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Investing in rural people

President's Memorandum

Proposal for Additional Financing to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme

Note to Executive Board representatives

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For: **Approval**

Recommendation for approval

The Executive Board is invited to approve the recommendation on the proposal for additional financing in the form of a loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme, as contained in paragraph 16.

Proposal for Additional Financing to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme

I. Background

1. This memorandum seeks approval for additional financing in the form of a loan of US\$14.52 million for the Smallholder Agribusiness Partnerships Programme (the "SAP" or "Programme"), approved by the Executive Board in April 2017 (EB 2017/120/R.13/Rev.1). The additional IFAD financing will be used to finance component 1: Access to Commercial Partnerships and component 3: Programme Management and Policy Dialogue.
2. The programme financing plan as originally appraised, totalling US\$105.0 million, consists of: (i) an IFAD loan in the amount of US\$33.7 million; (ii) a financing gap of US\$20.7 million; (iii) a Government contribution of US\$19.4 million; (iv) a beneficiary contribution of US\$4.5 million; (v) a contribution from participating financing institutions in the amount of US\$9.8 million; and (vi) a private sector contribution of US\$17.0 million.
3. Following revision of the performance-based allocation to Sri Lanka, a second IFAD loan in the amount of US\$6.18 million was approved by the Executive Board in September 2017 (EB 2017/LOT/P.17) to partially fill the SAP financing gap, leaving a balance of US\$14.52 million as the remaining financing gap.
4. In order to enhance the IFAD lending programme, in 2018 Sri Lanka received another increase in its performance-based allocation in the amount of US\$14.52 million, enabling it fully cover the SAP's remaining financing gap.

II. Justification and rationale

5. SAP serves as a key IFAD and government instrument to meet priorities under the national policy framework and the evolving rural (business) and institutional environment. SAP represents a major opportunity to promote dialogue among national stakeholders on the policy environment for smallholder-sourced agribusiness.
6. The programme has national coverage, although special attention and preference are given to low-income districts with high agri-production potential through an evaluation process. The programme is demand-driven, and the willingness and commitment of stakeholders (agribusiness and value chain actors, including the private sector and farmers'/producers' organizations) are critical. Today, there is demonstrated evidence of very high demand among small producers and the private sector alike to embrace the public-private-producer partnership (4P) model promoted and facilitated by the programme.
7. The programme target group remains 57,500 poor rural households (representing 230,000 individuals) with the potential to become active economic players in a wide range of value chains. The programme development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder

households (initially) involved in commercially-oriented production and marketing systems.

III. Programme costs and financing

8. Total investment and recurrent costs over the six-year SAP implementation period, including physical and price contingences, are estimated at US\$105 million (LKR 17 billion).
9. The original financing gap of US\$20.7 million may be sourced by subsequent performance-based allocation system (PBAS) cycles (under financing terms to be determined, subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation. In September 2017, available funds in the amount of US\$6.18 million from a revised PBAS allocation were apportioned to SAP as additional financing to partially fill the financing gap. The remaining financing gap is US\$14.52 million.
10. Indicative costs by component are detailed in table 1; indicative costs by expenditure category and financier are detailed in table 2. These two tables also indicate the original approved IFAD financing, the first approved IFAD additional financing, and the apportioning of the remaining financing gap of US\$14.52 million.

Table 1

Programme costs by component and financier

(Thousands of United States dollars)

Component	IFAD original loan		IFAD additional financing (Sept 2017)		Remaining financing gap		Participating financial institutions		Private-sector partners		Beneficiaries		Borrower/Counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Access to commercial partnerships	18 233	34	5 182	9	12 897	24	-	-	16 967	31	-	-	184	2	53 463
2. Access to rural finance	13 416	29	-	-	-	-	9 821	21	-	-	4 494	10	18 470	40	46 201
3. Programme management and policy dialogue	2 051	38	996	19	1 625	30	-	-	-	-	-	-	705	13	5 377
Total	33 700	32	6 178	6	14 522	14	9 821	9	16 967	16	4 494	4	19 359	19	105 041

Table 2

Programme costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	IFAD original loan		IFAD additional financing (Sept 2017)		Remaining financing gap		Participating financial institutions		Private-sector partners		Beneficiaries		Borrower/Counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Consultancies	1 957	31	1 174	19	2 869	46	100	2	-	-	-	-	106	2	6 206
2. Equipment and materials	336	41	123	15	252	31	-	-	-	-	-	-	107	14	818
3. Credit	13 097	29	-	-	-	-	9 505	21	-	-	4 494	10	18 372	40	45 468
4. Grants and subsidies	16 050	36	3 583	8	8 538	19	-	-	16 967	37	-	-	-	-	45 138
5. Workshops	283	37	124	16	293	39	8	2	-	-	-	-	49	6	757
6. Training	904	26	618	18	1 377	41	208	7	-	-	-	-	260	8	3 367
7. Vehicles	246	86	-	-	-	-	-	-	-	-	-	-	37	14	283
8. Salaries and allowances	650	28	432	18	939	40	-	-	-	-	-	-	345	14	2 366
9. Operating costs	177	28	124	19	254	40	-	-	-	-	-	-	83	13	638
Total	33 700		6 178		14 522		9 821		16 967		4 494		19 359		105 041

IV. Financial management

11. Arrangements for financial management, flow of funds, governance, procurement and audit remain unchanged with respect to section D of EB 2017/120/R.13/Rev.1.

