | - | - | - | - | - | - | - |
| Sensitization workshops with PFIs | 0.5 | 0.5 | - | - | - | - | 1.1 | 0.2 | 0.2 | - | - | - | - | 0.3 | - | - | - | - | - | - | - |
| PMU-CBSL-PFI reviews of procedures /f | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 6.6 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 2.0 | - | - | - | - | - | - | - |
| **Subtotal** | 61.0 | 106.1 | 108.2 | 38.3 | 1.1 | 1.2 | 315.9 | 18.3 | 31.8 | 32.4 | 11.5 | 0.3 | 0.3 | 94.7 | - | - | - | - | - | - | - |
| **Subtotal** | 61.0 | 106.1 | 108.2 | 38.3 | 1.1 | 1.2 | 315.9 | 18.3 | 34.5 | 32.4 | 11.5 | 0.3 | 0.3 | 97.4 | - | - | - | - | - | - | - |
| **Total** | 3,523.1 | 3,988.5 | 2,268.4 | 38.3 | 1.1 | 1.2 | 9,820.7 | 4,588.7 | 1,741.1 | 2,148.1 | 2,635.3 | 3,254.4 | 4,102.2 | 18,469.7 | 1,731.1 | 1,611.0 | 1,152.2 | - | - | - | 4,494.3 |

## Table 3: Detailed Cost Table – Component 3: Programme Management and Policy Dialogue

| | | Quantities | | | | | | | Unit Cost | Base Cost (US$ '000) | | | | | | | Totals Including Contingencies (US$ '000) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unit | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | (US$) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | | | | | | | | |
| **A. Project Management Unit** | | | | | | | | | | | | | | | | | | | | | | | |
| **1. PMU Equipment** | | | | | | | | | | | | | | | | | | | | | | | |
| a. Computer and Peripherals | set | 10 | - | - | - | - | - | 10 | 1,200 | 12.0 | - | - | - | - | - | 12.0 | 12.1 | - | - | - | - | - | 12.1 |
| b. Laptops | set | 10 | - | - | - | - | - | 10 | 1,500 | 15.0 | - | - | - | - | - | 15.0 | 15.2 | - | - | - | - | - | 15.2 |
| c. Other office equipment | lump sum | 1 | - | - | - | - | - | 1 | 20,000 | 20.0 | - | - | - | - | - | 20.0 | 20.2 | - | - | - | - | - | 20.2 |
| d. Accounting software | unit | 1 | - | - | - | - | - | 1 | 30,000 | 30.0 | - | - | - | - | - | 30.0 | 30.3 | - | - | - | - | - | 30.3 |
| e. MIS/M&E system upgrade | lump sum | 1 | - | - | - | - | - | 1 | 20,000 | 20.0 | - | - | - | - | - | 20.0 | 20.2 | - | - | - | - | - | 20.2 |
| **Subtotal** | | | | | | | | | | 97.0 | - | - | - | - | - | 97.0 | 98.1 | - | - | - | - | - | 98.1 |
| 2. Vehicles | unit | 3 | - | - | - | - | - | 3 | 88,000 | 264.0 | - | - | - | - | - | 264.0 | 283.0 | - | - | - | - | - | 283.0 |
| 3. PMU Training /a | lump sum | 1 | 1 | 1 | 1 | 1 | - | 5 | 60,000 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | - | 300.0 | 60.7 | 61.5 | 62.5 | 63.3 | 64.1 | - | 312.1 |
| 4. PIM Manual /b | lump sum | 1 | - | - | - | - | - | 1 | 35,000 | 35.0 | - | - | - | - | - | 35.0 | 35.4 | - | - | - | - | - | 35.4 |
| **Subtotal** | | | | | | | | | | 456.0 | 60.0 | 60.0 | 60.0 | 60.0 | - | 696.0 | 477.2 | 61.5 | 62.5 | 63.3 | 64.1 | - | 728.6 |
| **B. M&E and Knowledge Management** | | | | | | | | | | | | | | | | | | | | | | | |
| **1. Workshops/Forums** | | | | | | | | | | | | | | | | | | | | | | | |
| Start-Up Workshop /c | workshop | 1 | - | - | - | - | - | 1 | 10,000 | 10.0 | - | - | - | - | - | 10.0 | 10.1 | - | - | - | - | - | 10.1 |
| Sensitization and Education Workshops /d | lump sum | 1 | - | - | - | - | - | 1 | 10,000 | 10.0 | - | - | - | - | - | 10.0 | 10.1 | - | - | - | - | - | 10.1 |
| Annual Stakeholders Planning/Review Workshop | workshop | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 2,000 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 12.0 | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | 12.7 |
| Annual Business Forums | number | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 5,000 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 30.0 | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 | 5.6 | 31.7 |
| **Subtotal** | | | | | | | | | | 27.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 62.0 | 27.2 | 7.2 | 7.3 | 7.5 | 7.6 | 7.8 | 64.6 |
| **2. Studies and Surveys** | | | | | | | | | | | | | | | | | | | | | | | |
| Baseline/Annual Outcome/Impact Survey/PCR /e | survey | 5 | 1 | 2 | 1 | 1 | 5 | 15 | 20,000 | 100.0 | 20.0 | 40.0 | 20.0 | 20.0 | 100.0 | 300.0 | 100.6 | 20.5 | 42.0 | 21.4 | 21.7 | 111.3 | 317.5 |
| Technical studies | number | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 10,000 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 120.0 | 20.1 | 20.5 | 21.0 | 21.4 | 21.7 | 22.3 | 126.9 |
| External audit /f | number | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 25,000 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 150.0 | 25.2 | 25.6 | 26.2 | 26.7 | 27.1 | 27.8 | 158.7 |
| **Subtotal** | | | | | | | | | | 145.0 | 65.0 | 85.0 | 65.0 | 65.0 | 145.0 | 570.0 | 145.9 | 66.6 | 89.2 | 69.5 | 70.5 | 161.4 | 603.0 |
| **3. Knowledge Management and Training** | | | | | | | | | | | | | | | | | | | | | | | |
| Information and Communication Materials /g | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 50,000 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 300.0 | 50.3 | 51.2 | 52.5 | 53.5 | 54.2 | 55.7 | 317.3 |
| Training Manuals | set | - | 1 | - | - | 1 | - | 2 | 50,000 | - | 50.0 | - | - | 50.0 | - | 100.0 | - | 51.2 | - | - | 54.2 | - | 105.4 |
| Development of environmental/climate change manual | unit | 1 | - | - | - | - | - | 1 | 10,000 | 10.0 | - | - | - | - | - | 10.0 | 10.1 | - | - | - | - | - | 10.1 |
| Gender strategy | unit | 1 | - | - | - | - | - | 1 | 15,000 | 15.0 | - | - | - | - | - | 15.0 | 15.1 | - | - | - | - | - | 15.1 |
| **Subtotal** | | | | | | | | | | 75.0 | 100.0 | 50.0 | 50.0 | 100.0 | 50.0 | 425.0 | 75.5 | 102.4 | 52.5 | 53.5 | 108.4 | 55.7 | 447.9 |
| **4. Youth** | | | | | | | | | | | | | | | | | | | | | | | |
| Youth strategy | lump sum | 1 | - | - | - | - | - | 1 | 15,000 | 15.0 | - | - | - | - | - | 15.0 | 15.1 | - | - | - | - | - | 15.1 |
| Training package - financial literacy and KYN /h | lump sum | - | 1,000 | 1,000 | ## | - | - | 2,500 | 15 | - | 15.0 | 15.0 | 7.5 | - | - | 37.5 | - | 15.4 | 15.7 | 8.0 | - | - | 39.1 |
| Technical training /i | lump sum | - | 1,000 | 1,000 | ## | - | - | 2,500 | 50 | - | 50.0 | 50.0 | 25.0 | - | - | 125.0 | - | 51.2 | 52.5 | 26.7 | - | - | 130.4 |
| **Subtotal** | | | | | | | | | | 15.0 | 65.0 | 65.0 | 32.5 | - | - | 177.5 | 15.1 | 66.6 | 68.2 | 34.7 | - | - | 184.6 |
| 5. Consultancies /j | pers-year | 4 | 4 | 4 | 4 | 4 | 4 | 24 | 14,694 | 58.8 | 58.8 | 58.8 | 58.8 | 58.8 | 58.8 | 352.7 | 59.2 | 60.2 | 61.7 | 62.8 | 63.7 | 65.4 | 373.0 |
| 6. Other consultancies | pers-year | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 12,245 | 24.5 | 24.5 | 24.5 | 24.5 | 24.5 | 24.5 | 146.9 | 24.6 | 25.1 | 25.7 | 26.2 | 26.6 | 27.3 | 155.4 |
| **Subtotal** | | | | | | | | | | 345.3 | 320.3 | 290.3 | 237.8 | 255.3 | 285.3 | 1,734.1 | 347.5 | 327.9 | 304.5 | 254.2 | 276.8 | 317.6 | 1,828.5 |
| **C. Policy Dialogue /k** | | | | | | | | | | | | | | | | | | | | | | | |
| Stakeholder meetings /l | number | 1 | 2 | 2 | 2 | 2 | 1 | 10 | 3,000 | 3.0 | 6.0 | 6.0 | 6.0 | 6.0 | 3.0 | 30.0 | 3.0 | 6.1 | 6.3 | 6.4 | 6.5 | 3.3 | 31.7 |
| Reserach studies, policy issues | number | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 10,000 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 120.0 | 20.1 | 20.5 | 21.0 | 21.4 | 21.7 | 22.3 | 126.9 |
| Scaling up studies, data collection | number | - | - | 2 | 2 | 2 | 2 | 8 | 5,000 | - | - | 10.0 | 10.0 | 10.0 | 10.0 | 40.0 | - | - | 10.5 | 10.7 | 10.8 | 11.1 | 43.2 |
| Communication /m | number | - | - | 1 | 1 | 1 | - | 3 | 20,000 | - | - | 20.0 | 20.0 | 20.0 | - | 60.0 | - | - | 21.0 | 21.4 | 21.7 | - | 64.1 |
| Publications | lump sum | 0.5 | 1 | 1 | 1 | 1 | 1 | 5.5 | 10,000 | 5.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 55.0 | 5.0 | 10.2 | 10.5 | 10.7 | 10.8 | 11.1 | 58.4 |
| Policy advocacy /n | lump sum | - | 1 | 1 | 1 | 1 | 1 | 5 | 5,000 | - | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 25.0 | - | 5.1 | 5.2 | 5.3 | 5.4 | 5.6 | 26.7 |
| Exposure visits /o | Person | - | 5 | - | 5 | - | 5 | 15 | 10,000 | - | 50.0 | - | 50.0 | - | 50.0 | 150.0 | - | 51.2 | - | 53.5 | - | 55.7 | 160.3 |
| Support for policy design and implementation /p | lump sum | - | 1 | 1 | 1 | 1 | 1 | 5 | 10,000 | - | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 50.0 | - | 10.2 | 10.5 | 10.7 | 10.8 | 11.1 | 53.4 |
| Dialogue, R&D/private sector /q | lump sum | - | 1 | - | 1 | - | 1 | 3 | 5,000 | - | 5.0 | - | 5.0 | - | 5.0 | 15.0 | - | 5.1 | - | 5.3 | - | 5.6 | 16.0 |
| **Subtotal** | | | | | | | | | | 28.0 | 106.0 | 81.0 | 136.0 | 81.0 | 113.0 | 545.0 | 28.2 | 108.5 | 85.0 | 145.4 | 87.8 | 125.8 | 580.7 |
| **Total Investment Costs** | | | | | | | | | | 829.3 | 486.3 | 431.3 | 433.8 | 396.3 | 398.3 | 2,975.1 | 852.9 | 497.9 | 452.0 | 462.9 | 428.7 | 443.4 | 3,137.8 |
| **II. Recurrent Costs** | | | | | | | | | | | | | | | | | | | | | | | |
| **A. Salaries** | | | | | | | | | | | | | | | | | | | | | | | |
| Project Director | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 18,286 | 18.3 | 18.3 | 18.3 | 18.3 | 18.3 | 18.3 | 109.7 | 18.4 | 18.7 | 19.2 | 19.5 | 19.8 | 20.4 | 116.0 |
| Deputy Project Director (Admin/Legal) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 16,898 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 101.4 | 17.0 | 17.3 | 17.7 | 18.1 | 18.3 | 18.8 | 107.2 |
| Agribusiness Manager | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 16,408 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 98.4 | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 |
| Rural Finance Manager | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 16,408 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 98.4 | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 |
| Finance Manager | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 13,200 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 | 79.2 | 13.3 | 13.5 | 13.8 | 14.1 | 14.3 | 14.7 | 83.8 |
| Procurement Specialist | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 16,408 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 98.4 | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 |
| Internal Auditor | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| ICT Auditor | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 9,224 | 9.2 | 9.2 | 9.2 | 9.2 | 9.2 | 9.2 | 55.3 | 9.3 | 9.4 | 9.7 | 9.9 | 10.0 | 10.3 | 58.5 |
| Secretary | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 6,449 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 38.7 | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| Management Assistant (Finance) | pers-year | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 6,449 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 77.4 | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 |
| Drivers | pers-year | 6 | 6 | 6 | 6 | 6 | 6 | 36 | 6,449 | 38.7 | 38.7 | 38.7 | 38.7 | 38.7 | 38.7 | 232.2 | 38.9 | 39.6 | 40.6 | 41.4 | 42.0 | 43.1 | 245.6 |
| Office Assistant | pers-year | 2 | 2 | 2 | 2 | 2 | - | 10 | 5,388 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | - | 53.9 | 10.8 | 11.0 | 11.3 | 11.5 | 11.7 | - | 56.4 |
| Deputy Manager (Agribusiness) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (Institutions) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (Rural Finance) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (Accountant) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (Admin) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (M&E) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 14,122 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 14.1 | 84.7 | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Development Assistant (admin) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 6,449 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 38.7 | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| Development Assistant (M&E) | pers-year | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 6,449 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 77.4 | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 |
| Development Assistant (agribusiness) | pers-year | 2 | 2 | 2 | 2 | 2 | 2 | 12 | 6,449 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 77.4 | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 |
| Development Assistant (institutions) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 6,449 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 38.7 | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| Development Assistant (rural finance) | pers-year | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 6,449 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 38.7 | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| **Subtotal** | | | | | | | | | | 319.6 | 319.6 | 319.6 | 319.6 | 319.6 | 308.9 | 1,907.1 | 321.7 | 327.3 | 335.3 | 341.7 | 346.6 | 343.8 | 2,016.5 |
| **B. Allowances** | | | | | | | | | | | | | | | | | | | | | | | |
| Travel and Allowances | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 50,000 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 300.0 | 50.3 | 51.2 | 52.5 | 53.5 | 54.2 | 55.7 | 317.3 |
| Honorarium to NSC participants | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 5,000 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 30.0 | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 | 5.6 | 31.7 |
| **Subtotal** | | | | | | | | | | 55.0 | 55.0 | 55.0 | 55.0 | 55.0 | 55.0 | 330.0 | 55.4 | 56.3 | 57.7 | 58.8 | 59.6 | 61.2 | 349.0 |
| **C. Operation and Maintenance** | | | | | | | | | | | | | | | | | | | | | | | |
| Vehicles | vehicle | 6 | 6 | 6 | 6 | 6 | 6 | 36 | 10,000 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 | 360.0 | 60.4 | 61.4 | 62.9 | 64.1 | 65.1 | 66.8 | 380.8 |
| Other equipment | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 12,000 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 72.0 | 12.1 | 12.3 | 12.6 | 12.8 | 13.0 | 13.4 | 76.2 |
| Office | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 16,500 | 16.5 | 16.5 | 16.5 | 16.5 | 16.5 | 16.5 | 99.0 | 16.6 | 16.9 | 17.3 | 17.6 | 17.9 | 18.4 | 104.7 |
| Other Operating Costs | lump sum | 1 | 1 | 1 | 1 | 1 | 1 | 6 | 12,000 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 72.0 | 12.1 | 12.3 | 12.6 | 12.8 | 13.0 | 13.4 | 76.2 |
| **Subtotal** | | | | | | | | | | 100.5 | 100.5 | 100.5 | 100.5 | 100.5 | 100.5 | 603.0 | 101.1 | 102.9 | 105.4 | 107.4 | 109.0 | 111.9 | 637.8 |
| **Total Recurrent Costs** | | | | | | | | | | 475.1 | 475.1 | 475.1 | 475.1 | 475.1 | 464.4 | 2,840.1 | 478.2 | 486.5 | 498.5 | 508.0 | 515.2 | 516.9 | 3,003.3 |
| **Total** | | | | | | | | | | 1,304.4 | 961.4 | 906.4 | 908.9 | 871.4 | 862.6 | 5,815.2 | 1,331.1 | 984.5 | 950.4 | 970.9 | 943.9 | 960.3 | 6,141.1 |

