

Sri Lanka

Smallholder Tea and Rubber Revitalization Project

Supervision Report

Main report and appendices

Mission Dates: 10 - 21 May 2018
Document Date: 24/07/2018
Project No. 1100001731
Report No. 4825-LK

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

| | |
|----------------|--|
| AWPB | Annual Work Plan and Budget |
| BDO | Business Development Officer |
| CBSL | Central Bank of Sri Lanka |
| CDO | Community Development Officer |
| DPMU | District Project Management Unit |
| FA | Field Animator |
| GoSL | Government of Sri Lanka |
| IGA | Income-generating Activities |
| M&E | Monitoring and Evaluation |
| MIS/GIS | Management Information System/ Geographical Information System |
| MPI | Ministry of Plantation Industries |
| PMU | Project Management Unit |
| PRA | Participatory Rural Appraisal |
| RDD | Rubber Development Department |
| RDO | Rubber Development Officer |
| RRI | Rubber Research Institute |
| SAPP | Smallholder Agribusiness Partnerships Programme |
| SDP | Society Development Plan |
| TI | Tea Inspector |
| TRI | Tea Research Institute |
| TSHDA | Tea Smallholder Development Agency |

A. Project Overview

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|-------------------|--|------------------------------------|-----------------------------------|
| Region: | Asia and the Pacific Division | Project at Risk Status: | Not at risk |
| Country: | Sri Lanka | Environmental and Social Category: | B |
| Project Name: | Smallholder Tea and Rubber Revitalization Project | Climate Risk Classification: | 3 |
| Project Id: | 1100001731 | Executing Institution: | Ministry of Plantation Industries |
| Project Type: | Marketing/Storage/Processing | Implementing Institutions: | Ministry of Plantation Industries |
| CPM: | Hubert Boirard | | |
| Project Director: | Janaka Amarasinghe | | |
| Project Area: | Galle, Matara, Rathnapura, Badulla, Kandy, N'Eliya, Monaragala, Ampara | | |

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|---------------------------------|-------------------|--------------------------|------------|
| Approval Date | 17/12/2015 | Last audit receipt | 30/10/2017 |
| Signing Date | 26/04/2016 | Date of Last SIS Mission | 21/05/2018 |
| Entry into Force Date | 26/04/2016 | Number of SIS Missions | 3 |
| Available for Disbursement Date | 30/12/2016 | Number of extensions | 0 |
| First Disbursement Date | 24/04/2017 | Effectiveness lag | 4 months |
| MTR Date | not available yet | | |
| Original Completion Date | 30/06/2022 | | |
| Current Completion Date | 30/06/2022 | | |
| Financial Closure | not available yet | | |

Project total financing

| | | |
|-------------------------------------|---------------------------------|---------------------|
| IFAD Financing breakdown | IFAD | \$25,764,000 |
| Domestic Financing breakdown | Beneficiaries | \$3,610,000 |
| | Domestic Financing Institutions | \$3,251,000 |
| | Private sector local | \$15,000 |
| | National Government | \$32,762,000 |
| Co-financing breakdown, | | |
| Project total financing | | \$65,402,000 |

Current Mission

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| Mission Dates: | 10 - 21 May 2018 |
| Days in the field: | 4 |
| Mission composition: | Mr Hubert Boirard, CPM and mission leader; Ms Tamara Lampe, institutional specialist and team leader; Mr Alok Kumar, rural finance specialist; Mr Canute de Silva, agronomist and environmental specialist; and Ms Anta Sow, financial management specialist. |
| Field sites visited: | Bibila, Monaragala, Kuruwita, Rathnapura, Karapincha, Panawinna |

B. Overall Assessment

| Key SIS Indicator #1 | Ø | Rating | Key SIS Indicator #2 | Ø | Rating |
|---|---|--------|--|---|--------|
| Likelihood of Achieving the Development Objective | | 4 | Assessment of the Overall Implementation Performance | | 4 |

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|--|----------|---|----------|
| Effectiveness and Developmental Focus | 4 | Project Management | 4 |
| Effectiveness | 4 | Quality of Project Management | 4 |
| Targeting and Outreach | 4 | Knowledge Management | 4 |
| Gender equality & women's participation | 3 | Value for Money | |
| Agricultural Productivity | 4 | Coherence between AWPB and Implementation | 2 |
| Nutrition | | Performance of M&E System | 4 |
| Adaptation to Climate Change | 4 | Requirements of Social, Environmental and Climate Assessment Procedures (SECAP) | 4 |

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|---|----------|---|----------|
| Sustainability and Scaling-up | 4 | Financial Management and Execution | 4 |
| Institutions and Policy Engagement | 4 | Acceptable Disbursement Rate | 3 |
| Partnership-building | 4 | Quality of Financial Management | 4 |
| Human and Social Capital and Empowerment | 4 | Quality and Timeliness of Audit | 4 |
| Quality of Beneficiary Participation | 4 | Counterparts Funds | 5 |
| Responsiveness of Service Providers | 4 | Compliance with Loan Covenants | 4 |
| Environment and Natural Resource Management | 4 | Procurement | 4 |
| Exit Strategy | 4 | | |
| Potential for Scaling-up | 4 | | |

C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

The USD 65.4 million Smallholder Tea and Rubber Revitalisation Project (STARR), including an amount of SDR 18.45 million (approx. USD 25.8 million) in IFAD-financing (loan on blended terms) was approved by IFAD's Executive Board in December 2015 and entered into force in April 2016. The project completion date and closing date are 30 June 2022 and 31 December 2022 respectively. The lead project agency is the Ministry of Plantation Industries.

The project's development objective is that smallholders' economic activities in tea and rubber become more productive, profitable and resilient in selected districts. The main project outcomes include: (i) 200 revitalized tea societies and 100 strengthened rubber societies able to effectively provide a range of services to their members; (ii) high-yield tea crops replanted on 5,500 hectares and rubber planted on 3,000 hectares by smallholders to provide a sustainable source of income and diversified livelihoods; and (iii) strengthened smallholders undertaking sustainable commercial business with the private sector.

This second IFAD and Government of Sri Lanka (GoSL) supervision mission of STARR took place from 10 to 21 May 2018. The main objectives of the mission were to: (i) assess the project implementation progress; (ii) review progress against the 2017 and 2018 AWPB and procurement plan; (iii) identify actual and potential/ emerging operational problems; and (iv) propose solutions, corrective measures or improvements to be done.

The mission held consultations with key partners, including TSHDA, TRI, RDD, RRI, CBSL, and potential private-sector 4P partners; four days were spent in the field visiting a representative sample of farmer/ producers (and their societies) and the private sector (tea factories, companies and commercial nurseries); and a 3-day working session was held with the DPMU BDOs/CDOs. In addition, the mission participated in a stakeholder's meeting chaired by the Minister for Plantation Industries, which preceded the final wrap-up meeting with the Steering Committee held in Colombo on 21 May, chaired by the Secretary, MPI.

The mission would like to express its gratitude to the Government of Sri Lanka, the PMU/ DPMUs, partners, and beneficiaries for their cooperation and support during the mission. This Aide-Memoire reflects the main mission findings and recommendations, duly endorsed in the wrap-up meeting.

Key Mission Agreements and Conclusions

The smallholder tea and rubber sectors have significant potential for growth, particularly if these sectors can be modernized and revitalised with the adoption of best (and new) practices – related to technologies and management – for the underlying objective of improved smallholder incomes and livelihoods. As an entry point and facilitated by the mobilisation and organization of smallholder farmers in tea or rubber societies, the project supports the rehabilitation of smallholder tea plantations and the new planting of rubber.

As the project interventions are intended to be responsive and sustainable, the mission highlights the need for adoption of a dual approach comprising: (i) institutional strengthening (of the tea and rubber societies) and (ii) physical and technical upgradation of tea/ rubber lands. Firstly, there is an emphasis on the organization and management of societies for enhanced capacity to monitor and advocate for long-term smallholder tea/ rubber development, as well as to increasingly provide services as demanded by smallholder members. Secondly, tea and rubber productivity and cultivation practices need to be technically improved with the necessary introduction of innovations and technologies tested through pilot schemes.