V. Proposed amendments to the programme loan agreement

12. Upon approval by the Executive Board, the SAP financing agreement will be amended to include the provisions of the second additional financing. The amendment to the SAP financing agreement shall become effective on the date of the Borrower's countersignature of the amendment letter.
13. The additional financing does not imply any modification of the project description.
14. The Democratic Republic of Sri Lanka is empowered under its laws to borrow from IFAD.
15. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

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

RESOLVED: that the Fund shall make an additional loan to the Democratic Socialist Republic of Sri Lanka for the Smallholder Agribusiness Partnerships Programme on ordinary terms in an amount of fourteen million five hundred and twenty thousand United States dollars (US\$14,520,000) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Logical framework

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	Year 1	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	Number of persons receiving services promoted or supported by the project (C, S, Lead, Y, IND.)				230000				
	Corresponding number of households reached (C, S, Lead, Y, IND.)				57500				
Project Goal: Contribute to Sri Lanka's smallholders poverty reduction and competitiveness	% of households with improvements in asset ownership (RIMS 3rd level)			30%	70%	RIMS; Impact surveys; National database	baseline/ completion	LPA; Programme	Political commitment Stable macro-economic conditions
	Prevalence of childhood malnutrition in the programme area reduced			5%	10%				
Development Objective: Sustainably increase the income and quality of diet of smallholders (57,500 hhs) involved in commercially-oriented production and marketing systems	% of supported households reporting an increase in income (60% on average) (RIMS 2nd level)			40%	70%	RIMS; AOS; IP reports	Yearly	Programme; IPs	Availability and uptake of GAP and technologies Steady market demand and conditions
Outcome 1: Improved access of smallholder farmers and their organizations to markets in partnership with the private sector	% of 4P partnerships/ agreements in operation after 3 years (RIMS 2nd level)			50%	75%				
	Percentage of persons/households reporting an increase in production (S, Y, IND)			40%	70%				
	Percentage of supported rural producers' organization members reporting new or improved services provided by their organization (S, Y, Lead, IND)			33%	55%				Commitment and willingness of beneficiaries and their institutions
	% increase in average volume and value of sales through 4P agreements			15%	40%	AOS; market studies	bi-annually	IPs; Programme	Steady market demand and conditions
Output 1.1: 4P business arrangements in place	No. of farming households engaged in 4Ps implemented	20000	30000	45000	57500	Progress reports	bi-annually	Programme	Willingness and mutual benefits to producers and companies Mature institutions

Output 1.2: Organizational strengthening and capacity development of producer organizations and their members	% of programme-supported producer groups registered			40%	70%	AOS; particip. Surveys; Progress reports	Yearly	Programme	Favourable and stable market conditions and demand
	Number of rural producers accessing production inputs and/or technological packages			45000	57500				
Outcome 2: 57,500 households supported under SAP have access to rural financial services in a sustainable manner and at affordable rates	Percentage of partner financial service providers with portfolio-at-risk ≥ 30 days below 5% (S, Y, Lead, IND, P)			3%	5%	CBSL/ PFI reports	bi-annually	CBSL; PFIs	Stable macro-economic conditions
Output 2.1: Small producers access targeted and pro-poor financial products	Funds leveraged through PFI own-resources (as % of total loans outstanding funded from the LOC)			25%	45%	CBSL and PFI reports; Progress reports	bi-annually	Programme; CBSL; PFIs	Willingness of PFIs and enabling regulatory framework
	Number of persons in rural areas accessing financial services (savings, credit, insurance, remittances, etc.) (S, Y, IND, P)	6000	38000	45000	57500				
	Number of rural youth (40% female) receiving credit to finance their income generating activity (disaggregated by sex and age)*			1000	2500				
Output 2.2: Institutional strengthening and capacity building of Central Bank and PFIs	Share of agricultural loans in total loan portfolio			1% point	2.5% points	CBSL/ PFI reports	Bi-annually	CBSL; PFIs	Stable macro-economic conditions
Outcome 3: Improved policy environment for equitable and sustainable smallholder farmer-sourced agribusiness development	Number of existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment			3	6	Progress reports	Yearly	Programme; CCC	Quality, relevance and acceptability of recommendations of analysis
Output 3: Analysis conducted on prioritised policy issues/constraints and programme models/lessons learned	Number of policy-relevant knowledge products completed		2	8	18	Progress reports	Yearly	Programme	Focus of PMU on policy agenda maintained