\a Covers APR retreats and international study tours.
\b Includes Operations Manual, Financial and Administration Manual, M&E Manual and systems design.
\c To cover one in Colombo and (others) in the field
\d Crosscutting themes.
\e Survey may be grouped together to provide one comprehensive survey or study. Includes MTR.
\f Including partners
\g Includes production of material for broadcast (on TV and radio).
\h KYN (know your numbers) and basic entreprenurial training. USD 15/youth, three sessions per year. Total of 7,500 youth trained.
\i USD 50/youth. Five session per year. Total of 2,500 youth trained.
\j C1/C2/M&E specialists
\k Includes possibly privatisation of articifical insemmination institute, smallholder farmer registration, fertilizer poilcy, seed policy, etc.
\l Multi-stakeholder meetings and sector specific follow-up meetings
\m Assumes three video films to be made
\n Activities dependent on specific policy issues in question and requirements
\o For senior policy makers and other stakeholders, to view successful policy application, both within Sri Lanka and other countries in Asia or Africa.
\p May include support to the process of drafting policy or regulations, public consultations around draft policy, or kickstarting operationalisation where policy change has been effected
\q To support focusing of R&D efforts on priorities of agribusiness

## Table 3: Detailed Cost Table – Component 3: Programme Management and Policy Dialogue....continued

| | Parameters (in %) | | | | Expenditures by Financiers (US$ '000) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Phy. Cont. Rate | For. Exch. | Gross Tax Rate | Summary Divisions Expenditure Account | IFAD Loan 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total | Government (incl. taxes) 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
| **I. Investment Costs** | | | | | | | | | | | | | | | | | | |
| **A. Project Management Unit** | | | | | | | | | | | | | | | | | | |
| **1. PMU Equipment** | | | | | | | | | | | | | | | | | | |
| a. Computer and Peripherals | 0.0 | 50.1 | 13.0 | EQUIPMENT_AND_MATERIALS | 10.6 | - | - | - | - | - | 10.6 | 1.6 | - | - | - | - | - | 1.6 |
| b. Laptops | 0.0 | 50.1 | 13.0 | EQUIPMENT_AND_MATERIALS | 13.2 | - | - | - | - | - | 13.2 | 2.0 | - | - | - | - | - | 2.0 |
| c. Other office equipment | 0.0 | 50.1 | 13.0 | EQUIPMENT_AND_MATERIALS | 17.6 | - | - | - | - | - | 17.6 | 2.6 | - | - | - | - | - | 2.6 |
| d. Accounting software | 0.0 | 50.1 | 13.0 | EQUIPMENT_AND_MATERIALS | 26.4 | - | - | - | - | - | 26.4 | 4.0 | - | - | - | - | - | 4.0 |
| e. MIS/M&E system upgrade | 0.0 | 50.1 | 13.0 | EQUIPMENT_AND_MATERIALS | 17.6 | - | - | - | - | - | 17.6 | 2.6 | - | - | - | - | - | 2.6 |
| **Subtotal** | | | | | 85.3 | - | - | - | - | - | 85.3 | 12.8 | - | - | - | - | - | 12.8 |
| 2. Vehicles | 6.0 | 50.1 | 13.0 | VEHICLES | 246.1 | - | - | - | - | - | 246.1 | 36.9 | - | - | - | - | - | 36.9 |
| 3. PMU Training /a | 0.0 | 50.1 | 13.0 | TRAINING | 52.8 | 53.5 | 54.3 | 55.1 | 55.7 | - | 271.4 | 7.9 | 8.0 | 8.1 | 8.3 | 8.4 | - | 40.7 |
| 4. PIM Manual /b | 0.0 | 50.1 | 13.0 | CONSULTANCIES | 30.8 | - | - | - | - | - | 30.8 | 4.6 | - | - | - | - | - | 4.6 |
| **Subtotal** | | | | | 415.0 | 53.5 | 54.3 | 55.1 | 55.7 | - | 633.6 | 62.2 | 8.0 | 8.1 | 8.3 | 8.4 | - | 95.0 |
| **B. M&E and Knowledge Management** | | | | | | | | | | | | | | | | | | |
| **1. Workshops/Forums** | | | | | | | | | | | | | | | | | | |
| Start-Up Workshop /c | 0.0 | 0.0 | 13.0 | WORKSHOPS | 8.8 | - | - | - | - | - | 8.8 | 1.3 | - | - | - | - | - | 1.3 |
| Sensitization and Education Workshops /d | 0.0 | 0.0 | 13.0 | WORKSHOPS | 8.8 | - | - | - | - | - | 8.8 | 1.3 | - | - | - | - | - | 1.3 |
| Annual Stakeholders Planning/Review Workshop | 0.0 | 0.0 | 13.0 | WORKSHOPS | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 | 11.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.7 |
| Annual Business Forums | 0.0 | 0.0 | 13.0 | WORKSHOPS | 4.4 | 4.5 | 4.6 | 4.6 | 4.7 | 4.8 | 27.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 4.1 |
| **Subtotal** | | | | | 23.6 | 6.2 | 6.4 | 6.5 | 6.6 | 6.8 | 56.1 | 3.5 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 8.4 |
| **2. Studies and Surveys** | | | | | | | | | | | | | | | | | | |
| Baseline/Annual Outcome/Impact Survey/PCR /e | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 100.6 | 20.5 | 42.0 | 21.4 | 21.7 | 111.3 | 317.5 | - | - | - | - | - | - | - |
| Technical studies | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 20.1 | 20.5 | 21.0 | 21.4 | 21.7 | 22.3 | 126.9 | - | - | - | - | - | - | - |
| External audit /f | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS | 21.9 | 22.3 | 22.8 | 23.2 | 23.6 | 24.2 | 138.0 | 3.3 | 3.3 | 3.4 | 3.5 | 3.5 | 3.6 | 20.7 |
| **Subtotal** | | | | | 142.7 | 63.2 | 85.8 | 66.0 | 66.9 | 157.8 | 582.4 | 3.3 | 3.3 | 3.4 | 3.5 | 3.5 | 3.6 | 20.7 |
| **3. Knowledge Management and Training** | | | | | | | | | | | | | | | | | | |
| Information and Communication Materials /g | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS | 43.8 | 44.5 | 45.6 | 46.5 | 47.1 | 48.4 | 275.9 | 6.6 | 6.7 | 6.8 | 7.0 | 7.1 | 7.3 | 41.4 |
| Training Manuals | 0.0 | 0.0 | 13.0 | EQUIPMENT_AND_MATERIALS | - | 44.5 | - | - | 47.1 | - | 91.7 | - | 6.7 | - | - | 7.1 | - | 13.7 |
| Development of environmental/climate change manual | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 10.1 | - | - | - | - | - | 10.1 | - | - | - | - | - | - | - |
| Gender strategy | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 15.1 | - | - | - | - | - | 15.1 | - | - | - | - | - | - | - |
| **Subtotal** | | | | | 68.9 | 89.0 | 45.6 | 46.5 | 94.3 | 48.4 | 392.8 | 6.6 | 13.4 | 6.8 | 7.0 | 14.1 | 7.3 | 55.1 |
| **4. Youth** | | | | | | | | | | | | | | | | | | |
| Youth strategy | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 15.1 | - | - | - | - | - | 15.1 | - | - | - | - | - | - | - |
| Training package - financial literacy and KYN /h | 0.0 | 0.0 | 13.0 | TRAINING | - | 13.4 | 13.7 | 7.0 | - | - | 34.0 | - | 2.0 | 2.1 | 1.0 | - | - | 5.1 |
| Technical training /i | 0.0 | 0.0 | 13.0 | TRAINING | - | 44.5 | 45.6 | 23.2 | - | - | 113.4 | - | 6.7 | 6.8 | 3.5 | - | - | 17.0 |
| **Subtotal** | | | | | 15.1 | 57.9 | 59.3 | 30.2 | - | - | 162.5 | - | 8.7 | 8.9 | 4.5 | - | - | 22.1 |
| 5. Consultancies /j | 0.0 | 0.0 | 0.0 | WORKSHOPS | 59.2 | 60.2 | 61.7 | 62.8 | 63.7 | 65.4 | 373.0 | - | - | - | - | - | - | - |
| 6. Other consultancies | 0.0 | 0.0 | 0.0 | CONSULTANCIES | 24.6 | 25.1 | 25.7 | 26.2 | 26.6 | 27.3 | 155.4 | - | - | - | - | - | - | - |
| **Subtotal** | | | | | 334.1 | 301.6 | 284.4 | 238.2 | 258.1 | 305.7 | 1,722.2 | 13.4 | 26.3 | 20.1 | 16.0 | 18.7 | 11.9 | 106.3 |
| **C. Policy Dialogue /k** | | | | | | | | | | | | | | | | | | |
| Stakeholder meetings /l | 0.0 | 0.0 | 13.0 | WORKSHOPS | 2.6 | 5.3 | 5.5 | 5.6 | 5.7 | 2.9 | 27.6 | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.4 | 4.1 |
| Reserach studies, policy issues | 0.0 | 0.0 | 13.0 | CONSULTANCIES | 17.5 | 17.8 | 18.2 | 18.6 | 18.9 | 19.4 | 110.4 | 2.6 | 2.7 | 2.7 | 2.8 | 2.8 | 2.9 | 16.6 |
| Scaling up studies, data collection | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | - | 9.1 | 9.3 | 9.4 | 9.7 | 37.5 | - | - | 1.4 | 1.4 | 1.4 | 1.5 | 5.6 |
| Communication /m | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | - | 18.2 | 18.6 | 18.9 | - | 55.7 | - | - | 2.7 | 2.8 | 2.8 | - | 8.4 |
| Publications | 0.0 | 0.0 | 13.0 | CONSULTANCIES | 4.4 | 8.9 | 9.1 | 9.3 | 9.4 | 9.7 | 50.8 | 0.7 | 1.3 | 1.4 | 1.4 | 1.4 | 1.5 | 7.6 |
| Policy advocacy /n | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | 4.5 | 4.6 | 4.6 | 4.7 | 4.8 | 23.2 | - | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 3.5 |
| Exposure visits /o | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | 44.5 | - | 46.5 | - | 48.4 | 139.4 | - | 6.7 | - | 7.0 | - | 7.3 | 20.9 |
| Support for policy design and implementation /p | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | 8.9 | 9.1 | 9.3 | 9.4 | 9.7 | 46.4 | - | 1.3 | 1.4 | 1.4 | 1.4 | 1.5 | 7.0 |
| Dialogue, R&D/private sector /q | 0.0 | 0.0 | 13.0 | CONSULTANCIES | - | 4.5 | - | 4.6 | - | 4.8 | 13.9 | - | 0.7 | - | 0.7 | - | 0.7 | 2.1 |
| **ubtotal** | | | | | 24.5 | 94.4 | 73.9 | 126.4 | 76.4 | 109.4 | 505.0 | 3.7 | 14.2 | 11.1 | 19.0 | 11.5 | 16.4 | 75.7 |
| **Total Investment Costs** | | | | | 773.6 | 449.5 | 412.6 | 419.8 | 390.2 | 415.1 | 2,860.7 | 79.3 | 48.5 | 39.3 | 43.2 | 38.5 | 28.3 | 277.1 |
| **II. Recurrent Costs** | | | | | | | | | | | | | | | | | | |
| **A. Salaries** | | | | | | | | | | | | | | | | | | |
| Project Director | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 18.4 | 18.7 | 19.2 | 19.5 | 19.8 | 20.4 | 116.0 | - | - | - | - | - | - | - |
| Deputy Project Director (Admin/Legal) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 17.0 | 17.3 | 17.7 | 18.1 | 18.3 | 18.8 | 107.2 | - | - | - | - | - | - | - |
| Agribusiness Manager | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 | - | - | - | - | - | - | - |
| Rural Finance Manager | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 | - | - | - | - | - | - | - |
| Finance Manager | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | - | - | - | - | - | - | - | 13.3 | 13.5 | 13.8 | 14.1 | 14.3 | 14.7 | 83.8 |
| Procurement Specialist | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 16.5 | 16.8 | 17.2 | 17.5 | 17.8 | 18.3 | 104.1 | - | - | - | - | - | - | - |
| Internal Auditor | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 | - | - | - | - | - | - | - |
| ICT Auditor | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 9.3 | 9.4 | 9.7 | 9.9 | 10.0 | 10.3 | 58.5 | - | - | - | - | - | - | - |
| Secretary | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 | - | - | - | - | - | - | - |
| Management Assistant (Finance) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 | - | - | - | - | - | - | - |
| Drivers | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 38.9 | 39.6 | 40.6 | 41.4 | 42.0 | 43.1 | 245.6 | - | - | - | - | - | - | - |
| Office Assistant | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 10.8 | 11.0 | 11.3 | 11.5 | 11.7 | - | 56.4 | - | - | - | - | - | - | - |
| Deputy Manager (Agribusiness) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 | - | - | - | - | - | - | - |
| Deputy Manager (Institutions) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 | - | - | - | - | - | - | - |
| Deputy Manager (Rural Finance) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 | - | - | - | - | - | - | - |
| Deputy Manager (Accountant) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | - | - | - | - | - | - | - | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Deputy Manager (Admin) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 | - | - | - | - | - | - | - |
| Deputy Manager (M&E) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | - | - | - | - | - | - | - | 14.2 | 14.5 | 14.8 | 15.1 | 15.3 | 15.7 | 89.6 |
| Development Assistant (admin) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | - | - | - | - | - | - | - | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| Development Assistant (M&E) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 | - | - | - | - | - | - | - |
| Development Assistant (agribusiness) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 13.0 | 13.2 | 13.5 | 13.8 | 14.0 | 14.4 | 81.9 | - | - | - | - | - | - | - |
| Development Assistant (institutions) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | - | - | - | - | - | - | - | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 |
| Development Assistant (rural finance) | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 6.5 | 6.6 | 6.8 | 6.9 | 7.0 | 7.2 | 40.9 | - | - | - | - | - | - | - |
| **Subtotal** | | | | | 267.0 | 271.7 | 278.3 | 283.6 | 287.7 | 283.3 | 1,671.6 | 54.7 | 55.6 | 57.0 | 58.1 | 58.0 | 60.5 | 344.9 |
| **B. Allowances** | | | | | | | | | | | | | | | | | | |
| Travel and Allowances | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 50.3 | 51.2 | 52.5 | 53.5 | 54.2 | 55.7 | 317.3 | - | - | - | - | - | - | - |
| Honorarium to NSC participants | 0.0 | 0.0 | 0.0 | SALARIES_AND_ALLOWANCES | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 | 5.6 | 31.7 | - | - | - | - | - | - | - |
| **Subtotal** | | | | | 55.4 | 56.3 | 57.7 | 58.8 | 59.6 | 61.2 | 349.0 | - | - | - | - | - | - | - |
| **C. Operation and Maintenance** | | | | | | | | | | | | | | | | | | |
| Vehicles | 0.0 | 0.0 | 13.0 | OPERATING_COSTS_1 | 52.5 | 53.4 | 54.7 | 55.8 | 56.6 | 58.1 | 331.1 | 7.9 | 8.0 | 8.2 | 8.4 | 8.5 | 8.7 | 49.7 |
| Other equipment | 0.0 | 0.0 | 13.0 | OPERATING_COSTS_1 | 10.5 | 10.7 | 10.9 | 11.2 | 11.3 | 11.6 | 66.2 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 | 9.9 |
| Office | 0.0 | 0.0 | 13.0 | OPERATING_COSTS_1 | 14.4 | 14.7 | 15.1 | 15.3 | 15.6 | 16.0 | 91.1 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 | 2.4 | 13.7 |
| Other Operating Costs | 0.0 | 0.0 | 13.0 | OPERATING_COSTS_1 | 10.5 | 10.7 | 10.9 | 11.2 | 11.3 | 11.6 | 66.2 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 | 9.9 |
| **Subtotal** | | | | | 88.0 | 89.5 | 91.7 | 93.4 | 94.8 | 97.3 | 554.6 | 13.2 | 13.4 | 13.7 | 14.0 | 14.2 | 14.6 | 83.2 |
| **Total Recurrent Costs** | | | | | 410.3 | 417.5 | 427.7 | 435.9 | 442.1 | 441.9 | 2,575.3 | 67.9 | 69.1 | 70.8 | 72.1 | 73.1 | 75.1 | 428.0 |
| **Total** | | | | | 1,183.9 | 866.9 | 840.3 | 855.6 | 832.3 | 856.9 | 5,436.0 | 147.2 | 117.5 | 110.1 | 115.3 | 111.6 | 103.4 | 705.1 |