Despite that the project has been two years operational, the level of physical progress (for tea/ rubber surface area under rehabilitation/ new planting) has not been commensurate with the expected targets, and there is now an urgent need to significantly increase delivery in the lead up to the project's mid-term next year. All the early and preparatory work should be completed, with the focus shifting to implementation of activities on the ground. Today, the issuance of permits is a prerequisite to move forward on physical targets, and must be efficiently addressed so as not to be a continued bottleneck. Furthermore, in direct relation to the replanting/ new planting targets, the necessary conditions such as availability and access to planting materials (i.e. nursery and transportation considerations) need also to be resolved. This will allow the project to commence the essential activities aimed at strengthening the capacity of tea/ rubber societies to support improved quality production and commercialisation over the long-term and as part of the exit strategy, and in parallel to also facilitate tea/ rubber smallholders' interests to diversify their livelihoods/ economic activities in the face of the delay in economic gains from tea/ rubber cultivation. The blueprint for the project to pursue these complementary interventions need to be outlined in the Society Development Plans (for the 'main' societies with potential).

Today, the project has also mostly overcome the previous challenge related to the lack of adequate staffing and leadership to strategically and technically guide the implementation of the project; with a few exceptions, the project staff at PMU and DPMU levels are now in place to accelerate the pace of project delivery in collaboration with key partners (TSHDA, RDD, TRI and RRI). It is critical however that responsibilities amongst partners are clearly defined, and that partners are accountable for expected deliverables.

In consideration of the above, the mission's main findings and key recommendations are intended to enhance the efficiency (timeliness) and quality of delivering project results – they centre largely around technical, procedural and management issues.

D. Overview and Project Progress

The overall assessment of project implementation is rated as moderately satisfactory (4). STARR's disbursement rate on the IFAD loan stands today at 15%, which includes the initial advance. With four years remaining, the project will have to significantly accelerate the implementation rate to ensure that physical and financial progress is on track with initial projections, in order to be able to observe tangible results in the tea sector especially, noting that the project duration is shorter than the maturity period required for tapping latex. Going forward, financial progress is very much linked to progress in provision of the upfront payments upon issuance of permits, and in subsequent payments of the subsidy instalments following validation/ verification procedures. Under tea development, upfront payments and subsidy (1) payments amount to LKR 155.4 million, or 62.6% of the targeted allocated amount, and LKR 1.2 million, or less than 1% of the targeted allocated amount respectively. STARR has been challenged by early implementation delays related to staffing issues (recruitment), with consequence on the quality of the strategic guidance and communication flow to the field. However, some activities have been implemented and early outputs are evident; mobilisation and sensitization (IEC related) of tea/ rubber communities has taken place, and key outputs stemming from the last two years are the following: (i) completed diagnostic mapping of 200 tea societies and 93 rubber societies and 86 participatory rural appraisals (PRAs) undertaken with 4751 participants; (ii) 411 information and education campaigns conducted for 17,016 participants (38% women); (iii) 6561 farmers trained in agronomic/ technical practices (following receipt of tea/ rubber permits); (iv) 1488 ha of tea lands prepared for soil rehabilitation and replanting; (v) 649 ha of rubber (newly) planted. Almost exclusively, these outputs relate to the market-driven production support sub-component. Given the above, STARR outreach is significant with more than 17,000 hhs reached through communication activities, of which 1,693 hhs have received rubber permits (34% of overall target of 5,000 hhs to be reached with rubber) and 6,739 hhs have obtained tea permits (25% of overall target of 27,000 hhs reached with tea development). However, the depth and quality of the outreach (project support per beneficiary) is currently quite modest considering that the payments are lagging and support for livelihood development and IGAs have not yet commenced. Going forward, the key priorities in the remainder of the financial year are the following: (i) finalization of the SDPs to provide the comprehensive framework for project (facilitated) support – as relates to capacity of the society to provide services and oversee effective rehabilitation/ new planting in the society catchment area, as well as to lead improved commercialisation; infrastructure development; and livelihoods development/ IGAs; (ii) complete tea/ rubber land identification, permit issuance and planting within the agricultural season; (iii) finalization of the operational guidelines to be utilised in the field (DPMU level) for implementing activities (e.g. related to infrastructure development – selection criteria, design (BOQ, budget), procurement, approval thresholds, validation and monitoring of infrastructure).

Component 1: Tea smallholder development

Component 1a: Strengthening tea societies in production and marketing. The project has fully completed the diagnostic mapping and assessment of the 200 tea societies, which when complemented with PRAs, provides a solid foundation for better knowledge of the status of smallholder tea producers, their constraints, opportunities, priorities and development interests. On this basis, the mission recommends to build on the diagnostics and further develop the society development plan (SDP) for the core or 'main' 110 societies with significant smallholder membership and outreach potential. The SDPs need to be urgently completed, serving as the principle foundation for informing further project support in terms of infrastructure, IGAs, nursery development, etc. The SDPs will also identify the capacity building and training priorities of the society as an entity in itself, but also for its membership, with the vision that the societies become the primary point of contact to/for smallholders and provide sustainable and long-term key services to their members; they shall also support the overall development and revitalisation of the smallholder tea sector.

Component 1b: Market-driven production support. There has been progress across all five districts, although some delays have been experienced. The project has set replanting annual targets by district for the years 2017-2019; however in view of the slow achievement to-date, there may be need to consider some adjustments and reallocations of the annual targets across the districts. It has also been observed that although the FAs and TIs are generally sensitized to the project objectives and operational framework, the level of cohesion and collaboration is mixed, where the lack of commitment results in delays in issuing permits and with consequence for provision of payments (upfront and subsidy instalments) and physical replanting.

Today, the identification of old (unproductive) tea lands and the facilitation of beneficiary applications for replanting permits has exceeded the targets set; this is largely due to the strong efforts by the project (with TSHDA) to raise awareness, sensitize and impart knowledge of the project interventions, and speaks of the high interest/ demand from smallholders for rehabilitation. However, actual output progress in terms of the surface coverage of the permits issued, and the land surface area actually rehabilitated, is not on par with the applications received. During the 2017 – Q1 2018 period, replanting permits have been issued for 1888 ha or 49% of the 3865 ha planned for this period. This gap is attributed primarily to the procedural delays at various junctures in the lengthy process of verifications, authorizations and paper-work currently in practice; other more minor reasons relate to the fact that some permit applications are completed out of curiosity ($\pm 5\%$) and issues arising regarding land deeds ($\pm 10\%$). The actual extent of land area replanted (assessed by upfront payments against preparation of the land) is 1488 ha or 79% of the granted permits, equivalent to 27% overall progress against the end target. When considering the lapsed implementation period, and the remaining short *effective* period for tea replanting, the current achievement is low and requires an increase in the implementation rate. Due to the 18-month soil rehabilitation undertaken prior to replanting, the project is left with a narrow time span to complete the balance target of 4000 ha, which is an extensive target but feasible with strong coordination and commitment by both the project and TSHDA. The mission recommends for a review and streamlining of the permit issuance and payment procedures, to also include the utilisation of GPS technology for timely land measurement; as a minimum, each FA should be equipped with a GPS device to facilitate this. The further development and harmonisation of the GIS/MIS systems

between the project and TSHDA should also be finalised and operational, to speed up the input of applications and more automated permit issuance. Tea societies will be expected to ensure that the land replanting area requested for the permit is adhered to; in the event that the area to be replanted is less than the original request (post upfront payment), the permit will be re-issued and the payments amended/ regularized. Regarding availability and access to the requisite planting material, self-operated input nurseries is an important strategy of the project, facilitating beneficiaries to produce their own planting material requirement – this should cover approximately 40% of the overall replanting targets. The associated costs are factored into the already agreed upon support provided by the project, though the project and its partners will be called upon to provide extension/ technical advisory support and facilitate sourcing required materials for establishing these input nurseries. To-date, material procurement has not commenced, selection and training of input-nursery smallholders is pending, whilst the 6739 beneficiaries of 2017 need 6-8 months old nursery plants by mid of 2019 (the plant requirement for 2019 is approx. 21 million plants). A plan to fast-track these input nurseries is required. In parallel, establishing or expanding (capacity) local commercial nurseries is key to meet the balance plant requirements. The mission recommends that a LKR 150,000 loan product for small commercial nurseries be established under the consolidated revolving fund, which would be sufficient to set up a 50,000 plant capacity nursery; each society should assess the need for plants and support the identification of potential commercial nursery producers and sites. To support innovations that could revitalise the tea sector and enhance benefits to smallholders, the mission recommends to pilot test the following: (i) zero-day replanting instead of the 18-month grass cultivation for soil rehabilitation; (ii) continuous infilling with 18-month old plants to avoid traditional full scale replanting; and (iii) mechanized tea harvesting. Following discussions with TRI, the mission recommends that the project take the lead in testing the pilot activities; in parallel, TRI should submit their proposals of alternative systems to the project for further consideration (e.g. terracing of tea lands as an alternative farming system for zero-day land rehabilitation, cultivation of fodder Napier instead of maana for 12-month period, application of chemicals for nematodes, infilling with 9-15 month plants, irrigation with irrigation wells and reservoirs and mechanized harvesting after hedge row replanting).

Component 2: Rubber smallholder development

Component 2a: Strengthening rubber societies in production and marketing. The guidance and mission recommendations related to the tea societies are also relevant to the rubber societies (see component 1a).

Component 2b: Market-driven production support. Identifying and obtaining clearance for state land (inclusive of forest buffer zone) is today one of the key issues to be resolved under the component. Land-use permission for smallholders under long lease certificates is a protracted process, involving the Forestry Department and Mahaweli Authority as custodian institutions as well as a number of different regional administrations. Given the significant delays and lack of coordinated response experienced to-date, the mission urges the MPI to obtain high-level commitment by the custodian institutions to formally and timely release lands for rubber planting (ahead of the rainy season). Rubber planting commenced in 2016 with RDD undertaking the 2016 programme on behalf of the project (with project financing) as DPMUs were not yet operational. The first year target was 550 ha of which 305 ha had been identified and 469 permits granted. All identified extent had been planted (55% of target). The PMU directly implemented the programme from 2017 onwards, and the 2017 target of land identification was 1100 ha, of which 638 ha had been identified and permits granted (58%). Of the 638 ha with permits, only 344 ha was actually planted with rubber, primarily due to the unavailability of nursery planting materials. The total land extent under rubber as of end 2017 is 649 ha, though 1650 ha were targeted, achieving only 39% of planned target and 22% of planned project outcome. From a technical perspective, planting of quality budded rubber and healthy maintenance of rubber plants in the first five years is of utmost importance as subsequent measures may not be corrective – in this situation the matured plantation could have low yielding or stunted plants. The mission strongly recommends that field staff are trained with the knowledge to identify and procure high quality rubber plants from nurseries and other agronomic practices. It is also critical to apply the correct fertilizer mixture in the correct dose and rounds; the mission recommends that the project better facilitate the access to fertiliser at the field level, noting that its availability at the field level is limited.

Component 3: Inclusive rural financing

The project strategy has evolved from the provision of matching grants (as provided in the past), to linking producers to the formal financial sector, and credit especially, for a significantly more sustainable approach. It was also agreed that the inclusive rural financing component should not function as a standalone component, but should be fully integrated and complementary to the tea and rubber development components. Subsequently, this component at this stage of the project lifetime is intended to facilitate the production support and to provide the means for pursuing income and market diversification. Thus the previous mission recommended to utilise revolved funds from past IFAD-financed lines of credit, consolidated into a revolving fund account at CBSL/RDD. The facility is now operational and available at 6.5% up to LKR 300,000 without conventional collateral requirement to the end borrower and with a 3.5% spread available for the participating commercial banks. Capital investment and working capital loans are available for maximum tenure of 36 months, which is meant for income generating activities (IGAs).

Whilst the last supervision mission had recommended for the SAPP and STARR to enter into an MoU for the inclusive rural financing component, this has not yet been formalized because of the delay in signing the SLA between the Ministry of Finance and the Monetary Board of the CBSL. The mission notes that all the preparatory agreements have been signed, and the mission therefore recommends that the STARR project and SAPP enter into an MoU for the utilization of the revolving fund. The mission recommends a USD 4,000,000 maximum borrowing limit from the revolving fund for STARR beneficiaries. This recommended allocation is based on the credit demand for working capital loan of LKR 458 million (USD 2.9 million) for IGAs and LKR 145 million (USD 0.9 Million) for commercial tea nursery expansion or mechanisation of the tea harvesting process. A maximum borrowing amount of LKR 150,000 for a tenure of 12 months is recommended for these purposes, to be paid back within 12 months by the client to the PFI and by the PFI to the

revolving fund at RDD. The societies would provide the 'social collateral' for the individual loans for the members. As replantation has (an initial) adverse impact on the income of the smallholder producers (represented by the loss of some (very limited) productive plants), the mission recommends that the project encourage *short-term* cash flow-based income generating activities, rather than long-term activities to meet the immediate cash shortage of the smallholder. As well, under the expansion of the nurseries, the loan amount is allocated only for working capital needs such as soil, plastic bags, fertilizers, and sooths; the loan should not be utilized for purchasing of land or iron bars.

To fully operationalize the recommendations, STARR should now identify PFIs who have already participated under the NADeP credit line to expedite the process. Emphasis should be placed on reducing the loan documentation, and FAs should therefore use the PFIs loan application form and avoid any other documentation. The mission recommends for FAs to be trained on the loan application form, KYC and account opening requirements of the PFIs, so as to reduce the turnaround time. In terms of commercial partnerships, the mission recommends to develop simple public private producer partnerships (4Ps) as out-grower models, and to leverage private sources of funding to the extent possible. The focus should be to develop the farmer's yield, transport and quality of leaf so that factories can run on full capacity. Furthermore, the mission recommends to explore the possibility of developing 4P out-grower models with existing commercial nurseries.

| Agreed Action | Responsibility | Agreed Date |
|--|-----------------------|--------------------|
| Overview and Project Progress | | |
| PM FA operating package Revise FA monthly operational package (fuel allowance, raincoat/ boots, mobile phone credit, GPS) | PD | 05/2018 |
| C1 Training material Provide TRI advisory circulars to each society (3 copies/ society) and 1 for each FA | DPMU/ PMU | 05/2018 |
| C1 Amendment of MoA with TSHDA Amend the MoA with TSHDA to include: defined responsibility and accountability of TIs vis-à-vis tea society and issuance of permits, where incentive payment is made directly to TI bank account against the number of permits issued | PMU/TSHDA | 05/2018 |
| C1 SDP operating guidelines Finalize complementary SDP operating guidelines – procedures related to selection criteria, evaluation, approval processes, flow of funds, audits | PD/ PMU/ DPMUs | 06/2018 |
| C1 Streamlining Streamline the permit issuance and payment procedures, including formalizing FA and TI joint field verification and visits | PMU/TSHDA | 06/2018 |
| C1 Input nurseries Draft and implement the fast-track plan to accelerate the input nursery programme | PMU/TSHDA | 06/2018 |
| PM MoA with implementing partners Confirm responsibilities of implementing partners and ensure this is reflected in the MoA | PMU/ TSHDA/ RDD | 06/2018 |
| PM GIS/MIS system Finalise the GIS/MIS system to be utilised and operated, including by the DPMUs | GIS/MIS officers | 06/2018 |

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| PM Sex and age disaggregated data Monitor and systematically disaggregate data to include female youth and male youth | PMU/ M&E | 06/2018 |
| FAM Budget monitoring and cash forecasts Implementation of budget monitoring and cash forecasting systems | Finance Manager | 06/2018 |
| FAM Monthly financial reports Preparation of monthly financial reports | Finance Manager | 06/2018 |
| FAM Insurance Provision of accident/health insurance for staff and project assets/building insurance | PD | 06/2018 |
| FAM Finance staff recruitment Recruitment of new Project Accountant | PD | 06/2018 |
| C1 SDPs Finalize the SDPs for 'main' societies (approx. 110 tea societies and 56 rubber societies) receiving the full package of support (society cap. bdg; infrastructure; IGA; etc.) | BDO/CDO | 06/2018 |
| C2 Identification of rubber lands Confirm lands for rubber new planting with Mahaweli Authority and Forestry Dept. with management directive | MPI Secretary | 06/2018 |
| C2 Rubber planting material Confirm RDD supply of plants; purchase remaining plant needs from commercial nurseries considering cost-effective transportation options and ensure delivery of quality rubber plants (for field uniformity) | RDD/RDO | 06/2018 |
| C2 Input contingency plans Prepare nursery and fertilizer contingency plans to facilitate timely availability of inputs | PMU/DPMU | 06/2018 |
| C3 STARR and SAPP MoU Draft (and sign) MoU between STARR and SAPP (for access to credit under the consolidated revolving fund account) for IFAD no objection | PMU/SAPP | 06/2018 |
| C3 Identification of PFIs Identification of PFIs and training of field animators on loan application form, KY and account opening requirements | PMU/ PFIs | 06/2018 |
| PM Staff recruitment Complete the recruitment of vacant PMU/DPMU positions | MPI/ PD | 06/2018 |