# Appendix 10: Economic and Financial Analysis

1. This Annex presents the financial and economic analysis. The financial analysis aims at demonstrating that on-farm and off-farm income generating activities, as proposed in the programme (referred to hereafter as SAP), are profitable and therefore sustainable. On the flip side, the economic analysis aims to demonstrate that, from an economic perspective, the programme as a whole is viable, taking into account, as much as possible, all quantitative and non-quantitative benefits in situations with (WP) and without programme (WOP).

**Data Sources and General Assumptions**

2. Data used in this analysis includes prevailing wages, yields, farm gate and market prices, input and farm-to-market transport costs. The data was collected from various sources, including and in particular the NADEP PMU team, stakeholder meetings with producer organisations, lead farmers and private company representatives in north central and central Sri Lanka, during an in-country mission and field trip in November 2016 and January 2017. In addition information gathered from meetings with authorised government institutions, including the Ministry of Minor Export Crops Promotion, Department of Agriculture and Export Agriculture Information, contributed to the preparation of farm budgets.

3. Prices: Input and output prices are in constant figures, as of 2016. Financial prices were collected by the PMU team and crosschecked during the field visit of November 2016 and economic values for tradable goods were calculated using a Standard Conversion Factor of 1.34 for imported goods, 0.9 for exported goods and 0.95 for labour, based on the IFAD STAR (2015) project and World Bank trade figures. A Shadow Conversion Factor of 1.49 was calculated using the World Bank import/export index figures to reflect the balance of trade on products in the Sri Lankan economy to determine the economic price of goods. Conversion factors are linked to each good in relation to the type, whether locally traded, locally trade with export potential, import substitution, tradable or non-tradable.

**Quantifiable Benefits**

4. The two main areas of investment by the programme are: (i) Access to Commercial Partnerships; and (ii) Access to Rural Finance.

5. The main quantifiable benefits expected from improved market access measures comprise of the following elements:

(a) Increased agricultural and off-farm production, resulting in higher incomes;

(b) Production guided by value chain priorities with respect to farmer and producer organisations;

(c) Greater variety of income and higher value-added products sold at consumer markets by producer organisations;

(d) Increased income from short-term employment and self-employment for local villagers;

(e) Greater value chain integration, with backward and forward market linkages, by target beneficiaries.

**Financial Analysis**

6. Six combination crop and activity models illustrate the mix of crops at the household level and community level. Combination models over an area of one acre of arable land were used to illustrate the benefits of the programme for activities related to crop production, reflecting also the average plot-size of farms in the programme area, and to better reflect the reality in the field, where mixed farming occurs. The illustrative models were selected using participatory methods among the design and PMU

teams, using weighted ranking on noted economic, social and environmental concerns. Consultations with farmers and villagers in the field during the field visit confirmed the relevance of the selection.

7. While efforts were made to select models illustrative of the field reality, like all participatory projects, the project, at the time of design, was limited by the possibility of identifying actual sub-sectors selected by local farmers during implementation, given the demand-driven nature of the project. For this reason, all efforts are necessary to provide menu-driven options to farmers, to aid in the selection of activities that offer the potential for positive net returns.

**Primary Production Models at Farm and Community Level**

8. Given the low starting base of farmers and the extensive support available to the farmers by the programme and private sector promoters, the models predict an increase in yields of 38% to 67% for existing activities, while no such data is available for new activities such as passion fruit or chilli production.

9. **Passion Fruit and Ash Pumpkin.** While perennial crops are not favoured by time bound programmes in search of quick returns, the upside of relatively low labour requirements and short time to full development by passion fruit of eight months, combined with opportunities to intercrop, and still unmet market demand for passion fruit, means there is potential for expanding production.

10. The model is based on a household couple operating on a one acre plot for the production of passion fruit in former war torn areas of the north. Lack of awareness of fruit production and poor market linkages have prevented the development of passion fruit production in the past. A local promoter company in Kilinochchi had invested in a factory but in absence of a functioning outgrower system it experienced irregular supply of raw materials. Through the introduction of an outgrower system the project assumes farmers will engage with viable businesses and enhance their current income by on average 98% per acre (please see summary table below). Financial assistance for land preparation, lining and deepening of wells, better partnerships with value chain operators that provide guidance to beneficiaries in the form of extension support and special training are part of the investment plan. Yields peak in the second year towards eight tons per acre and decline thereafter until the sixth year, when new saplings are reintroduced.

11. The net incremental benefit of the project intervention equates to LKR 376,103 (or USD 2,354) and NPV is LKR 1,673,140 (or USD 11,382 equivalent) per acre.

12. **Gherkin, Maize and Jalapeno peppers.** Production of small cucumbers among local farmers is already a widespread activity, pre-processed and pickled into gherkins, with multi-cropping of jalapeno peppers to supplement incomes. Farmers do not currently use trellising and prefer to run vines along the ground, to avoid the higher invest costs associated with the trellising method. The model suggests three key interventions: (i) optimising the usage of water to avoid water borne diseases, (ii) the introduction of productive melon fly control mechanism and (iii) soil enhancers (compost). While outflows increase, yields are forecast to increase by two tons per acre initially and by three tons in the third year.

13. The net incremental benefit of the project intervention equates to LKR 136,191 (or USD 926 equivalent) and NPV is LKR 896,641 (or USD 5,916) per acre.

14. **Milk Cooling/Collection Centre.** The low returns of the collection centre reflect the service orientation of this particular service to the community. The centre(s) form an important part of market infrastructure needed to sustain market linkages between producers and buyers, and the introduction of milking twice daily with prerequisite cooling tanks and quality control checks. It is assumed that the centres will provide youth employment opportunities to conduct the quality control checks.

15. The net incremental benefit of the project intervention equates to LKR 107,327 (or USD 730 equivalent) and NPV is LKR 107,327 (or USD 730) per unit.

16. **Vegetable Seeds - poly tunnel.** Seed production is an important part of value addition in Sri Lankan agriculture, given that a majority of vegetable seeds are imported and an important part of the

move away from traditional commodity-based cash crops such as rice, and the drive towards high value vegetable crops.

17. The net incremental benefit of the project intervention equates to LKR 151,400 (or USD 1,030 equivalent) and NPV is LKR 844,727 (or USD 5,746) per acre.

18. **Dairy Milk and Improved Feeding.** Improved backward-and-forward market linkages of milk producers is an important aspect of the programme, one that will require high nitrogen content feed, improved animal husbandry and healthcare, better market infrastructure and functioning networks that operate cooling tanks and screening facilities at collection centres for quality control. These contributing factors can allow milking twice a day by farmers to increase productivity and raise incomes through greater collaboration when the quality of produce and access to market is assured.

19. The model assumes an increase in milk yields by an average of 67% as a result of project interventions. The net incremental benefit of the project intervention equates to LKR 240,161 (or USD 1,634 equivalent) and NPV is LKR 1,752,055 (or USD 11,919) per farm holding.

20. **Chilli, maize and sesame.** A low starting base and multi-cropping means that the combination of crops in the particular model offers the possibility of high-value cash crop family farming by unmet market demand for Sri Lankan chilli and sesame seeds, with maize as an important staple crop. The net incremental benefit of the project intervention equates to LKR 295,160 (or USD 2,008 equivalent) and NPV is LKR 2,250,511 (or USD 15,310) per farm holding.

**Table 1: Summary of Combination Farm- and Community-Level Models (in LKR)**

| | Passion, Pumpkin | Gherkin | Milk Collection Center | Vegetable Seeds, Poly tunnel | Dairy Improved Feeding | Chilli-Maize-Sessami | FO / Aggregator |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ANALYSIS** | | | | | | | |
| **Return to family labour** | 29,562 | 15,018 | 1,841 | 2,717 | 2,619 | 8,857 | -4671625 |
| **Discount rate** | 9.16% | 9.16% | 9.16% | 9.16% | 9.16% | 9.16% | 9.16% |
| **NPV @ 0.0916** | 1,333,985 | 869,641 | 712,799 | 844,727 | 1,752,055 | 2,250,511 | 15,755,524 |
| **NPV (USD Equivalent)** | 9,075 | 5,916 | 4,849 | 5,746 | 11,919 | 15,310 | 107,180 |
| **Incr. Net Benefit per acre** | 161,371 | 107,891 | 93,063 | 103,735 | 217,184 | 268,190 | |
| **Incr. Net Benefit per acre (USD)** | 1,098 | 734 | 633 | 706 | 1,477 | 1,824 | |
| **IRR** | 100% | 177% | 72% | 136% | 135% | #DIV/0! | 22% |
| **NPVb** | 4,076,479 | 8,896,537 | 7,013,385 | 6,173,381 | 7,045,987 | 3,856,767 | 134,317,014 |
| **NPVc** | 1,217,200 | 3,656,774 | 4,796,539 | 2,707,490 | 4,170,095 | 1,190,185 | 91,485,259 |
| **B/C ratio** | 3.35 | 2.43 | 1.46 | 2.28 | 1.69 | 3.24 | 1.47 |
| **Switching values Benefits** | -0.70 | -59% | -32% | -0.56 | -0.41 | -0.69 | -32% |
| **Switching values Costs** | 2.35 | 143% | 46% | 1.28 | 0.69 | 2.24 | 47% |
| **Operating margin** | 91% | 93% | 34% | 65% | 45% | 77% | 44% |
| **FINANCIAL PERFORMANCE INDICATORS** | | | | | | | |
| **Yields** | | | | | | | |
| WOP | 0.00 | 8,000.00 | 6,570.00 | 1,120.00 | 6,570.00 | 0.00 | |
| WP | 6,000.00 | 11,000.00 | 10,950.00 | 1,520.00 | 10,950.00 | 2,100.00 | |
| Incremental | #DIV/0! | 38% | 67% | 36% | 67% | #DIV/0! | |
| **Gross Revenue** | | | | | | | |
| WOP | 170,000 | 725,000 | 472,050 | 504,000 | 472,050 | 80,000 | |
| WP | 590,000 | 996,000 | 801,750 | 684,000 | 801,750 | 444,000 | |
| Incremental | 247% | 37% | 70% | 36% | 70% | 455% | |
| **Total outflows** | | | | | | | |
| WOP | 1,000 | 240,798 | 305,404 | 213,580 | 347,531 | 33,900 | |
| WP | 46,583 | 375,607 | 527,777 | 242,180 | 437,070 | 102,740 | |
| Incremental | 4558% | 56% | 73% | 13% | 26% | 203% | |
| **Cash flow before labour (return per acre)** | | | | | | | |
| WOP | 170,000 | 524,202 | 302,396 | 496,420 | 274,832 | 76,100 | |
| WP | 337,071 | 597,193 | 551,859 | 616,155 | 552,704 | 354,290 | |
| Incremental | 98% | 14% | 82% | 24% | 101% | 366% | |
| **Return on family labour** | | | | | | | |
| WOP | 1,000 | 13,105 | 2,228 | 2,410 | 1,828 | 2,537 | |
| WP | 47,819 | 18,726 | 1,940 | 2,990 | 2,728 | 9,532 | |
| Incremental | 4682% | 43% | -13% | 24% | 49% | 276% | |
| **Cash flow after financing** | | | | | | | |
| WOP | 260,000 | 618,358 | 317,355 | 598,420 | 418,232 | 154,100 | |
| WP | 549,917 | 655,393 | 565,473 | 663,820 | 575,680 | 393,200 | |
| Incremental | 112% | 6% | 78% | 11% | 38% | 155% | |

21. **FO / Aggregator.** A farmer organization model engaged in aggregation of farmer produce - mainly for fruit and vegetable - for sorting, machinery hire, and collective marketing and transportation services was developed to evaluate the potential within the scope of the project. The project was able

to define a positive net incremental benefit of LKR 10,683,325 (or USD 72,675 equivalent) and NPV is LKR 15,755,524 (or USD 107,180) per operation.