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| C1 MIS synchronisation Pilot test the alignment of TSHDA and STARR MIS in Matara and Rathnapura for faster permit issuance and payments; issue report for scaling up | GIS/MIS officers/ DPMUs | 07/2018 |
| C1 Nursery mapping Undertake mapping exercise of existing nurseries and facilitate linkage to PFIs for working capital loans for expansion | DPMU/ Soc. | 07/2018 |
| C1 Youth engagement Identify and map youth in tea societies interested in testing mechanization | DPMU/ TS | 07/2018 |
| C1 Pilots – action plan Draft the action plan for implementing pilot activities | PMU | 07/2018 |
| C3 4P sub-projects Develop three 4P outgrower models with factories, nurseries and producers | PPPLC/ PMU | 08/2018 |
| C1 Commercial tea nurseries Commercial tea nursery development – develop 260 nurseries (2-3 nurseries per society) for production of 13m plants with LKR 150,000 credit (6.5% r/i) per nursery; verify requirements through mapping | DPMU/ Soc. | 08/2018 |
| FAM Accounting software Operationalization and full use of accounting software | Finance Manager | 08/2018 |
| C1 Infrastructure Infrastructure implementation – LKR 1.1m for rubber society; LKR 5m for tea society; recruit consultant (by DPMU) to support civil works | PMU/DPMUs | 12/2018 |

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus

Effectiveness

Rating: 4

Previous rating: 4

Justification of rating

Today, approximately 30% of appraisal targets related to tea and rubber development have already been reached; although the depth and quality of the outreach is still modest, the operational guidelines and preparations to fully implement the scope of activities are almost finalised – these operating principles and guidelines are the key foundations for accelerated and extensive project delivery. Furthermore, all 300 tea/ rubber societies have today been identified with completed diagnostic mapping; what remains is to build on the diagnostics in order to fully develop the society development plans for the core societies.

Log-Frame Analysis & Main Issues of Effectiveness

STARR outreach is to-date significant, with more than 17,000 hhs reached and representing 53% of the overall appraisal target of 32,000 households. Within this figure, 1,693 hhs have received rubber permits (34% of overall target of 5,000 hhs to be reached with rubber) and 6,739 hhs have obtained tea permits (25% of overall target of 27,000 hhs reached with tea development). The land identification and verification processes preceding issuance of permits is the 'heaviest' and most lengthy part of the project's overall support to tea/ rubber development; once the permit is issued, the project through its implementation arrangements is relatively well positioned to ensure that follow-on activities and subsidies are progressively given; amongst the follow-on activities, timely provision of the inputs/ planting materials is another critical phase. Therefore, the mission recommended streamlining of the early permit issuance process, and strong monitoring of the post-permit situation, and with strong attention to ensuring availability of planting materials through nurseries.

In summary, and in consideration of the substantial lag time from tea replanting/ rubber new planting to harvest, frontloading the planting ahead of project mid-term is essential – i.e. the annual planting targets need to be realised. This requires: (i) timely issuance of permits, upfront payment and subsidy instalments through streamlined checks and inspections, with joint collaboration of field animators (FAs) and the tea inspectors (TIs) or rubber development officers (RDOs), and utilisation of GPS for (confirmed) land measurement at the permit issuance stage; (ii) assured availability and access to required (volume of) planting material through a combination of support for (local) commercial nursery development and contracted supply from public nurseries or established commercial nurseries; and (iii) accelerating the implementation of the pilot activities intended to reduce the lag time to harvest, increase productivity and offer an alternative solution to labour supply constraints.

As well, noting the temporary negative implications for household incomes during the replanting/ rehabilitation period until plant maturity, complementary pursuit of livelihood development/ income generating activities is important. The project has taken an evolved approach in supporting IGAs through facilitating access to credit, rather than the provision of matching grants. A line of credit facility for PFIs to on-lend is now operational, to provide financing for IGA working capital, expansion of commercial nurseries and tea mechanisation.

Development Focus

Targeting and Outreach

Rating: 4

Previous rating: 4

Justification of rating

The selection of households and land identification for tea and rubber replanting/ new planting largely adheres to the targeting criteria as at appraisal. Per the findings of the diagnostic mapping exercise, societies are also reporting that more than 60% of their members are considered poor households with incomes of less than LKR 30,000 per month. As these societies are taking on more responsibility for the effective 'targeting' of project beneficiaries, they have been well sensitized and well-versed to identify those households that meet the targeting criteria. Finally, the extent and thoroughness of the completed participatory rural appraisals (PRAs) suggests that the expected project-supported activities to be implemented, will respond well to the needs of the target group.

Main issues

Whilst the society diagnostic mapping and PRA exercises have been critical to inform effective targeting, there is still need to rapidly finalise the full scope of the society development plans (SDPs) for the core societies. The SDPs will be the core basis for informing and planning further project support in terms of infrastructure, IGAs, nursery development, etc. The SDPs will also identify the capacity building and training priorities of the society as an entity in itself, but also for its

membership, with the vision that the societies become the primary point of contact to/for smallholders and provide sustainable and long-term key services to their members.

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| Gender equality & women's participation | Rating: 3 | Previous rating: 4 |
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Justification of rating

The recommendation of the previous mission to elaborate and finalise a responsive gender strategy has not materialised. However, gender sensitization training has taken place for staff, IPs and at the community level (basic sensitization), and a stronger effort is in place to more systematically collect and report on sex-disaggregated data and information. Today, the gender 'quota' of the 30% women's participation is being adhered to.

Main issues

A deeper knowledge of the key gender issues prevailing and targeted responses needs still to materialise; this requires the elaboration/ finalisation of the gender strategy as already previously recommended.

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| Agricultural Productivity | Rating: 4 | Previous rating: 4 |
|----------------------------------|------------------|---------------------------|

Justification of rating

In spite of the initial setback of the project, a concerted effort has been made to accelerate the agricultural productivity process. There is substantial progress in the land identification and facilitation of applications in the tea component while the actual land preparation and replanting is slightly lagging behind targets. The rubber sector is lagging in the identification and procurement of land for rubber, while acquiring of permits is functioning well and actual planted extent is short of the targets. The attempt to search for new technologies to lessen the additional costs in the tea sector is ongoing, and pilots are being designed, and where appropriate with the support of the research institutes. These pilots need now to be fully implemented to allow for an effective assessment of the pilot to inform potential up-scaling.

Main issues

While identification of tea replanting lands is relatively 'easy', the follow-up activities of verification, TI approval and accruing permits from TSHDA are complex, unduly delaying the tea component progress.

In the rubber component, planting targets and establishing a healthy plantation is heavily governed by availability of nursery plants of acceptable standard. These critical hindrances in both components need to be addressed urgently.

| | |
|------------------|----------------|
| Nutrition | Rating: |
|------------------|----------------|

| | | |
|-------------------------------------|------------------|---------------------------|
| Adaptation to Climate Change | Rating: 4 | Previous rating: 4 |
|-------------------------------------|------------------|---------------------------|

Justification of rating

The project SECAP review note was prepared in 2015 during appraisal, and with the macro-level data available at the time. At present, mostly by default, farmers follow all recommended mitigation practices, in part as this is a condition of the upfront payments and subsidies. With the project duration until 2021, it may be that significant climate changes could occur during the project lifetime, different from the appraisal situation. Today, the country is already facing instances of extreme climatic changes and whilst macro-level climate change information is valuable, more pertinent would be firm knowledge of climate vulnerabilities at project implementation level. This should now be collected or observed to design more appropriate mitigation practices via an Environmental Social Management Framework (ESMF), which still has to be fully elaborated and finalised.

Main issues

Climate change elements and dynamics are continuously changing often at micro terrain level, signalling the need for frequent updating of required mitigation measures. This calls for an environmental management plan and framework. However, at the project level, there is limited capacity to design the plan and the know-how to implement it, without sourcing some external expertise.

b. Sustainability and Scaling up

| | | |
|---|------------------|---------------------------|
| Institutions and Policy Engagement | Rating: 4 | Previous rating: 4 |
|---|------------------|---------------------------|

Justification of rating

The policy environment around the smallholder tea and rubber sectors are well-established, and the project is well-positioned to engage in policy dialogue, falling within the institutional housing of the Ministry of Plantation Industries. Whilst no specific policy issues have yet been fully identified, the project is engaging with key institutions to discuss issues and find solutions related to streamlining subsidy procedures and piloting of technologies that go beyond the 'traditional' means of the past (in the tea sector especially)

Partnership-building

Rating: 4

Justification of rating

The project has formally engaged in partnership with key, well-established tea and rubber institutions (notably TSHDA, RDD, TRI and RRI) for project implementation and support to smallholders – leveraging their experience, research and field presence; whilst the MoAs have been signed, they are being amended on the basis of the emerging realities on the ground. The project is also in the process of engaging with the SAP Programme, to facilitate the access to the line of credit essential for supporting beneficiary IGAs and overall improving access to inclusive rural finance. This partnership needs to be formalised with the signing of the MoA.

Human and Social Capital and Empowerment

Rating: 4

Previous rating: 4

Justification of rating

Smallholders are benefitting from the provision of support in the form of upfront payments and subsidies, as well as extension services to enhance productivity of the farming activities in which they engage in, which in turn is expected to have significant impact on their income level and economic empowerment – whilst the first subsidies are being disbursed, this is expected to accelerate by the end of the year. The project is now also finalising the arrangements to facilitate access of smallholders to formal credit (through the revolving fund) from the commercial banking sector for productive activities (nurseries, IGAs, etc.), also increasing ownership. Furthermore, this expected deepened interaction with financial institutions is an important source of empowerment. Social capital is expected to increase substantially by capacitating the societies.

Main issues

Societies are expected to take responsibility for the smallholder tea/rubber development in their catchment area; these societies need to be supported to build capacity to lead the process, have full knowledge of their membership and area potential, and provide services to their members. The diagnostic mapping has been completed, but for the key/core societies with large membership and strong potential, there is urgent need to finalise the society development plans.

Quality of Beneficiary Participation

Rating: 4

Previous rating: 4

Justification of rating

The project, through DPMU staff, field animators and public agents, has undertaken an extensive IEC campaign, followed on with participatory rural appraisals and society diagnostic mapping and survey – with sensitization, societies have also been well versed in prioritizing vulnerable households within their societies/ communities. This was made possible by the active participation of society members/ beneficiaries during these consultative processes, which mapped the challenges, demands and priorities of the community. Societies are also sensitized on their expected increasing role and responsibility for the local tea/ rubber development in their area.

Responsiveness of Service Providers

Rating: 4

Previous rating: 4

Justification of rating

The project has stepped up the level and frequency of the communication and interaction with the key service providers/ implementing partners, and they have in response shown a strong willingness to accelerate the rate of implementation. SPs have also agreed to synchronize their systems to the project MIS system, which will also serve to improve monitoring and efficiency.

Main issues

The processes and procedures for permit issuance and subsequent upfront payments/ subsidy instalments need to be streamlined for better efficiency and timeliness of disbursement to beneficiaries – currently, the process is too complex and fraught with delays. The joint collaboration between the DPMU and TSHDA/RDD is critical, as is the need to utilise GPS for accurate and timely land measurement.

Environment and Natural Resource Management**Rating: 4****Previous rating: 4****Justification of rating**

Climate change (CC) with frequent long dry spells or long overcast periods with excessive rains are being experienced in both tea and rubber project implementation areas. The impact of CC on tea and rubber and on soil is detrimental. Dry spells desiccate, dormant and scotch young tea and rubber leading to casualties and low productivity. Excessive rains, disproportionate shoots, heavily erodes soil and fast spread fungi and nematodes again leading to low productivity. The techniques to mitigate CC adverse effects; proper land preparation, contour planting, infilling, inter and cover cropping, rain water management, soil surface protection- enrichment, ambient temperature control, net assimilation of leaf litter are practiced in tea replanting and rubber planting components of the project, but need to educate project officers and beneficiaries to adhere to firmly.

Main issues

The beneficiaries adhere to the mitigation procedures out of compulsion, as adaption of such procedures is bound with release of upfront payment and subsidies. This is not development of social responsibility. Both project field officers and the beneficiaries need to be educated on the CC, its consequences, available mitigation methods and the need to mitigate CC as a national priority.

Exit Strategy**Rating: 4****Previous rating: 4****Justification of rating**

Whilst the project is in its early stages, the principles and approaches that have been adopted – such as moving away from matching grants in favour of promoting credit provision, and the increased and expected significant role/ functions of societies in the development process – will contribute to ensuring a smooth exit of the project upon its completion.

Potential for Scaling-up**Rating: 4****Previous rating: 4****Justification of rating**

Opportunities to innovate are only just being identified; pilots are underway, though the project is too young to have yielded any results. The institutional setting of the project, and the partnership

c. Project Management**Quality of Project Management****Rating: 4****Previous rating: 4****Justification of rating**

Today, management and organizational conditions have improved and there is now a good basis to implement more comprehensive field activities, beyond production only. With the exception of a few positions, the PMU/ DPMU staffing is largely complete, although the mission notes that some key staff have only been in their positions for less than 3 months, and that a new Project Director has only very recently joined the project. Some training of the DPMU staff and district partners (TIs/ RDOs) has been completed, though further technical training on key subject matters are still required.

Main issues

With the relative completeness of the PMU and DPMU staffing (and their training), the focus needs now to shift to rapidly finalize the 'strategic guidelines' to be reflected in the project's implementation/ operational manual, categorically define staff responsibilities, and place emphasis on the implementation responsibility of the field-based DPMU especially (and vis-à-vis the collaboration with other technical partners). Today, the DPMU needs to be equipped (with the tools and training/ capacity) to be fully operational; the current office equipment and FA packages (fuel, phone, etc.) should be reviewed, and gaps need to be addressed immediately. Monitoring has improved, and will be aided by the full development and adoption of the GIS and MIS system (integrating the M&E system), including digital recording/ record-keeping by the FAs and DPMUs. Finally, in line with the mission recommendations, the 2018 AWPB should be reviewed and revised for IFAD no objection.

Knowledge Management**Rating: 4****Previous rating: 4****Justification of rating**

The project is still early in its implementation cycle, limiting the identification of any clear lessons. However, the project has already piloted and is in the process of further developing and finalising an MIS/GIS system that is highly advanced, able to capture a wealth of information accessible to the various project stakeholders. This system will be able to facilitate improved analysis of information/ data for knowledge management.

Main issues

In view of the importance and potential of the smallholder tea sector, a solid knowledge management and communication strategy/ plan would be critical to inform the sector's development. This should complement and also be integrated into the MIS/GIS system.

| | | |
|--|------------------|---------------------------|
| Value for Money | Rating: | |
| Coherence between AWPB and Implementation | Rating: 2 | Previous rating: 4 |

Justification of rating

AWPB execution was 19% for the year 2017 and 9% overall for the first four months of 2018 (21% against the January-April 18 budget). As detailed above, these low rates are a reflection of both unrealistic budgets (given the staffing and leadership issues faced in the first 2 years of the project life), and implementation bottlenecks (delays in the issuance of planting permits, absence of IGAs and infrastructure activities, and difficulties in launching the rural finance component).

AWPB Inputs and Outputs Review and Implementation Progress

An improvement was noted in the timeliness of submission of the 2018 AWPB (submitted on 06/11/17) as well as the quality of the document. The low level of financial execution for both 2017 and the first four months of 2018, for the reasons listed above, is in line with physical progress. Based on the extensive discussions held with the project on the prioritization of activities and the changes to be adopted in the implementation modalities, it was agreed that a revision of the AWPB would be carried out immediately in order to maximize project performance in the current year. In order to facilitate budget monitoring and budget preparation in the future, the mission strongly recommends that sources of unit costs, as well as assumptions and hypotheses used to derive those costs, be fully documented in the AWPB. In addition, schedules showing projected disbursement levels by component and by category (taking into account cumulative amounts and current year budget) should be included in the AWPB.