22. Operating margins in general show that while there is value addition in service type operations - like milk collection centers, improved feed provision and aggregation of produce - the bulk of the margin goes to the farmer, through individual operations like pumpkin and chilli seed production. This is an important distinction within the value chain given the purpose of the project to further integrate farmers with the market. See table 1, above.

23. In summary, on average, the project is projected to increase household incomes by 63%, when all activities are taken into consideration.

**Table 2: Impact on Household Income (financial budget, average)**

| Household Income Analysis | | | | | |
|---|---|---|---|---|---|
| | LKR | | USD | | |
| | WOP | WP | WOP | WP | Incr. |
| **Net Agricultural Incomes - Inflows** | | | | | |
| Farm Level Production | 307,325 | 501,545 | 2,091 | 3,412 | 63% |
| **TOTAL NET** | 307,325 | 501,545 | 2,091 | 3,412 | 63% |

### Economic Analysis

24. **Benefit Stream.** The analysis identifies possible quantifiable incremental benefits generated by SAP's implementation. The benefits stream corresponds to: (i) the farmers' benefits analysed in the financial analysis, i.e. increase and diversification of agricultural production. The financial models previously described are used as the basis of the calculation for the overall (economic) benefit stream, after conversion of the financial prices into economic values.

25. For the purpose of this analysis, the benefits derived from 66,000 households have been aggregated and treated as a whole. The number of physical activities (properly phased in time) was multiplied by their respective net economic returns per unit as calculated in the farm level model budgets.

26. **Cost Stream.** In order to estimate the programme's economic viability, in terms of Economic Internal Rate of Return, the cash flow calculated includes the programme base costs (as extracted from the COSTAB tables) with their physical contingencies. These costs include all investment and recurrent costs for components 1 and 2, and 3. All investment, replacement and recurrent costs related to the farm models are already taken into account in the calculation of the models' profit margins for each farm level model.

27. **Programme Level Analysis.** For the purpose of the analysis, the social discount rate or opportunity cost of capital used for calculation of EIRR and NPV was 9.16%, based on: (i) Average 10 year Sri Lankan Government bond yield of 6.8% (Cbonds, January 2016); (ii) four year average Rupee deposit rate of 9.16% (CBSL, 2016 and WB); (iii) Interest rate spread in Sri Lanka of 5% (CBSL, 2016) and (iv) three-year average GDP growth rate of 4.2% per annum. Using the Ramsey formula and the elasticity of marginal utility of consumption at an estimated figure of two, the social discount rate was determined as eight percent. To remain conservative the higher value of average deposit rates for the past four years was used for the calculations, i,e, 9.16%.

28. The burn rate of funds was taken from the Costab tables, based on disbursements per annum, while a conservative rate of adoption of 75% was used, to account for a dropout rate of 25%.

29. Overall project analysis suggests an EIRR of 52% and an NPV of USD 349,708,192 over a twenty year period. Gross value of production increases approximately 56% from the without situation, while outflows increase 65%, including labour.

30. **Sensitivity Analysis**. The sensitivity analysis assessed the effect of a number of adverse scenarios that might occur during the lifetime of the project and their possible impact on the project, in terms of benefits and cost, a time lag of two years, two crop failures and a decline in market prices. The sensitivity analysis was conducted for a number of negative scenarios and found the EIRR to remain robust with no negative returns in all 11 scenarios. The impact of such scenarios on the EIRR and NPV were recorded and are presented in the summary table below:

**Table 3: Summary of Sensitivity Analysis**

| Scenario | EIRR (%) | NPV (USD) |
|---|---|---|
| *Discount rate = 9.16%* | | |
| 1. Base case | 52 | 349,708,192 |
| 2. Cost overrun by 10% | 48 | 341,010,698 |
| 3. Cost overrun by 20% | 44 | 332,313,203 |
| 4. Prices decline by 10% | 45 | 298,205,422 |
| 5. Prices decline by 20% | 39 | 246,702,653 |
| 6. Decrease in benefits by 10% | 48 | 306,039,878 |
| 7. Decrease in benefits by 20% | 43 | 262,371,565 |
| 8. Benefits delayed by two years | 32 | 257,672,131 |
| 9. Crop loss to natural disaster (1st occurrence) | 32 | 258,674,721 |
| 10. Crop loss to natural disaster (1st & 2nd occurrence) | 31 | 220,680,656 |
| 11. Events 3, 7 and 10 occur | 12 | 38,532,519 |

31. The lowest recorded EIRR occurs during a highly unlikely scenario where costs overrun by 20%, benefits decrease by 20% and two natural disasters occur during the lifetime of the project. Despite this the EIRR remains above the OCC of 9.16% at 12%. While the model suggests failure across the board, it is more likely that crop failure will remain specific to a particular crop or area rather than all over the project area. Given that prices used in the analysis are in constant terms, one can also assume that further cushioning from price changes is inevitable given the project's position to improve prices based on collective and collaborative action for joint purchase of inputs and organisation of transport and sales. These were not factored into the analysis.

### Non-Quantifiable Benefits

32. In addition to the quantified benefits described above, the SAP is expected to generate a number of benefits that would be extremely difficult to evaluate in monetary terms. The loss of soil, soil erosion, water usage and health and nutrition benefits were not quantified by the field team during the mission. Reliable data and the issue of negative accounting were major issues in trying to establish a method of their measurement.

# Appendix 11: Draft programme implementation manual

1. The SAP draft Programme Implementation Manual (PIM), will draw heavily on the existing PIM of NADeP. Amongst other things, the SAP PIM will include the refined selection and eligibility criteria, 4P evaluation processes and procedures, and the refined tools specific to the programme's conceptualisation and specificities.

2. The draft PIM will be prepared ahead of the loan negotiations, although an outline of the draft PIM table of contents is provided below.

**SAP Programme Implementation Manual – Table of Contents**

Section I – Introductory Section

- I. Background, Goal and Objectives
- II. Programme Components
- III. Guiding Principles of SAP
- IV. Target Group and Targeting (incl. Gender Strategy)
- V. Programme Organization and Management

Section II - Component 1 – Access to commercial partnerships

- I. Objective and Methodology
- II. Implementation – (i) 4Ps; (ii) institutional strengthening/ capacity building of FOs and youth; and (iii) policy engagement – Selection criteria; processes and procedures (incl. appraisal, 4P development, etc.); implementation responsibilities
- III. Monitoring and Evaluation
- IV. Audits

Section III - Component 2 – Access to rural finance

- I. Objective and Methodology
- II. Underlying Principles
- III. Credit Facility / Line of Credit (incl. pricing of the facility)
- IV. Loan Products and Eligible Activities – Terms and conditions
- V. Selection of PFIs
- VI. Role and Responsibilities of CBSL and Participating Financial Institutions (PFIs)
- VII. Capacity Building and Training – CBSL; PFIs and end-beneficiaries
- VIII. Accounts and Financial Statements
- IX. Refinance Procedure
- X. Repayment of Sub-Loans
- XI. Action for Defaulters
- XII. Disbursement of Programme Funds – Subsidiary Loan Agreements
- XIII. Auditing of Accounts
- XIV. CBSL Capacity Building and Training XV.
- PFI/ MFI Capacity Building and Training XVI.
- Operationalisation of the Microfinance Act XVII.
- CRIB Credit Scoring System
- XVIII. Other

Section IV – Monitoring and Evaluation (M&E)

- I. Objectives, Type of Monitoring and Programme Indicators

II. Logical Framework and the AWPB

III. Data Collection and Monitoring Tools – Baseline/ outcome/ impact surveys; environmental impact assessment; special studies; field-level M&E tools; programme completion report; geographic and management information system

IV. Organizational Arrangements – Collection and reporting responsibilities

V. Support to the M&E system – Capacity building, technical assistance

Section V – Financial and Adminstratiave Procedures Manual

I. Organizational Basics

II. Administration – PMU; office administration; correspondence; information/ communication systems; documents archiving and storage; official travel

III. Personnel – Type of ocntracts; recruitment procedures; admin of personnel; consultants; remuneration

IV. Assets Management

V. Procurement

VI. Financial Management

VII. Accounting Procedures

ANNEXTURES

Annex I: ToRs for SAP Staff

Annex II: Guidelines for Business Plans - Component 1

Annex III: Sample Agreement between SAP and respective private sector partners/ companies

Annex IV: Sample Subsidiary Loan Agreement

# Appendix 12: Compliance with IFAD policies

## A. Overview of complicance with IFAD policies and guidelines

| Policy | Compliance |
|---|---|
| IFAD Strategic Framework 2016-2025 | The SAP programme is fully aligned with IFAD's Strategic Framework 2016-2025, in pursuit of the mutually reinforcing strategic objectives, especially by way of promoting investment in productive capacities and encouraging better and deeper market participation (and benefits) through the vehicle of 4Ps. The principles of engagement (targeting; empowerment; gender equality; innovation, learning and scaling up; and partnerships) are furthermore, fully embedded in the programme, through the programme 4P and institutional strengthening approach, and operating modalities. |
| Sri Lanka 2015-2020 COSOP | IFAD's particular comparative advantage in support of national (Government of Sri Lanka) priorities are reflected in the current 2015-2020 COSOP and its two development 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.<br><br>The SAP programme responds to both COSOP development objectives through the promotion of 4Ps. Viable 4P arrangements/ models are aimed at improving marketing and (quality) product enhancement to meet current market demands, and overall contributes to national agricultural competitiveness; the process of appraising 4Ps for environmental and climate change aspects also builds resilience considerations into the 4P arrangement.<br><br>Finally, the underlying principle of partnering with the private sector, ensures that the core target group has a ready market for their produce; forward sales agreements are a basic element of the 4P arrangement. |
| Environmental Natural Resource Management (ENRM) Policy | Compliant. See SECAP review note below. |
| IFAD's Climate Change Strategy | Compliant. See SECAP revie note below. |
| IFAD's Policy for Gender equality and Women's empowerment | SAP is fully aligned with IFAD's policy for gender equality and women's empowerment. Refer to Appendix 2 for detaile regarding the gender checklist. |
| IFAD's Rural Finance Strategy | SAP is heavily focused on strengthening financial inclusion. Support for an enabling and regulatory framework (including operationalization of the new Microfinance Act), capacity building of financial institutions and target group clients, and new services and products are just some examples of how SAP intends to pursue the inclusive rural finance agenda. The |

| Policy | Compliance |
|---|---|
| | mobilization of savings also features strongly in the design.<br>With regards to the SAP LOC, see below for the specific section on SAP's compliance with the IFAD guidelines on lines of credit. |
| IFAD's Strategy for Private Sector and 4Ps | SAP fully encompasses the principles behind IFAD's strategy as relates to private sector engagement and 4Ps, and operationalises these principles through the promotion of 4Ps. Notably, SAP also introduces a strengthened focus on capacity building and inclusion of producer/ farmer organizations in the 4P scheme as true partners, moving beyond outgrower models, and to take on progressive responsibility for primary processing. |
| IFAD's Knowledge Management Strategy | Within and across components, learning, knowledge sharing and management are fully embedded in the SAP programme, especially with regards to knowledge management as a fundamental element for policy engagement and strengthened partnership across stakeholders. |

**Overview of compliance with IFAD guidelines on Lines of Credit -** according to the IFAD Rural Finance Policy and IFAD: "How to do lines of credit" (2014), credit lines for on-lending are subject to the following conditions:

| Condition | Compliance under SAP |
|---|---|
| The market demonstrates a clear lack of liquidity; | As Appendix 2 has demonstrated, commercial banks and MFIs are not long of liquidities, but have tied up their loanable funds to the extent possible; |
| Private professional fund managers and not the recipient government, manage the line of credit; | While this is an ideal situation, or to be applied where a LOC has not been operated before, this guidance should be overruled if there is a well-functioning system within the country, which is mandated to handle all lines of credit. This is the case in Sri Lanka, where all past lines of credit funded by IFAD and other donors has been handled very satisfactorily by the CBSL. Vesting the function with a commercial bank and much higher costs would simply not be acceptable to GOSL. |
| Loans to retail financial institutions are priced at commercial or near-commercial rates to avoid undermining their incentive to mobilize deposits or access other sources of capital; | • This has been complied with, as loans granted by PFIs under the LOC shall cover cost of funds, operating costs and risks, and a profit margin as well.<br>• Furthermore, most of the devaluation risk has been included in the mode of calculation.<br>• In case funds under the LOC would be passed on by the PFIs at their standard rates, the difference resulting from different cost of funds, the PFIs would increase their margin unnecessarily. |
| Partner retail financial institutions are financially sound, independent from political interference and free to charge interest rates that allow cost recovery; | One of the eligibility criteria for PFIs is financial soundness. PFIs, including MFIs, are shareholding companies, and decisions are made by their management and boards. Interest rates for standard business are calculated on a weekly basis by the bigger commercial banks, and determined in accordance with market trends. This would not exclude that many banks do provide concessional rates out of a CSR to disadvantaged groups, such as the youths, women and farmers. The latter should be seen as sign of commitment to do whatever is possible without incurring losses. So far, the banks collaborating with IFAD had very low non-performing loan rates, as low as 0.2% in the case of HNB, |

| | |
|---|---|
| | and are willing to continue serving smallholders as long as this remains the case, as they can almost cover their operating costs from the margins permitted. |
| Partner financial institutions have the capacity to efficiently and transparently absorb and manage the financial resources; | • This is a condition for screening, and all PFIs that served under IFAD projects before, are willing to continue providing their services.<br>• While cost of funds, operating costs and provisions for loan losses are available from the published annual statements, banks to not reveal these data regularly to outsiders, in view of the competition in the market. It can be safely assumed that this condition is fully met. |
| Opportunities exist to create linkages with other sources of refinancing that will continue after the project ends; | Most of the funds used for refinancing PFIs are coming from the GOSL, in fact reflows of past LOC. Provisions have been made to merge all LOC funded by IFAD into one facility. |
| Accountable reporting and supervision arrangements can be put in place until the line of credit is repaid. | This has been the case in the past. The SAP emulates most of the arrangements under previous IFAD-funded projects with LOC. There is no reason why this condition will not be met. |

## B. Social Environmental and Climate Assessment Procedures (SECAP) Review Note

### I. Major landscape characteristics and Issues (social, natural resources, and climate)

1. SAP (Sri Lanka) is designed with a country-wide focus. The exact locations and types of agricultural ventures for the Public-Private-Producer-Partnerships (4P) programmes are to be determined based on the private sector proposals. However, IFAD's focus lies in rural poor in agricultural areas of North Central province, Uva Province, Northern Province (resettled areas) and parts of Central Province, where the concentration of poverty is higher. The identification of issues and the discussion of adaptation measures in this review note will be with reference to this general context.