The project does not have an efficient or reliable system for monitoring the financial execution of its AWPB: actual expenditures are not recorded in the accounts on real-time basis, and budget-to-actual variances by activity are not analysed each month. The mission urges the PMU to implement a budget monitoring system consisting of (i) the input of the detailed annual budget in the (newly acquired) accounting system, (ii) the generation of a budget-to-actual statement by activity on a monthly basis, and (iii) an analysis of budget variances during a monthly budget review meeting chaired by the Project Director, with the participation of the Finance Manager, M&E Officer and the various Coordinators.

| Agreed Action | Responsibility | Agreed Date |
|--|--------------------------------------|--------------------|
| Project Management | | |
| AWPB revision - Revision of the 2018 AWPB taking into account mission recommendations - Full documentation of cost assumption and hypotheses - Inclusion of disbursement projections by component and by category as part of the AWPB - Submission to NSC for approval and to IFAD for no objection | Project Director | 06/2018 |
| Budget monitoring - Implementation of a budget monitoring system (input of AWPB in the accounting system and issuance of monthly budget vs. actual statements by activity) - Conduct of monthly budget review meetings to analyse variances | Finance Manager and Project Director | 06/2018 |

| | | |
|--------------------------------------|------------------|---------------------------|
| Performance of M&E System | Rating: 4 | Previous rating: 4 |
| Justification of rating | | |

M&E has been challenged by the turnover in staff, and an M&E officer is not yet in place. However, a consultant has been

recruited, and the MIS and GIS officers have been supporting the set-up of the M&E system, which is effectively integrated into the MIS system. There is now a systematic means for data/ information recording and analysis, though capacity to undertake effective analysis would still need to be built. Some further M&E tools should be developed as the project matures (e.g. related to rural finance).

M&E System Review

The M&E system is integrated into the MIS system that has been developed and is quite technologically innovative and advanced. The IPs are also now synchronising their systems into the project MIS system, and which will lead to more efficient and effective monitoring; this system is also very transparent and accessible. The responsibility for collection of M&E data/ information is a shared/joint responsibility, and is furthermore to be supported with the provision of technological tools such as GPS and mobile apps to facilitate speedy data collection.

The project is systematically recording beneficiary profiles and information, though the project had not initially considered disaggregating data by age. Given the importance of the youth and attention to youth, the project has agreed to monitor and record age-disaggregated information; the MIS system, tracking the beneficiary ID numbers, can automatically capture beneficiary sex and age.

Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)

Rating: 4

Justification of rating

The SECAP Review Note was elaborated at appraisal, and key measures to mitigate negative impacts were identified. In general, these measures have been adhered to, with some slippages. These slippages relate to the period during which land preparation has taken place; whilst the SECAP calls for land preparation during dry weather conditions, the delays in issuing the planting permits (as a trigger for commencing land preparation activities) has in some cases, meant that smallholders have only recently begun land preparations despite the onset of the rainy season. In terms of intercropping (another proposed SECAP measure), the demand for intercropping by smallholders is in the process of being consolidated and addressed. Other measures are not yet implemented, as they relate to activities that have not yet started (e.g. farm access roads, rubber processing centres, etc.).

SECAP Review

The Social, Environmental and Climate Assessment (SECAP) Review Note (Aug.2015) of STARR Project has extensively analysed the environmental impacts of the project components in terms of their activities, locations and magnitudes against IFAD's SECAP procedure and National Environmental Policy and Country Guidelines of Sri Lanka. It has concluded that the proposed project activities would create better land use, higher biodiversity conservation and positive social impacts. There are no potentially severe environmental impacts in ecologically sensitive areas. Thus project is identified as category "B" of SECAP, where any negative impacts can be readily remedied by appropriate preventive actions or mitigation methods. Some measures however are suggested in SECAP to mitigate possible negative impacts which are already followed by the project. In component 1: replanting of tea, it is suggested to replant small blocks at a time and to do uprooting and land clearing in dry weather. They are currently followed in project implementation. In component 2: planting of rubber, it is suggested to undertake land clearing and land preparation during dry weather and to establish drains and terraces and intercropping to lesson soil exposure. The suggestions are also adhered in rubber planting. In general infilling vacancies and intercropping are suggested to maintain good ground cover and rehabilitating access roads should be only in environmentally non-sensitive areas, which are also followed in the project. While no formal Environmental and Social Impact Assessment (ESIA) is required for the project, being of Category B, further environmental analysis should be undertaken during project implementation (IFAD's Updated Social, Environmental and Climate Assessment Procedures, Aug. 2017). Category B usually requires an Environmental Social Management Plan (ESMP). ESMPs, should include detailed information on mitigation measures, responsibilities, institutional capacity, monitoring and timelines, along with adequate budgets. The project has not yet initiated preparation of ESMP due to past needs to attend to other pressing issues. The mission recommends that project hires an experienced short-term consultant to prepare the ESMP and Environmental Social Management Frame (ESMF) and the Climate Risk Analysis by 4Q of 2018. Other SECAP related documents such as Indigenous People Policy (IPP), Resettlement Action Plan (RAP) and Free, Prior and Informed Consent Plan (FPIC Plan) are not relevant to the project.

d. Financial Management & Execution

Disbursement by financier

| Type | Name | Current Amount | Disbursed Amount | Actual Rate |
|------|------|----------------|------------------|-------------|
|------|------|----------------|------------------|-------------|

| | | | | |
|-------------------------------------|---------------------------------|--------------|--|--|
| Domestic Financing breakdown | Beneficiaries | \$3,610,000 | | |
| | Domestic Financing Institutions | \$3,251,000 | | |
| | Private sector local | \$15,000 | | |
| | National Government | \$32,762,000 | | |

Acceptable Disbursement Rate

Rating: 3

Previous rating: 1

Justification of rating

The STARR project has just completed its 2nd year of implementation and the disbursement rate on the IFAD loan is 15% including the initial advance. The disbursement rate goes up to 18% when the pending WA #7 (to be submitted to IFAD by end of May) is taken into account. There has been no extension. It should be noted, however, that actual implementation only started nearly one year after effectiveness of the financing agreement.

Main issues

IFAD financing. Although the disbursement rate (which includes the advance to the designated account) is acceptable, actual expenditure has been relatively low due to delayed project launch, leadership issues, lengthy and cumbersome permit issuance procedures and difficulties in accessing the required quantities of planting material. In addition, IGA, infrastructure and rural finance activities have not commenced. The analysis of cumulative disbursement by component shows, logically, very low rates for components 1 and 2 and zero for component 3. However, disbursements in Project Management have reached 54% at 30/04/18, which is much higher than the expected rate at this stage of implementation. This presumably is the consequence of the shift of implementation responsibility from the TSHDA/RDD to the PMU/DPMUs, as many project management expenses initially designed to be recorded under components 1 and 2, are now accounted for under component 4. As well, certain staff positions envisaged to be seconded from GoSL at design were ultimately contracted and are being paid from IFAD financing under component 4. Until a thorough analysis of the project cost structure is conducted at midterm review, the mission recommends that the PMU closely monitor operating/project management costs to avoid overspending.

Withdrawal applications (WAs). The two replenishment WAs submitted to and reimbursed by IFAD since the last IFAD mission were reviewed and the following observations were made from the sample verification of SOEs:

- Some expenses were mistakenly recorded under category 5 instead of category 2 or 3;
- Invoice/contract numbers/contract value and check numbers are not always indicated on Form 102; also, descriptions should be more explicit (particularly for settlement of advance or settlement of petty cash);
- Vouchers used as the source for recording transactions in the accounting system, are incomplete (funding source, % financing, expense category, AWPB activity, account number and exchange rate are not indicated);
- Several errors were noted in the AWPB activity code shown on the WAs;
- Payments made by bank transfer are very difficult to trace to the bank statements due to poor description by the Bank and batch processing of all orders received on the same day;
- Purchase orders are not used;
- Proper supporting documents were missing in a few cases.

Designated Account (DA) reconciliation. DA reconciliations are prepared monthly. The 30/04/18 reconciliation shows an unreconciled amount of USD 276, which most probably represents an exchange rate difference; this needs to be monitored and justified on a monthly basis.

| Agreed Action | Responsibility | Agreed Date |
|--|--|--------------------|
| Financial Management & Execution | | |
| Project management expenses Close monitoring of operating costs/ project management expenses to avoid overspending | Project Director and Finance Manager | |
| Withdrawal applications preparation - Correction of categorization errors in the next WA - Proper completion of all fields in Form 102 and inclusion of explicit/ detailed descriptions - Indication of the correct AWPB activity codes in Form 102 (matching the approved AWPB) | Finance Manager | |
| Supporting documentation - Provision of all relevant information on the manual vouchers - Proper supporting documents for consultancy fees and incentive payments to TSHDA/RDD - Reconciliation of bank transfer amounts with bank statements for each payment by bank transfer (salaries, upfront payments, etc.) - Systematic use of purchase orders for small value goods, works and non-consulting services | Finance Manager, Procurement Coordinator | |
| Designated account reconciliation Monthly monitoring and justification of exchange rate differences | Finance manager | |

Fiduciary Aspects

Quality of Financial Management

Rating: 4

Previous rating: 4

Justification of rating

After nearly 2 years of operating the finance unit with only one Project Accountant (PA) and a manual, single entry accounting system based on Excel worksheets, the project has very recently taken measures to improve the situation. Firstly, the PMU has installed an accounting software meeting the requirements for project accounting and reporting. However it is not yet operational. Secondly, 2 Accounts Assistants were recruited late November 17, and a Finance Manager took up duty on 15 May 2018. Unfortunately, the PA has resigned and her departure at end of May will create a major gap in the operation of the finance unit.

Main issues

Financial management. The accounts are still maintained on Excel, although inputting of 2018 data in the software has started. The 2nd training session should be held as soon as a new PA is recruited, so that the software becomes fully operational by August 18. The financial information generated by the PMU will then be more accurate and reliable, and the finance unit will be in a position to produce fully informative financial reports on a monthly basis. The finance and administration section of the PIM will have to be revised to reflect the new workflows and procedures induced by the accounting software and the new structure of the unit.

Financial statements. 2017 financial statements were prepared by the PMU and submitted to the Auditor General and to IFAD in March and May 2018, respectively. These unaudited financial statements were found to be complete, except for the statement of fixed assets, which was not initially prepared and must now be submitted to the auditors.

Administrative management. Despite a 130-staff workforce, the project has no HR management function; the Finance Manager should take charge of HR as soon as the PA is recruited. Performance evaluations need to be more comprehensive/detailed and a minimum grade set for contract extension. The fixed assets register was found incomplete, and physical inventory procedures need improvement. Finally, the PMU must adopt an MIS policy and implement backup and storage procedures for all files.

Internal audit. Responding to IFAD's recommendation regarding internal audit arrangements, the MPI has assigned to STARR, since January 2018, a part-time acting Internal Auditor (IA) working 1 to 2 days per week on the project and reporting to the Secretary MPI. The acting IA's appointment letter indicates that his "duties ... will be assigned by the Project Director", and that he will be paid a monthly allowance by the project. The mission is of the opinion that a functional reporting line to the MPI Chief Internal Auditor would enhance the IA's independence and allow for better

oversight of the function (review/approval of workplans, supervision of work, review of reports, etc.).

Treasury management. The project has not suffered from cash tensions so far, and the initial deposit amount is adequate, given the current level of activities. However, with the streamlining of permit issuance procedures and the implementation of certain activities by tea societies (as recommended by the mission), cash needs may rise significantly in the near future. Cash forecasts must therefore be prepared on a quarterly basis, and updated monthly. In order to achieve this, the finance unit must monitor financial commitments and maintain updated contract register and contract monitoring forms

| Agreed Action | Responsibility | Agreed Date |
|---|---|--------------------|
| Financial Management & Execution | | |
| Administrative management <ul style="list-style-type: none"> - Assignment of HR management function to Finance Manager - Preparation of comprehensive performance evaluations and setting of a minimum grade for contract extension - Completion of assets register and revision of inventory procedure - Implementation of MIS policy and backup procedures | Project Director , Finance Manager, MIS Coordinator | 08/2018 |
| Financial management <ul style="list-style-type: none"> - Recruitment of Project Accountant - Operationalization of the accounting software - Preparation of monthly financial reports and quarterly cash forecasts - Revision of PIM to reflect new workflows and organization of unit | Project Director , Finance Manager | 08/2018 |
| Internal audit <ul style="list-style-type: none"> - Sharing of IA annual work plan and quarterly reports with IFAD - Functional reporting line of IA to Chief Internal Auditor MPI | MPI | |

Quality and Timeliness of Audit

Rating: 4

Previous rating: 4

Justification of rating

Audit report received within a few days of deadline in July 2018, full review pending

Counterparts Funds

Rating: 5

Previous rating: 4

Justification of rating

Since 2017, and given the slow pace of implementation, the project has been requesting less funding from the government than the amount budgeted in the AWPBs. The government has made counterpart funds available to the project on a regular basis, as per the PMU's requests.

Main issues

GoSL contribution. The GoSL contribution is meant to cover mostly subsidy payments on the on-going tea and rubber replanting program, as well as taxes and a share of project expenditure as determined in the AWPBs. In addition, at project start, the GoSL has provided office space and utilities as in kind contribution. Total GoSL cash contribution made available to the project to date amounts to USD 834 535, of which only USD 402 172 was actually spent (the balance is returned to the MPI at the end of each fiscal year). Counterpart disbursements at 30/04/18 total USD 461 682 (USD 402 172 in cash and USD 59 510 in kind contribution), representing only 1.4% of the total expected counterpart funding. This low disbursement rate reflects the delays in implementation, and particularly in the payment of government subsidies.

Beneficiary contribution. Beneficiaries are expected to contribute to project costs in kind (mostly labor, materials, tools and equipment for infrastructure, tea/rubber production, nurseries, processing centres, as well as training and business development plans). To date, beneficiary contributions have been limited to labor days and the provision of venues and refreshments (during PRA, trainings, workshops). These contributions, which are monitored by the DPMUs and valued using local labor rates and market prices, amount to USD 19 268 for component 1. The mission observed that DPMUs in

the rubber districts have not been monitoring these contributions

| Agreed Action | Responsibility | Agreed Date |
|--|-----------------------|--------------------|
| Financial Management & Execution | | |
| Beneficiary contributions Monitoring and submission to PMU of beneficiary contributions in kind on a regular basis | DPMUs | |

Compliance with Loan Covenants

Rating: 4

Previous rating: 4

Justification of rating

Most legal covenants have been complied with. However, as highlighted by the previous supervision mission, slight delays have been observed in the submission of the 2018 AWPB and the 2017 unaudited financial statements. In addition, the project is yet to provide accident/health insurance coverage for its staff, as well as to insure project assets/buildings.

Main issues

The mission stresses the importance of timely submission of all documents, particularly the AWPBs, the unaudited financial statements and the audit reports. Although the lead project agency has assigned a part-time internal auditor to the project, these arrangements were not found fully satisfactory (see section on quality of financial management).

| Agreed Action | Responsibility | Agreed Date |
|--|-----------------------|--------------------|
| Financial Management & Execution | | |
| Staff insurance Provision of accident and health insurance for project staff | Project Director | 06/2018 |
| Assets insurance Provision of insurance for project assets/buildings | Project Director | 06/2018 |

Procurement

Procurement

Rating: 4

Previous rating: 4

Justification of rating

Some of the weaknesses in documentation noted in the early stages of the project, have since been addressed and regularized. A centralized system of procurement is in operation and Government Procurement Guidelines, largely in line with IFAD guidelines, are followed with slight modifications to adhere to IFAD requirements; no serious lapses have been observed. Current procurement progress is around 66%.

Procurement Review

The Procurement Unit is headed by a qualified Procurement Coordinator and he is assisted by a Management Assistant. A centralized system of procurement is in operation and Government Procurement Guidelines which are basically in line with IFAD guidelines are followed with slight modifications to suit to IFAD requirements. TOR and Specifications are drawn by government officials who possess relevant expertise and experience and are vetted by relevant Technical Committees and approved by the Procurement Committees. However, when Technical committees are appointed relevant extracts of IFAD procurement guidelines should be made available to them to ensure that correct methodology is followed, especially when selecting consultants. Also, Procurement files should include all relevant documents including Prior approvals, where applicable, for review by audit and supervision missions. Procurement initiation is based on the Annual Procurement Plan prepared based on Annual Work Plan and project priorities. Contract solicitation documents are prepared by the PMU using formats / samples of the procurement guidelines.