#### 1.1. **Socio-cultural context**

2. *Demographics:* Sri Lanka's population is approximately 20.3 million occupying a land area of 65610 square kilometres. It is one of the countries with high population density (309/km$^2$) by global standards. The rural urban division is 75:25 in terms of percentage of the population. The median household size is 4 members (average is 3.9). This is distinctly lesser than the average in the South Asian region. Nearly 30 percent of the labour force is directly or indirectly involved in the agricultural sector. The society is multi-ethnic and multi-religious with a majority (74.8%) of Sinhalese identity.

3. *Health:* The public health infrastructure in Sri Lanka is strong and public-funded. The life expectancy is 72 years for males and 78 years for females. Sri Lanka leads the region in almost all public health indicators with low infant and maternal mortality. Due to low birth rate and increased longevity, Sri Lanka is programmeed to have an aged population compared to other South Asian countries. However, child and maternal malnutrition remains an issue with 18 percent of babies born with low birth weight and high prevalence of wasting. Non-communicable diseases such as diabetes and hypertension are increasingly becoming significant. There is a high incidence of chronic kidney disease in the recent past, reported mainly in rural areas. Agricultural related pollution is a significant threat to farmer and consumer heath due to misuse of agrochemicals.

4. *Gender:* Gender disparities are lesser than other South Asian countries in terms access to opportunity and social recognition. However, gender wage gaps still persist in the informal sector. Agricultural land tenure remains an issue with gender implications due to male line inheritance of

property. Female participation in the labour force is lower than 40 percent. Traditionally, females take on the household responsibilities including child care. These responsibilities lead most women to drop out from the labour force, at least temporarily, often for long term. Significant numbers of poor rural women migrate as domestic aides to Middle-eastern and several European countries.

5. *Poverty:* The poverty levels of Sri Lanka have come down from a head count ratio of 15% in 2005 to 7% based on the national poverty line in 2015. While these rates are encouraging the income poverty is prevalent in pockets. According to the Human Development Index (HDI), Sri Lanka records a value of 0.757 compared to the South Asian average of 0.607 and world average of 0.711. There are disparities of economic well-being across different parts of country with wealth and opportunity concentrated in the urban areas. Income inequality is 'moderate' with a Gini index of 0.4. Pockets of poverty persist in the Uva province, North central province, Northern Province (resettled areas) and the estate sector in the Central province.

### 1.2. **Natural resources and NRM**

6. Sri Lanka is rich in fertile land and forest resources, with a forest cover of 30% by land area. The country has year-round access to natural and human-made water resources and a climate conducive to agriculture. Four major rivers and a number of small rivers flow radially through the country, providing the basis for irrigation and hydropower generation. Sri Lanka's water resources support agriculture island-wide but the water use efficiencies are low. Water availability is largely seasonal with 80% of rainfall occurring during the two main monsoons and nearly two thirds of the country experiencing drought during the dry season for up to six months.

7. *Biodiversity*: Sri Lanka is high in habitat and species diversity and is one of 25 biodiversity hotspots in the world. It has the highest biodiversity density in Asia. An estimated 27% of the flowering plants and 22% of the mammals are endemic. Forestry resources are the primary habitat for the wealth of biodiversity (flora and fauna). The country is also rich in agricultural biodiversity (agrobiodiversity).

8. Forests: Sri Lanka has a forest cover of 30% (including secondary forests) and has experienced a large deforestation rate historically, propelled by agricultural and urban expansions. Agricultural activity has been identified as a key driver of deforestation (UNREDD, 2016[68]) among others. The major vegetation types are tropical moist broadleaf forests and tropical dry forests. Sparse forests are observable in the dry zone and grasslands are not significant in acreage. The annual deforestation rate is 1.14% according to FAO estimates. The National Forestry Master Plan (1995) promotes assisted natural regeneration, enrichment planting, forest conservation, timber and fuel-wood plantations, watershed protection and restrictions on logging.

9. *Water*: There are 103 radial river basins in Sri Lanka with considerable variations in hydrological characteristics. The Mahaweli river system is the longest originating from central highlands and flowing through north central dry zone to the eastern coast. Sri Lanka depends primarily on its surface water resources for agricultural, domestic and industrial uses. Agriculture is largely sustained by direct rainfall and irrigation water extractions from rivers. River water is used to generate hydroelectricity and irrigation depending on the topographic characteristic of the river basin. Nearly 40 % of the power supply is generated through river-based hydroelectricity generation. The environmentally hazardous use of river basins include sand mining and waste water disposal. Seasonal flooding is increasingly observed due to siltation and diversion of the rivers to facilitate human activity. Agriculture accounts for about 85% of total water use, with domestic water supply and industry accounting for the remaining 15%. Most water used is surface water, with groundwater use of less than 5% of the total water stocks. Water for agriculture is drawn from monsoon precipitation and an extensive irrigation system of reservoirs. Agro-wells tap the sub-surface water resources. Water is an open-access resource for agriculture.

[68] UN REDD (2015), Drivers of Deforestation, Report compiled the policy and consultative evidence for Sri Lanka REDD readiness.

10. *Land Use:* Small-scale agricultural holding size is determined based on the land use types: In major irrigation systems (identified under the irrigation act of the country), this includes per household allocation 3 acres of low land to cultivate paddy (rice), 2 acres of high land to cultivate field crops /vegetables and 0.5 acres of homestead. This land use restriction was institutionalized for major irrigation areas several decades back during the agricultural resettlement programs around major river systems. These land holdings have undergone further division among the family members during two generations to smaller holding sizes observed today. Small-holder livestock sector is largely dependent on open-access grasslands for fodder and open-access water sources.

### 1.3. **Climate**

11. Sri Lanka is vulnerable to a number of impacts of Climate Change including the rise in surface temperature, changes in the amount and pattern of precipitation, increase in extreme climate/weather events and sea level rise. Potential change in the country's climate is reported in a number of research studies (Chandrapala 1996; Basnayake et al. 2002; Zubair et al. 2005, Ratnayake and Herath 2005[69]), which have been cited in the third and fourth assessment reports of the IPCC (IPCC, 2007)[70].

12. IPCC regional programmeions based on AR4 scenario of GCMs suggest a significant acceleration of warming in Asia. Warming will be stronger than the global mean in South Asia while higher warming is programmeed during the Northeast monsoon than during the Southwest monsoon (Cruz *et al*. 2007[71]). Rainfall programmeions for Sri Lanka are less straightforward. Basnayake and Vithanage (2004)[72] report an increase in rainfall during the Southwest monsoon (mainly to the wet zone) and a decrease in Northeast monsoon rainfall (the season which mainly brings precipitation to dry zone) for a range of IPCC scenarios (A1, A1FI, B1, A2 and B2). IPCC predicts an increase in the occurrence of extreme weather events including heat waves and intense precipitation events in South Asia. Inter-annual variability of daily precipitation during the Southwest monsoon is programmeed to increase. Ahmed et al. (2009)[73] predict that the frequency of extreme wet events may increase by as much as 400% in India and Sri Lanka.

13. Sri Lanka's long-term mean annual temperature in the lowlands is 27 °C. An altitude-based reduction of temperature is observable in the central highlands. Mean annual precipitation varies from under 1,000 mm in the North-western and South-eastern coastal areas to over 5,000 mm in the western slopes of the highlands located in the center of the island. The spatial pattern of precipitation is influenced by topography and there are two seasonal wind regimes (Chandrapala 1996)[74]. The Southwest monsoon (SWM) is from May to September and the Northeast monsoon (NEM) from December to February. There are two inter-monsoons: March to April (first inter-monsoon (IM1)) and October to November (second inter-monsoon (IM2)). Based on the precipitation received in these

[69] Ratnayake, U.; Herath, G. 2005. Changes in water cycle: effect on natural disasters and ecosystems. Proceedings of Workshop on Sri Lanka National Water Development Report, eds. Wijesekera, N. T. S.; Imbulana, K. A. U. S.; Neupane, B. Paris, France: World Water Assessment Programme. Paris, France

[70] IPCC. 2007. Climate Change 2007: Synthesis Report. Contribution of Working Groups I, II and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, Core Writing Team, Pachauri, R.K; Reisinger, A. (eds.). Geneva, Switzerland: IPclimate change. 104 pp

[71] Cruz, R. V.; Harasawa, H.; Lal, M.; Wu, S.; Anokhin, Y.; Punsalmaa, B.; Honda, Y.; Jafari, M.; Li, C.; Huu Ninh, N. 2007. Asia. Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Parry, M. L.; Canziani, O. F.; Palutikof, J. P.; van der Linden, P. J.; Hanson, C. E. eds. Cambridge, UK: Cambridge University Press. pp 469-506.

[72] Basnayake, B. R. S. B.; Vithanage, J. C. 2004a. Future climate scenarios of rainfall and temperature for Sri Lanka. Proceedings of the 60th Annual Session of Sri Lanka Association for the Advancement of Science (SLASS). Section E1. pp 222.

[73] Ahmed, S. A.; Diffenbaugh, N. S.; Hertel, T. W. 2009. Climate volatility deepens poverty vulnerability in developing countries. Environmental Research Letters 4

[74] Chandrapala, L. 1996. Long term trends of rainfall and temperature in Sri Lanka. In:Climate Variability and Agriculture, Abrol, Y. P.; Gadgil, S.; Pant, G. B. (eds.). New Delhi, India: Narosa Publishing House. Pp 153-162.

monsoons, the country is demarcated into three climatic zones: Wet Zone, Dry Zone and the Intermediate Zone (Figure 1).

14. Sri Lanka's warming trend for last century is 0.003 °C per year (IPCC, 2001[75]). Mean daytime maximum and mean night minimum temperatures have both increased with trends of 0.026 °C and 0.017 °C per year, respectively (Zubair et al. 2005[76]) during the last four decades, signalling a significant increasing rate. The localised warming trends are summarised in Figure 2.

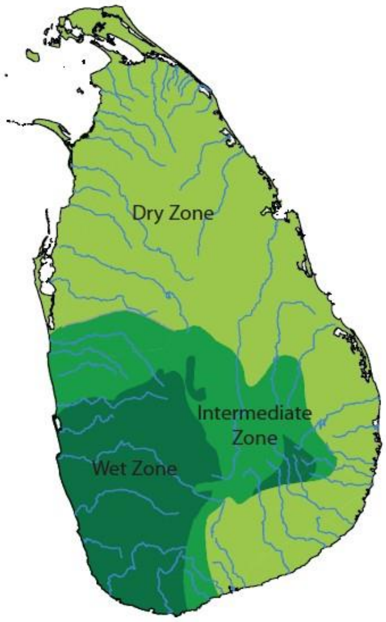



Figure 1: Climatic zones

[75] IPCC. 2001. Climate Change 2001: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Third Assessment Report of the Intergovernmental Panel on Climate Change, McCarthy, J.; Canziani,O.; Leary, N.; Dokken, D.; White, K. (eds). Cambridge, UK: Cambridge University Press.

[76] Zubair, L.; Hansen, J.; Chandimala, J.; Siraj, M. R. A.; Siriwardhana, M.; Ariyaratne, K.; Bandara, I.;Bulathsinghala, H.; Abeyratne, T.; Samuel, T. D. M. A. 2005. Current climate and climate change assessments for coconut and tea plantations in Sri Lanka. IRI, FECT, NRMS and UoP Contribution to AS12 Programme Report START, Washington, DC., USA.

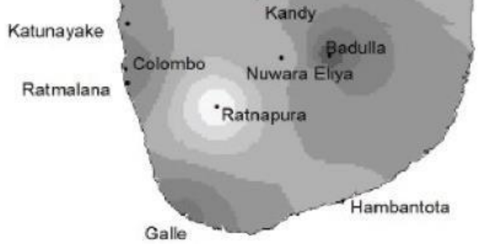



Figure 2: Warming trends by location (*Source:* Zubair et al. 2005)

15. El Niño-Southern Oscillation (ENSO) is found to influence precipitation in Sri Lanka (Suppiah 1996)[77]. There are mixed findings about the trends in precipitation over the longer term. The majority of the studies indicate a declining trend. However, all the studies report increasing variability. Although no significant changes in rainfall amount have been observed during the SWM and IM2, rainfall in the NEM (corresponding to the '*Maha*' season when the majority of dry zone agricultural areas in the country receive rainfall) and IM1 has reduced, with NEM showing increased variability (Jayatillake et al.2005[78]). The intensity and frequency of extreme climate events (floods and droughts) have increased in recent times triggering natural disasters (Imbulana et al. 2006[79]). South-western Districts (mainly Ratnapura and Kalutara) have been experiencing floods twice a year. However, the number of flood incidences has increased to four times a year (with at least one severe event) since 2008, as a result of scattered rainfall episodes of high intensity. High intensity rains are usually accompanied by landsides on mountain slopes.

16. Several programmeed climate scenarios on temperature based on IPCC climate change modeling platform relevant to Sri Lanka (and South Asia) are summarised in Table 1.

Table 1:Potential temperature scenarios relevant to Sri Lanka

| **Source** | **Climate Model** | **Scenario** | **Programmeed temperature variation** |
|---|---|---|---|
| IPCC 2007 | AOGCM | A1FI | +5.44 oC. (South Asia) |
| | | B1 | +2.93 oC (South Asia) |

[77] Suppiah, R. 1996. Spatial and temporal variations in the relationships between the Southern Oscillation phenomenon and the rainfall of Sri Lanka. International Journal of Climatology 16(12): 1391-1407

[78] Jayatillake, H. M;, Chandrapala, L.; Basnayake, B. R. S. B.; Dharmaratne, G. H. P. 2005. Water resources and climate change. Proceedings of Workshop on Sri Lanka National Water Development Report. Wijesekera, N.T. S.; Imbulana, K. A. U. S.; Neupane, B. eds. Paris, France: World Water Assessment Programme (WWAP).

[79] Imbulana, K. A. U. S.; Wijesekera, N. T. S.; Neupane, B. R. eds. 2006. Sri Lanka National Water Development Report. MAI&MD, UN-WWAP, UNESCO and University of Moratuwa, Sri Lanka, Paris and New Delhi.

| | | | |
|---|---|---|---|
| Basnayake et al. 2004[80] | Reduced versions of HadCM3, CSIRO, CGCM | A1FI | +2 to +3 oC (Sri Lanka) |
| De Silva 2006[81] | Reduced version of HadCM3 | A2 | +1.6 oC by 2050 (Sri Lanka) |

17. Climate change has impacts on Sri Lankan rural agriculture mainly through the changes in seasonality of precipitation. Monsoon rains occur in a bi-modal pattern every year: first monsoon brings rains to the island from South-Western direction. The South and South-Western and the central regions of the island receive annual precipitation above 2500mm as a result. The second monsoon enters the island from North-Eastern direction. The Eastern, North Central and Northern regions receive an annual rainfall exceeding 1750 mm as a result. In between the two main monsoons, there is inter-monsoon precipitation which occurs in all the coastal regions with varying intensity.

18. Precipitation replenishes the extensive river and reservoir system which serves as the backbone for agricultural water requirement in the dry periods. Based on the field experience during the SAP design mission, the farmers' cropping pattern and cropping decisions do not show significant variations that could be attributed to climate change. However, there is increasing evidence of delays in planting decisions (sometimes as long as for four weeks in the life of a 12 week crop) due to variations in the precipitation pattern. Climate change introduces a substantial variability in the annual precipitation ranging from 800 mm to 5000 mm.

19. Variations of daylight hours and temperature anomalies do not display observable grassroots level impacts on the staples and field crops that are cultivated in the dry zone, at least from farmer experience. However, there is a need to validate the impacts of changes of daylight duration and temperature anomalies on yields through research studies at the field level. Drought tolerant and flood/salinity resistant varietal development has been an agronomic priority for crop development at the national policy and research institutional level (especially at Rice Research and Development Institute and Field crop research and development institute). For rice and field crops, there had been development of drought tolerant varieties in terms of the water requirement and the length of the crop cycle. Further, prolonged droughts have implications for livestock husbandry in terms of direct water requirement, ambient temperature and water for fodder establishment.

20. South Asia is identified by UNFCCC as a high risk region for climate impacts. Climate change studies collectively highlight the variability of precipitation and drought incidence as preliminary climate related challenges. Secondary challenges arising from these primary threats include prolonged droughts and flash floods. IWMI (2010) programmes a rise in mean temperature by 0.9 to 4ºC for Sri Lanka (over the 1961-1990 baseline) by the year 2100 and calculates a potential increase in '*Maha'* (Nov-Feb) season irrigation water requirements for paddy to the degree of 13 to 23% by 2050. Programmeions based on the HadCM3 circulation model (IPCC) anticipate a decrease in North East Monsoon rainfall between 34% (A2 scenario) and 26% (B2 scenario) by the 2050 and temperature increases of 1.5 to 2ºC.

21. In terms of specific locations that the SAP design mission in Oct-Nov 2016, four of the six locations visited were around the administrative district of Anuradhapura. It is locate in the Dry Zone (Agro-climatic area) and records a mean annual precipitation of 1,298mm. Comparing the rainfall trends between 1949-1959 and 2000-2010, annual precipitation has declined by 7%. Anuradhapura receives rainfall from both Monsoons. Mean precipitation for the North Eastern Monsoon is 903 mm.

---

80 Basnayake, B. R. S. B.; Rathnasiri J.; Vithanage J. C. 2004. Rainfall and temperature scenarios for Sri Lanka under the anticipated climate change. Paper presented at 2nd Aclimate change Regional Workshop for Asia and the Pacific, Manila, Philippines

81 De Silva, C. S. 2006. Impacts of climate change on water resources in Sri Lanka. Paper presented at the 32 nd WEDC International Conference, November 13-17, 2006, Colombo, Sri Lanka

comparing the two time points, there is only a 1% decline in precipitation in this monsoon. However, the precipitation from the South Western Monsoon declined by 19% between the two time points.

22. The agricultural sector in Sri Lanka contributes to carbon emissions through deforestation for agricultural land use and land management practices (i.e. fertiliser, soil carbon stocks) mainly. The poor logistics and poor road infrastructure also contribute to agriculture-related emissions.

23. Sri Lanka's forest distribution is expected to be substantively affected by climate change , with increases in tropical very dry (5%) and tropical dry forest (7%) and a decrease in tropical wet forest (11%) areas (Somaratne and Dhanapala 1996[82]).

24. Impacts of climate change on agriculture may negative influence the country's economy. Seo et al. (2005)[83] find that nationally, the impact on agriculture (rice, tea, rubber and coconut) will result in economic losses up to 20%. Significant positive economic impacts are also predicted based on alternative scenarios of HadCM3, CSIRO, CGCM, and PCM models. The drought risk is prominent in the Dry zone of the country (agro climatic zone with annual rainfall below 750 mm annual precipitation). Monsoon rainfall intensities lead to an annual flooding pattern in low lands of Wet zone affecting livelihoods of (nearly) half a million citizens every year. Given the small size of the island, extreme weather events such as super storms and Tsunami are potential high risk factors.

### 1.4. **Key Issues**

25. With reference to the socio-cultural context, the potential concerns for SAP targeted areas include the following:

- Households in the programme areas are highly reliant on agricultural land for income generation and food security. The market-linked agricultural value chains will further increase the pressure for land acquisition and/or conversion. Land ownership is an unresolved issue in resettled areas both in historical agricultural settlements and the recent post-conflict resettlements. Lack of private titles to land hinder development of the land and contribute to low productivity. Low land productivity remains a longstanding problem in the Sri Lankan smallholder agriculture.
- Lack of youth participation in agriculture remains a significant limitation to modernisation of agriculture. Significant economic migration of youth to the cities poses a challenge to seasonal labour needs of agriculture.
- Farmer health has risen to be a national issue. Surface water contamination from agricultural run-off is a significant threat to both the environment and farmer health The prevalence of chronic kidney disease (CKD) has been reported recently around intensive agricultural areas (the scientific basis of CKD incidence is still under investigation). Lack of safety guidelines and absence of training in occupation hazard prevention worsen the situation.
- Nutritional security is a key social and public health issue. Low birth weight (18% of the babies born below beyond 2.5 Kg) and wasting are recorded as areas for concern relative to other countries of comparable circumstances.

26. With reference to climate and environment**,** Sri Lanka is dually challenged. Being an island with large proportion of low-lying land area, sea level rise poses an imminent threat to many livelihoods. High dependence on precipitation for agriculture and power generation makes Sri Lanka vulnerable to variations of weather patterns. Primary environmental and climate issues of critical importance to the SAP targeted areas include the following:

[82] Somaratne, S.; Dhanapala, A. H. 1996. Potential impact of global climate change on forest distribution in Sri Lanka. Water, Air and Soil Pollution 92(1-2): 129-135.

[83] Seo, S. N.; Mendelsohn, R.; Munasinghe, M. 2005. Climate change and agriculture in Sri Lanka: a Ricardian valuation. Environment and Development Economics 10: 581-596.

- Climate change impacts in the form of erratic rainfall may contribute to reduced agricultural productivity (due to delayed or early onset of monsoon rainfall, increased intensity of rains and prolonged drought). Increasing frequency of storms, floods and landslides pose livelihood risks in agricultural sector.
- Land degradation, soil erosion, decline of soil fertility and increase of land salinity remain significant environmental concerns in the targeted areas in North Central Province. This is a result of continuous mono-cropping under inorganic inputs.
- Limited and lack of timely information, both in magnitude and quality, on weather and water resources contribute to the uncertainty of agriculture sector activities.

### II. Potential programme's social, environmental, and climate change impacts and risks

#### 2.1. Key potential impacts

27. Under the 4P model of the SAP, the actual localities and the farmer coverage will be determined through a negotiation process between PMU, promoter company, and other institutional stakeholders. The potential impacts can only be programmeed under several general scenarios at this point. Table 2 outlines several key impacts and potential mitigation strategies.

**Table 2: Potential Negative Impacts of SAP supported programmes**

| Activity | Potential negative impacts | Mitigation strategy |
|---|---|---|
| **Creation of private company centred farmer collectives** | Social cohesion within the village may be weakened due to business-motivated collective formation in contrast to the more traditional farmer collectives based on the irrigation infrastructure and cultural norms. | Participatory training and knowledge dissemination sessions will enhance the bonds between the members of the business-motivated collectives that are targeted by the 4P model.<br>Sensitisation of the farmers to merits and demerits of a membership to private company linkage will increase the farmer understanding of the need to additional institutions to negotiate their interests in addition to the traditional purposes of a farmer collective. |
| | The role of women (and youth) in the created business collectives may deteriorate under a possible male–led structure. | Provisions have to be made to build female and youth participation requirements to the constitutions of the farmer organisations created under the 4P model. |
| **Expansion of agricultural activity for commercial purposes using subsidised / open access resources** | Irrigation infrastructure and water resources are largely publicly owned and in most cases common-access. Under business-led models, exploitation of such resources may exacerbate. | An irrigation water pricing regime can include environmental consciousness into the business plans of the 4Ps. Alternatively, explicit attention should be paid in the investment plans to rehabilitate the irrigation infrastructure and scoping for alternative water sources. At the level of watershed, it is important that 4Ps integrate provisions to ensure data availability (hydrogeological, soil and water quality, sedimentation loads, catchment inflows) that is important to continuous monitoring. |

| | | |
|---|---|---|
| | Exploitation of open–access pastures in dairy farming | Promoting minimum or zero grazing regimes for fodder supply with supplementary establishment of high quality pastures. |
| **Intensive and high input agricultural models** | Potential increase in soil erosion, surface and subsurface water pollution | Soil conservation measures and low chemical input farming will be incentivised both through market segmentation and farmer/ promoter capacity building .<br>As a precondition for approval, the 4P stakeholders will have to enter into an agreement for explicit activities targeting ecosystem restoration. |
| **Promoter company-driven farming technologies** | Potential negative impacts from introduction of inappropriate technologies and gradual disappearance of traditional knowledge. | Safeguards will be articulated to ensure that no invasive alien species are introduced and chemical inputs are used in a judicious manner, and genetic purity of wild relatives and landraces are protected.<br>Furthermore, on-farm trials will have to be undertaken using a participatory action research (PAR) approach. This will facilitate a more rapid identification and adoption of resilient varieties and will help put traditional knowledge to good use. |
| **Incorporation of high value alien crop varieties and livestock breeds** | Potential negative impacts on biodiversity<br><br>Vulnerability of introduced species to climate related pest and disease outbreaks. | Incorporation of crop rotation to retain the agro biodiversity of the targeted localities is necessary. As a partial corrective measure, it is recommended that at least 20 percent of the cultivated area in terms of annual cropping cycle under the 4P programme to allow for natural vegetation or wild crop varieties. Exotic crop species that can spread through natural regenerative means will have to selectively introduced.<br>Cross-breeds and artificial insemination regimes will imply lower preferences to local livestock breeds and their attributes. With time, the livestock types will transition in favour of market-demanded types. This will make the agro-ecosystem poor in terms of diversity while making the introduced breeds managed under semi or fully intensive systems vulnerable to climate-related pest and disease outbreaks . |
| **High agrochemical use in cash crops** | Potential negative impacts from over-use of agrochemicals on human health, surface and groundwater contamination and increased resistance to pests/disease | Precision application of chemical fertilisers and pesticides can be promoted to minimise agrochemical run-off and residue build-up. The supported programmes will be required to provide support on production and application of organic fertilisers (compost) and organic pesticides.<br>It is important to introduce local product and process standards specific to cultivation and management practices in order to incentivise low chemical input farming systems and deter high chemical input methods. |
| **Vertical integration of agricultural** | Elimination of small scale traditional farmers, vendors due | In order to safeguard the interests and protect the livelihoods of the non-beneficiary farmers in the targeted areas, it is important for the SAP to liaise with local |

| | | |
|---|---|---|
| **value chains** | to organised collection and retailing. | agrarian development programs. Such activities may include sponsoring rural infrastructure in non-beneficiary neighbourhoods of the selected target area. |

## 2.2. Climate change and adaptation

28. The potential localities of implementation of 4Ps under SAP are mainly the Dry and Intermediate zones of the country. The possible climate change scenarios and their impacts on agricultural activity will be critical information for establishing suitable adaptation strategies. It is important to summarise the current information on anticipated climate threats to Sri Lankan agriculture as a prelude to a discussion of adaptation strategies.

29. The adaptation scenarios to climate change falls differently on different sectors. This note mainly considers impacts on agriculture. The changes in rainfall and temperature, together with other climatic factors, may increase the average evapotranspiration (1-2% for scenarios B2-A2) and maximum annual potential soil moisture deficit (4-11% for scenarios B2-A2) by 2050. These programmeions will be significant in the Dry zone (where staples and field crops are cultivated intensively) and the availability and reliability of crop water requirements will be under severe pressure as a consequence. De Silva *et al*. (2007)[84] suggest that, by 2050, average paddy irrigation water requirement during the '*Maha*' season will increase by 23 and 13%, respectively, for the A2 and B2 scenarios due to reductions in average rainfall, increase in potential evapotranspiration and early ending of rainfall season. The corresponding water requirements for field crops and semi-perennials, pertaining to 4P programmes will be less than those for paddy. The adoption of micro-irrigation and conjunctive use of ground water and surface water will be necessary as adaptation measures for the potential high water requirements under high evapotranspiration regimes. Low cost soil moisture conservation strategies such as mulching, compost incorporation and minimum tillage could further advance the retention of water in the top-soil.

30. Temperature rise has physiological impacts on plant growth. Punyawardena (2007)[85] states that crop injuries are possible with temperature increases. For paddy, ambient temperature exceeding 35 °C for 60–90 minutes at the flowering stage, can cause crop damages, including high rate of unfilled grains due to increased spikelet sterility. For field crops, temperature damages could be mitigated by considering structures for shading during the most physiological vulnerable stages (i.e. seedling, flowering) and inclusion of trees both as means of partial shading and as natural devices for cooling the ambient temperature.

31. Various combinations of simultaneous hot and wet weather could also be detrimental to plant growth. Mendelsohn *et al.* (2004)[86] finds that, with medium warming and only small increase in precipitation, economics losses of 23% can be programmeed. The largest adverse impacts are programmeed to be in the north-western and south-eastern lowlands in the dry zone, while the wet, high elevation areas are expected to benefit from climate change. As an adaptation measure for combined impacts variations in temperature and moisture, use of semi-protected structures (i.e. partial greenhouses) for high value crops is recommended. Such adaptation measures will have added benefits in pest and disease control.

[84] De Silva, C. S.; Weatherhead, E. K.; Knox, J. W.; Rodriguez-Diaz, J. A. 2007. Predicting the impacts of climate change – a case study of paddy irrigation water requirements in Sri Lanka. Agricultural Water management 93(2007): 19-29.

[85] Punyawardena, B. V. R. 2007. Impacts of climate change on agriculture in Sri Lanka and possible response strategies: Impacts, adaptation and mitigation. National Conference on Climate Change 2007. Centre for Climate Change Studies

[86] Mendelsohn, R.; Dinar, A.; Basist, A.; Kurukulasuriya, P.; Ajwad, M.; Kogan, F.; Williams, C. 2004. Cross sectional analyses of climate change impacts. World Bank Policy Research Working Paper 3350. World Bank

32. Majority of the literature on climate adaptation with reference to Sri Lanka focus on crops and the analyses of impacts of climate change and potential adaption strategies for animal husbandry are rare. Livestock sector programmes under SAP needs to consider climate adaptation seriously given the fact that semi-intensive housing and management practices carried out by 4P programmes are vulnerable to climate related shocks with regard to water, fodder, disease outbreaks and heat stress. Suitable adaptations include use of semi-automated drinking devices (i.e. siphons), use of fodder mixes including local herbs with rotational grazing, rainwater harvesting for livestock use, establishment of shade trees that can contribute to fodder supply. Development of climate–tolerant cross-breeds is another useful adaptation approach but may be costly depending on the context.

33. In summary, the likely climate scenarios and programmeed impacts signal high risks for Sri Lankan agriculture sector, especially for the small-holder sector which does not have ready access to risk-mitigation tools. In terms of adaptation at the farm level, improved techniques of soil and water conservation, good agricultural practices, appropriate selection of crops can reduce the exposure to climate induced risks. At the community level, environmental education and building capacity on climate resilient farming is mandatory through targeted advisory and extension services. Early warning systems and access to financial and economic instruments of risk mitigation such as weather-indexed insurance will further reduce the uncertainty in farming. The availability of proper risk management may also reduce the likelihood of farmers resorting to inappropriate approaches to risk reduction such as overuse of agrochemicals and manipulating harvesting (i.e. early harvesting)and post-harvest practices (i.e. forced ripening).

## III. Environmental and social category

34. The programme's potential negative impacts in the spheres of environment and social aspects are identified and mitigation measures discussed in the previous sections. Thus, in line with IFAD's Social, Environmental and Climate Assessment Procedures, the SAP programme is classified as relevant to Category B of environmental and social impact.

## IV. Climate risk category

35. The potential climate risks are discussed in detail in the previous sections. The capacity building and policy engagement provisions under SAP have helped articulate strategic and practical measures for the programme to contend with climate change impacts, and in this regard, the programme's overall focus on sustainable agriculture can be considered a climate change adaptation strategy compared to conventional agriculture. Environmental and climate safeguards can be integrated into the programme to address negative impacts. Considering potential climate impacts on potential/targeted areas in the country and the measures included in the programme for building adaptive capacity, and ecosystem and community resilience, the Climate Risk Category is assessed as Moderate**.**

36. Preliminary Climate Risk Screening of the potential programme target area is recorded in table 3.

Table 3: Preliminary climate risk screening

| Question | Yes | No | Additional Explanations |
|---|---|---|---|
| Is the target group of the programme dependent on climate-sensitive natural resources (such as drought-prone crops, rainwater-fed agricultural plots, migratory fishstocks)? | | X | Agricultural systems under SAP have been selected through substantive experience both with the promoter companies and farmers. However, exceptions to this norm exists in the general farming experience in Sri Lanka (i.e prawn farming which failed under local |

| | | | |
|---|---|---|---|
| | | | conditions) |
| Has the programme area been subject to extreme weather events in the past, such as flooding, drought, tropical storms, or heat waves? | X | | Anuradhapura district is exposed to a six month drought period annually, irrigation tanks, agrowells and tube wells however help farmers adapt to the water shortages. Flooding has been experienced but with a low frequency (once in ten years). |
| Could changes in temperature, rainfall, or extreme weather affect the programme impact, sustainability or cost over its lifetime? | X | | Climate conditions can affect the programmes related agricultural output. The long term experience by the farmers are seasonal economic losses of 15-20%. |
| Will climate variability likely affect agricultural productivity within the programme (crops/ livestock/fisheries) or incidence of pests and diseases? | X | | Open field conditions are susceptible to climate related pest and disease outbreaks. |
| Would weather-related risks or climatic extremes adversely impact upon key stages of identified value chains in the programme (from production to markets)? | | X | Company-linked systems have risk mitigation tools built into them and season to season coordination based on advanced information than would not be accessible to a farmer alone. |
| Does the programme have potential to integrate climate resilience measures without extensive additional costs (such as applying improved building codes; expanding capacity building programmes; or including climate risk issues in policy processes) | X | | As was discussed under the section on 'climate adaptation', there are low cost alternatives of enhance climate resilience. |
| Would the programme benefit from a more detailed climate risk and vulnerability analysis to identify the most vulnerable rural population, improve targeting and identify additional complementary investment actions to manage climate risks? | X | | As a measure of creating future sustainability in a publicly supported programme, a detailed climate risk assessment is suggested especially when novel product and management systems are adopted as part of 4Ps. Time-tested crops and livestock have the advantage of being informed by indigenous knowledge and community practices which may not be available for novel crops and livestock types centred on a market driven agribusiness model. |

## V. Recommended features[87] of programme design and implementation

### 5.1. **Mitigation measures**

[87] Guidelines as to what constitutes ENRM Core Principles and Best-Practice Statement can be found in IFAD 'Environment and Natural Resource Management Policy' (2011)

37. At the point of initial screening and subsequent technical evaluation (TEC) of each proposed 4P programme, a committee consisting of expertise (also) in environmental science is recommended. This will enhance the capacity of both the PMU and promoter to develop investment and operation plans taking into account the environmental issues in the targeted locality. At the final technical clearance of the 4P programme by National Steering Committee (NSC), it is important that clear terms of reference be required from the promoter company/institutions regarding the social and environmental expectations of the programme.

38. Water budgeting and analysis of water use efficiency should be integral to the screening and implementation of 4Ps under SAP . The analysis will include a climate risk and disaster assessment to determine the resilience of existing water supply to climate shocks. Returns to water use need to be assessed both in terms of economic value and yield. Such an analysis will provide a menu of crop options for the promoter company and the farmers to choose from. National and regional expertise can by procured for this type of study. This will greatly improve the resilience of smallholder farmers in contending with water stress induced by climate change.

39. The new 4Ps focusing the dairy industry under SAP should consider a "zero-grazing" policy in common access areas and adjacent forests. The fodder needs may be supplied by on-farm pasture stands. This will help build household level resilience and rehabilitate the ecosystem to better withstand climate change impacts.

40. Renewable, environment and climate friendly energy technologies such as solar photo-voltaics to power the micro irrigation, biogas coupled with livestock should be incentivised though subsidies in order to facilitate uptake. Such initiatives can compensate or partially offset the environmental burden of the coal-dominated grid electric power used in large agricultural processing operations.

41. Agrochemicals, especially fertilisers have a significant carbon footprint due to carbon emissions during their production and formation. As such, it is important that agrochemical application be done in the most efficient method possible and only when there are no alternatives. Therefore, efficient nutrient management and integrated pest and disease management (IPM) should be included in the approved farm model under each 4P as relevant to the selected crop (livestock) type and the chosen scale of farming.

### 5.2. **Multi-benefit approaches**

42. SAP design and implementation should pay attention to creating opportunities of multifunctional initiatives. Sustainable consumption need to accompany sustainable production. The new 4Ps should be screened for their innovativeness in sustainable consumption in addition to sustainable production activities in the proposed value chains.

43. In order to generate cross-cutting environmental benefits from the agribusiness partnership model adopted for SAP, it is important that farming model be matched with the resources on location and the social infrastructure of the targeted area.

44. The current implementation of 4Ps in Sri Lanka focuses largely on dairy industry at the small holder level with private promoters through upgraded milk collection centres. Environmentally sustainable multi-benefit approaches can be introduced to dairy farming through accompanying biogas units and solar PV technologies for cattle sheds.

### 5.3. **Incentives for good practices**

45. The PMU will conduct sustainability assessments of all 4P proposals, in terms of financial, social and environmental viability. Only those proposals that are sustainable in the long term need to be prioritised to receive programme support. In addition, the adoption of non-polluting farming practices and processing technologies need to be incentivised through small scale grants and loans.

46. Successful implementation of sustainable farm models need to scaled up and promoted through a continuous process of evaluation and knowledge sharing. Technical assistance units need to be trained and tasked to conduct awareness building in climate change effects and risks in the

agricultural sector in the long term. The farmers and promoters of 4P programmes should made aware of the risks faced with increasing climate change impact, and the financial consequences of selection between conventional and new adaptive farming systems should be disseminated clearly.

47. Farmer level training on GAP and GMP (FAO guidelines) and simultaneous sensitization of the promoter companies to crop and livestock models that incorporate GAP guidelines are needed as a prerequisite to enhance the environmental sensitivity and food safety elements of the value chain.

48. The energy saving, water saving initiatives within the 4Ps need to recognised in scaling up the 4Ps. Appropriate rating systems should be devised to convey the level of water and energy use efficiencies on a regular basis.

### 5.4. <u>Participatory processes</u>

49. It was observed at the SAP field mission that farmer collectives did not have organisation/institutional structures that facilitate participatory decision making. The only exception was the organic agricultural movement in Anuradhapura which was collaborating with Nelna Pvt Ltd which encouraged predominantly female membership of farmer organisation including the office bearers with regular meetings scheduled every month. The participatory decision making is essential for building farmer capacity in terms of environmental sensitivity and climate sensitivity. The local climate knowledge at the grassroots level is built around experienced farmers in the absence of interventions in climate adaptation capacity at the grass roots level. In order for the local knowledge to be disseminated across generations, it is important that experienced farmers act as mentors to the youth and new farmers.

50. The water release decisions and crop selection at the major irrigation systems are determined through a participatory process between the members of the farmer organization (FO) and officials of Mahaweli/irrigation, agrarian department. However, such mechanisms are not functioning at the level of minor irrigation systems and for ground water extraction. A traditional norm of water sharing (called "*bethma*" in vernacular) exists during time of water scarcity.

51. Also, collective land use in paddy cultivation (called the "*yaya*" approach in vernacular) is an example of participatory cultivation which under strong traditional norms using a system of labour sharing (called "*aththama*" in vernacular). Traditional agricultural practices have participatory processes built into them. In implementing modern farming models, replacement of the traditional farmer collectives with buy-back /forward-contract groups need to be carefully monitored in terms of the method of selection of leadership, the level of participation in decision making and the concentration of responsibility.

## VI. Analysis of alternatives

52. The proposed 4P approach under SAP takes into consideration the market driven demand for a particular crop/livestock product as the starting point of screening. Subsequently, appropriate capacity of the promoter company and the producers and the suitability of location and scale are assessed. With this context in mind, the environmental and climatic suitability of the alternatives proposed should be assessed at the point of screening in the first place, and if the other objectives are substantively met, environmental and climatic safeguards need to be recommended for implementation in order mitigate negative impacts or facilitate the process of adaptation.

53. A preliminary analysis of the alternative merits of potential crops and livestock was carried out during the SAP design stage, where the level of impact/feasibility/effectiveness was considered for each of the alternatives based on the consultation with the programme management unit technical staff and the SAP design team. Starting from a pool of 15 alternatives, a multi criteria analysis was carried out and

54. Evaluation of the key priority area at the preliminary design stage of SAP are summarised in Table 4.

Table 4: Multi-criteria analysis of product alternatives

| | Alternative | Envir. impact: *1:low* *2:moderate* *3:high* | Social: *1:low* *2:moderate* *3:high* | climate change vulnerability: *1:low* *2:moderate* *3:high* | technical feasibility: *1:high* *2:moderate* *3:low* | Cost: *1:low* *2:moderate* *3:high* | Summary Score *<9: desirable* *>9: undesirable* |
|---|---|---|---|---|---|---|---|
| 1 | Maize | 3 | 1 | 3 | 1 | 3 | **11** |
| 2 | Sesame | 2 | 1 | 2 | 2 | 2 | **9** |
| 3 | Dairy | 3 | 1 | 2 | 2 | 3 | **11** |
| 4 | Pepper | 1 | 1 | 1 | 2 | 1 | **6** |
| 5 | Gherkin | 2 | 1 | 1 | 2 | 2 | **8** |
| 6 | Chilli | 2 | 1 | 1 | 1 | 2 | **7** |
| 7 | Tomato | 3 | 1 | 2 | 3 | 2 | **11** |
| 8 | Passion | 1 | 1 | 1 | 2 | 1 | **6** |
| 9 | Mango | 1 | 1 | 2 | 2 | 3 | **9** |
| 10 | Pineapple | 2 | 1 | 2 | 1 | 2 | **8** |
| 11 | Apiculture | 1 | 1 | 3 | 1 | 1 | **7** |
| 12 | Palm (treacle) | 1 | 2 | 1 | 2 | 1 | **7** |
| 13 | Poultry | 3 | 1 | 1 | 2 | 3 | **10** |
| 14 | Fishery | 2 | 2 | 2 | 1 | 1 | **8** |
| 15 | Seaweed | 1 | 3 | 3 | 3 | 1 | **11** |

55. The analysis led to the recommendation that multiple crop design or the intercropping design need to be promoted on account of two reasons: first, farming system strength and ecosystem stability; second, the income smoothing and profitability per hectare and per season basis. Hence, the following alternatives were recommended as potential agricultural models for investing under the SAP.

(a) Sesame + maize+ chilli

(b) Passion fruit

(c) Gherkin + maize + chilli

(d) Dairy

(e) Palm (Treacle)

(f) Vegetable seeds

## VII. Institutional analysis

### 7.1. **Institutional framework**

56. The key institution relevant to the implementation of SAP is the special programmes division of the Presidential Secretariat. However, the functions and the domain of the SAP overlap with number of government institutions in Sri Lanka. The main institutions, whose mandates are closely linked to environmental and resource implications of SAP, include Ministry of Agriculture, Ministry of Rural

Economics Affairs, Ministry of Environment, Mahaweli Development Authority, and the Irrigation Department.

57. As a signatory to the UNFCCC and a country that has ratified the Kyoto Protocol on climate change, Sri Lanka is under obligation to contribute to efforts to mitigate climate change. Sri Lanka made its Initial National Communication on Climate Change in 2000 and its Second National Communication in 2011. A national focal point (i.e. Climate Change Secretariat) has been established under Ministry of Environment to draft and inform policy related to climate change.

58. The environment concerns related to the programme come under the purview of several parliamentary acts and policies currently in force. A summary of relevant environmental policy and general policy initiatives and their significance, along with government institutions administering the policy is outlined below in Table 5.

Table 5: Policy framework for environmental decisions

| **Policy** | **Description** | **Relevant authority** |
|---|---|---|
| National Environment Policy - 2003 | The policy aims to promote the sound management of Sri Lanka's environment balancing the needs for social and economic development and environment integrity. It also aims to manage the environment by linking together the activities, interests and perspectives of stakeholders and to assure environmental accountability | Ministry of Environment, Central Environment Authority |
| National Forestry Policy – 1995 | The policy was drawn up to provide clear directions for safeguarding the remaining natural forests of the country in order to conserve biodiversity, soil and water resources. In accordance with the policy, the forests under the jurisdiction of the Forest Department is being reclassified and placed under four management systems ranging from strict conservation, non-extractive use, management of multiple use forests for sustainable production of wood and management of forests with community participation. | Forest Department, Ministry of Environment |
| National Policy on Wild Life Conservation - 2000 | The policy renews the commitment of the government to conserve wildlife resources through promoting conservation, maintaining ecological processes and life sustaining systems, managing genetic diversity and ensuring sustainable utilization and sharing of equitable benefits arising from biodiversity. It emphasizes the need for effective protected area management with the participation of local communities. | Department of Wildlife Conservation (DWC), Ministry of Environment |

| | | |
|---|---|---|
| National Air Quality Management Policy – 2000 | The purpose of this policy is to maintain good air quality to reduce morbidity due to air pollution and in turn reduce national health expenditures. | Ministry of Environment, Central Envt. Authority |
| National Watershed Management Policy – 2004 | Policy aims to conserve, protect, rehabilitate, sustainability use and manage the watersheds while managing their environment characteristics with the involvement of people. | Ministry of Environment, Mahaweli Development Authority, Department of Irrigation |
| Cleaner Production Policy – 2004 | The objective of this policy is to incorporate the cleaner production concept and practices into all development sectors of the country. To implement the policy sectoral policies were developed for health and tourism in collaboration with the Ministry of Health | Central Environmental Authority, Climate Change Secretariat |
| National Biosafety Policy – 2005 | The policy on biosafety set the overall framework in which adequate safety measures will be developed and put into force to minimize possible risks to human health and the environment while extracting maximum benefits from any potential that modern bio technology may offer. | Biodiversity Secretariat, Ministry of Environment, Department of Quarantine (Customs) |
| National Policy on Wetlands – 2005 | This policy seeks to give effect to National Environment Policy and other relevant national policies, while respecting national commitments towards relevant international conventions, protocols, treaties and agreements to which Sri Lanka is a party. | Ministry of Environment, Ministry of Disaster Management |

59. The private sector agribusiness companies have membership in industry organisations and interest groups. For public listed companies and limited liability companies, Chamber of Commerce (SL) acts as the overarching organisation. For Small and Medium scale companies which are not members of bodies such as Chamber, lobby groups such as fruit and vegetable exporters association, Spice council and National Agribusiness council serve as representative organisations. Except for corporate responsibility obligations, private sector institutions are not subject to environmental legislation in Sri Lanka. Their activities, depending on the scale, have to undergo clearance and approval from the government policy framework on a case by case basis. If programme scope of any private programme has command area larger than 50 ha, Initial Environmental Examination (IEE) and /or Environmental Impact Assessment (EIA) may be required by the Central Environment Authority.

60. At the level of civil society and farmer organisations, the representation and formal registration is with either Department of Agrarian Development or Ministry of Social services. The environment implications of the farmer collectives or civil society organisation are not regulated explicitly under the

current legislative framework. However, for purposes of complaints and grievance redress at the local level, the Divisional Secretariat offices of the Ministry of Public Administration serve as focal point.

### 7.2. **Capacity building**

61. SAP includes capacity building under both component 1(value chains) and 2(credit/microfinance). There is scope under component 1 for capacity building on environment and climate change activities. Capacity building should target PMU, private companies , CBOs and farmers and be relevant to the planning, implementation and evaluation stages. To facilitate a smooth implementation of climate change adaptation measures such as the transition to low-input multifunctional agriculture, improved water availability and resilience to climate shocks, targeted training and exposure visits need to be undertaken. In particular, the following thematic areas can be prioritised for capacity building: clean and safe agriculture production (GAP guidelines and precautions for safe handling, use, storage and disposal of agrochemicals), standardization and certification of process and products and post-harvest processing.

62. In all SAP funded 4P programmes, farm models should incorporate use of agrochemicals approved by the national regulatory bodies both for conventional and experimental agricultural methods. It is important that capacity building of programme target groups be carried out in the presence or under representation of national authorities and relevant focal points.

63. Current farmer organisations, both under major irrigation schemes and minor irrigation systems, have large deficits of organisational capacity to be met in order to upgrade their role in environmental stewardship. The conventional roles of subsidised fertiliser distribution and irrigation water release have had limited capacity building needs due to the top-down approaches adopted in each case. If the conventional farmer organisations are to be upgraded to implement, monitor and evaluate sustainable environment management, special environment education programs and restructuring of organisational constitutions need to be considered.

64. In terms of overall agricultural sector needs to meet climate challenges, Sri Lanka agricultural sector needs technological capacity building in scoping for ground water resources, methodologies of conjunctive use of ground water and surface water, water harvesting and channelling technologies appropriate for Dry Zone. Technological and research capacity in the areas of drought tolerant varietal development in staple food crops and major field crops exists within the national research institutions but an infrastructure for generating early warnings, knowledge management framework to harness traditional knowledge and timely adaptation needs are not available. Capacity development in these areas is necessary.

### 7.3. **Additional funding**

65. The current components of SAP highlight the market and financial elements of value chains explicitly. Supplementary funding or linkages may be necessary to promote transfer of energy-efficient and water-efficient technologies. Further, the agribusiness companies in Sri Lanka do not display substantive Research and Development capacity in terms of environmental and climate sensitivity. Therefore, linking training programs in ecosystem management and climate adaptive technologies can be jointly supported/organised by other environment-focused funding initiatives. A number of non-governmental organizations are active in the country implementing community based programmes aimed at reducing GHG emissions through the Small Grants Programme of the Global Environment Facility (GEF).

66. Linking the environmental and climate priorities of SAP to the national climate change mitigation strategy under the UNFCCC focal point (i.e. Climate Change Secretariat and Sri Lanka Climate Fund) may generate synergies in terms of funding and technology transfer at the public sector and community level.

## VIII. Monitoring and Evaluation

67. Indicators on environment and adaptation to climate change need to be included in the SAP M&E system. In addition to including the number of farmers, farmer organisations, private promoter

companies sensitised for climate resilient and environmentally sustainable agriculture in the log frame of SAP, the following indicators (see Table 6 below) are recommended for inclusion in the programme logical frame as relevant.

68. In order to monitor and evaluate the ENRM and climate change aspects, it is important that the partners of the programmes (producer, processers) be located precisely. In this respect, it is recommended that locations of input providers, producers and processors be mapped using GIS methodologies. Precise locations of production activities and processing activities are important for ecological, hydrological and environment impact assessments. Building a comprehensive database including geo-spatial identification will also facilitate the upgrading of value chains to include traceability.

Table 6: Suggested SAP indicators to cover environmental and climate aspects

| **Suggested Indicator** | **Relevant RIMS Indicator** |
|---|---|
| Area of land cultivated or under animal husbandry adopting climate-resilient practices | Extent of land with rehabilitated or restored ecosystems services (**RIMS 1.1.17)** |
| Number of processing units with increased water use efficiency (measured via percentage of water savings with reference to an industry benchmark) per each 4P project | Agricultural production/processing facilities in vulnerable areas with increased water availability ( **RIMS 1.2.12)** |
| Number of farmer organisations / community based organisations affiliated with each 4P, engaged in climate risk management, NRM or DRR activities as part of the routine engagements | Groups involved in climate risk management, natural resources management (NRM) or disaster risk reduction (DRR) activities. **(RIMS 1.6.11)** |
| Nominal value of new or value-added to the existing climate-resilient rural infrastructure under each 4P | Value of infrastructure protected from extreme weather events **(RIMS 1.4.9)** |
| Number of Knowledge-products by agribusiness sector firms and PMU on environment-smart and climate-resilient value chains by each 4P | National and international policy processes on climate issues to which the project is contributing **(RIMS 1.6.12 )** |

## IX. Further information required to complete screening, if any

69. Prior to the implementation of 4P programmes with scope of larger than 80 ha[88] in total, a water budget analysis to account for inflows and outflows of the programme areas is recommended. The analysis should include a climate risk and disaster risk assessment to determine the resilience of existing water supply infrastructure to climate shocks and for identifying required adaptive measures through a participatory consultation/study. Water saving and emissions reduction assessments need to be carried out (if the programme operation area exceeds 80 ha) after completion of two seasons of cultivation (in case of crops) or one year of animal husbandry. The information thus generated should be used in fine-tuning the environment and climate impact mitigation strategy of each 4P programme.

70. Research on climate change impacts on groundwater resources in Sri Lanka both in terms of quantity and quality are generally rare. Given the critical role that ground water may play in the future climatic scenarios, the combined use of surface and ground water needs to be assessed for intensive

[88] The 80 ha threshold is based on the extent of command area identified for minor irrigation systems under the agrarian development act.

agricultural initiatives. Therefore, study and scoping for ground water is advocated in SAP targeted areas.

71. It is important for the SAP programme format, which focuses on a 4P agreement/programme as the functional unit, to consider assessment of soil fertility, resource use efficiency (especially water), ecological and biodiversity impact and climate vulnerability if a programme is scaled beyond a single agro-ecological classification or a single watershed. Such an investigative study should be carried out at least once, especially if the crop plan repeats over five cropping cycles without modification.

### X. Budgetary resources and schedule

72. Given the 'moderate' environment and social rating and 'moderate' climate risk rating, a full-scale ESIA is not necessary. Mid-term assessments on environmental and climate relevant indicators will inform the need to revise the environment and climate strategy of SAP.

### XI. Record of consultations with beneficiaries, civil society, general public etc.

73. This SECAP review note was compiled drawing on literature and discussions with institutional stakeholders and community including farmer groups, women and youth. The discussions were carried out during the design mission undertaken between 31$^{st}$ October - 7$^{th}$ November 2016 in Sri Lanka. Field mission was carried out over three days covering three districts: Kurunegala, Anuradhapura and Kandy.

74. A common feedback by the farmers is the lack of understanding and conviction on the terms stipulated in the contract agreement with the agribusiness company with relation to the price and quantity of buy-back. Similarly, farmers were not fully informed with the range of cultivation options available and the merits of the prescribed option. It is important that complete and unbiased information on the parameters of contract of the agreement be revealed in advance to all stakeholders for each of the 4P programmes under SAP.

75. Dairy farmers who are continuing the buy-back contracts with Cargill's Dairies Pvt Ltd were consulted in Dambadeniya, Kurunegala District. The increased milk yields under sheltered cattle houses were evident. The managed feeding and veterinary services regimes had resulted in improved cattle health and consistent yield according to the farmers. With respect to the environmental and energy footprint, the semi-intensive rearing has reduced the pressure on open-access pastures to a certain extent, but not adequately. The perspiration water loss has reduced due to availability of cattle sheds and improved the water use efficiency on farm. This particular locality had continuous access to precipitation originating from both monsoon rains.

76. Second session of consultation was conducted at Meegalewa, Anuradhapura District with a farmer group currently involved in chilli cultivation. This locality comes under the major irrigation systems of Mahaweli, where the agricultural lands are fed by perennials reservoirs/tanks connected to the Mahaweli river system. The two types of chilli, one targeting local market and other targeting export markets, were being cultivated on a longer cropping cycle of 6 months. This, in fact, was the main issue faced by the farmers since the four-month irrigation water release period, which is designed to irrigate paddy cultivation, was shorter than the length required for chilli and the frequency of water release was lower than required for chilli. This dual issue has led to over-exploitation of sub-surface water stocks extracted via agro-wells.

77. Women-led farmer group (in Viharakalanchiya, Anuradhapura) which is engaged in chemical - free maize cultivation with the support of a registered NGO (i.e. Pragathi organic growers society) and Nelna Pvt Ltd was an example of serving both environmental, organizational and social goals simultaneously. The three hour consultation with this group displayed the gaps in the issues of organization and implementation even though there was conviction on good environmental, health and social values and practices. Other consultations displayed a conservative female participation of up to 15 % in the farmer collective and weak environmental sensitivity of the participants.

78. Consultation with a farmer group involved in chilli seed production (the F1 hybrid) through cross-pollination between a male line and a female line (developed by Ministry of Agriculture) was

carried out in Galnewa, Anuradhapura District. F1 hybrid seed production plots are cultivated under greenhouse structures and micro-irrigated water supply. Foundation hybrids are especially vulnerable to variations in ambient temperature and day-light hours. Farmers were conscious of climate linked pest and disease attacks during pre-harvest and post-harvest stages.

79. Pepper and Nutmeg farmer group in Manikinna, Kandy District mainly reported the lack of processing and market access infrastructure. It was observable that farmers resort to locally assembled dryers which were not energy efficient compared to industry standards.

80. Consultation with farmer group and administrators of the “protected agriculture entrepreneurs association” based in Peradeniya, Kandy District revealed the challenges faced by farmers in terms of support structures such as poly-tunnels and greenhouses. Overcast skies during prolonged monsoonal rains are reported by farmers as an adverse condition for high value horticulture. This issue can only be mitigated under additional lighting within greenhouse structures which will require more energy. In order to facilitate such high value production processes that need tailored environmental conditions, alternative and renewable energy sources such as wind/solar need to be promoted.

# Appendix 13: Contents of the Programme Life File

The contents of the Programme Life File include the following documentation:

- OSC Concept Note
- OSC Minutes
- In-country CPMT Minutes: 20 July 2016
- CPMT Minutes: 16 September 2016; 27 September 2016; 17 November 2016; 17 January 2017
- QE Panel Report
- Detailed Design Mission TORs; 2nd Design Mission TORs
- PDR: Detailed Design