The Contract Register is maintained satisfactorily and no procurements on hold including unresolved issues with contractors. Under the circumstances, no serious drawbacks are observed in the current procurement system adopted, except the absence of periodical monitoring and updating the Procurement plan to suit changing requirements of the project and mission recommendations. In order to minimize delay, submission of annual procurement plan for IFAD approval and all other preparatory arrangements such as preparation of procurement documents, appointment of

Procurement Committees and Technical Evaluation committees etc. should be done on time.

Mission reviewed procurement plan for 2018 which included incomplete procurements of 2017 and all procurements completed up to the end of May 2018 including procurements of 2017 and observed a significant progress in procurement process, since last mission. The total procurements completed comprised of 17 items that were subject to prior review and 12 were for post review. At the initial stage of the project, some procurements that were categorized under prior review were in fact could have been categorized under post review. Prior approval for the procurement of GIS software is yet to be obtained as it was procured on sole source basis. PMU does not intend to proceed with 9 items that were in the current plan due to various reasons including subsequent design changes. Accordingly, current procurement progress is around 66% and PMU would be able to meet annual procurement target provided that revision and updating the procurement plan and periodical monitoring is carried out.

| Agreed Action | Responsibility | Agreed Date |
|---|-------------------------|--------------------|
| Financial Management & Execution | | |
| GIS software Request IFAD no objection for procurement of GIS software | Procurement Coordinator | 06/2018 |
| Procurement plan Provision of accident and health insurance for project staff | Procurement Coordinator | 07/2018 |

F. Agreed Actions

| Agreed Action | Responsibility | Agreed Date |
|--|-----------------------|--------------------|
| Overview and Project Progress | | |
| PM FA operating package Revise FA monthly operational package (fuel allowance, raincoat/ boots, mobile phone credit, GPS) | PD | 05/2018 |
| C1 Training material Provide TRI advisory circulars to each society (3 copies/ society) and 1 for each FA | DPMU/ PMU | 05/2018 |
| C1 Amendment of MoA with TSHDA Amend the MoA with TSHDA to include: defined responsibility and accountability of TIs vis-à-vis tea society and issuance of permits, where incentive payment is made directly to TI bank account against the number of permits issued | PMU/TSHDA | 05/2018 |
| C1 Streamlining Streamline the permit issuance and payment procedures, including formalizing FA and TI joint field verification and visits | PMU/TSHDA | 06/2018 |
| C1 Input nurseries Draft and implement the fast-track plan to accelerate the input nursery programme | PMU/TSHDA | 06/2018 |
| C1 SDPs Finalize the SDPs for 'main' societies (approx. 110 tea societies and 56 rubber societies) receiving the full package of support (society cap. bdg; infrastructure; IGA; etc.) | BDO/CDO | 06/2018 |

| | | |
|--|--------------------|---------|
| C2 Identification of rubber lands Confirm lands for rubber new planting with Mahaweli Authority and Forestry Dept. with management directive | MPI Secretary | 06/2018 |
| C2 Rubber planting material Confirm RDD supply of plants; purchase remaining plant needs from commercial nurseries considering cost-effective transportation options and ensure delivery of quality rubber plants (for field uniformity) | RDD/RDO | 06/2018 |
| C2 Input contingency plans Prepare nursery and fertilizer contingency plans to facilitate timely availability of inputs | PMU/DPMU | 06/2018 |
| C3 STARR and SAPP MoU Draft (and sign) MoU between STARR and SAPP (for access to credit under the consolidated revolving fund account) for IFAD no objection | PMU/SAPP | 06/2018 |
| C3 Identification of PFIs Identification of PFIs and training of field animators on loan application form, KY and account opening requirements | PMU/ PFIs | 06/2018 |
| PM Staff recruitment Complete the recruitment of vacant PMU/DPMU positions | MPI/ PD | 06/2018 |
| PM MoA with implementing partners Confirm responsibilities of implementing partners and ensure this is reflected in the MoA | PMU/ TSHDA/ RDD | 06/2018 |
| PM GIS/MIS system Finalise the GIS/MIS system to be utilised and operated, including by the DPMUs | GIS/MIS officers | 06/2018 |
| PM Sex and age disaggregated data Monitor and systematically disaggregate data to include female youth and male youth | PMU/ M&E | 06/2018 |
| FAM Budget monitoring and cash forecasts Implementation of budget monitoring and cash forecasting systems | Finance Manager | 06/2018 |
| FAM Monthly financial reports Preparation of monthly financial reports | Finance Manager | 06/2018 |
| FAM Insurance Provision of accident/health insurance for staff and project assets/building insurance | PD | 06/2018 |
| FAM Finance staff recruitment Recruitment of new Project Accountant | PD | 06/2018 |

| | | |
|--|--------------------------------------|---------|
| C1 SDP operating guidelines Finalize complementary SDP operating guidelines – procedures related to selection criteria, evaluation, approval processes, flow of funds, audits | PD/ PMU/ DPMUs | 06/2018 |
| C1 Nursery mapping Undertake mapping exercise of existing nurseries and facilitate linkage to PFIs for working capital loans for expansion | DPMU/ Soc. | 07/2018 |
| C1 Youth engagement Identify and map youth in tea societies interested in testing mechanization | DPMU/ TS | 07/2018 |
| C1 Pilots – action plan Draft the action plan for implementing pilot activities | PMU | 07/2018 |
| C1 MIS synchronisation Pilot test the alignment of TSHDA and STARR MIS in Matara and Rathnapura for faster permit issuance and payments; issue report for scaling up | GIS/MIS officers/ DPMUs | 07/2018 |
| C3 4P sub-projects Develop three 4P outgrower models with factories, nurseries and producers | PPPLC/ PMU | 08/2018 |
| C1 Commercial tea nurseries Commercial tea nursery development – develop 260 nurseries (2-3 nurseries per society) for production of 13m plants with LKR 150,000 credit (6.5% r/i) per nursery; verify requirements through mapping | DPMU/ Soc. | 08/2018 |
| FAM Accounting software Operationalization and full use of accounting software | Finance Manager | 08/2018 |
| C1 Infrastructure Infrastructure implementation – LKR 1.1m for rubber society; LKR 5m for tea society; recruit consultant (by DPMU) to support civil works | PMU/DPMUs | 12/2018 |
| Project Management | | |
| AWPB revision <ul style="list-style-type: none"> - Revision of the 2018 AWPB taking into account mission recommendations - Full documentation of cost assumption and hypotheses - Inclusion of disbursement projections by component and by category as part of the AWPB - Submission to NSC for approval and to IFAD for no objection | Project Director | 06/2018 |
| Budget monitoring <ul style="list-style-type: none"> - Implementation of a budget monitoring system (input of AWPB in the accounting system and issuance of monthly budget vs. actual statements by activity) - Conduct of monthly budget review meetings to analyse variances | Finance Manager and Project Director | 06/2018 |
| Financial Management & Execution | | |

| | | |
|--|--|---------|
| Staff insurance Provision of accident and health insurance for project staff | Project Director | 06/2018 |
| Assets insurance Provision of insurance for project assets/buildings | Project Director | 06/2018 |
| GIS software Request IFAD no objection for procurement of GIS software | Procurement Coordinator | 06/2018 |
| Procurement plan Provision of accident and health insurance for project staff | Procurement Coordinator | 07/2018 |
| Administrative management <ul style="list-style-type: none"> - Assignment of HR management function to Finance Manager - Preparation of comprehensive performance evaluations and setting of a minimum grade for contract extension - Completion of assets register and revision of inventory procedure - Implementation of MIS policy and backup procedures | Project Director , Finance Manager, MIS Coordinator | 08/2018 |
| Financial management <ul style="list-style-type: none"> - Recruitment of Project Accountant - Operationalization of the accounting software - Preparation of monthly financial reports and quarterly cash forecasts - Revision of PIM to reflect new workflows and organization of unit | Project Director , Finance Manager | 08/2018 |
| Supporting documentation <ul style="list-style-type: none"> - Provision of all relevant information on the manual vouchers - Proper supporting documents for consultancy fees and incentive payments to TSHDA/RDD - Reconciliation of bank transfer amounts with bank statements for each payment by bank transfer (salaries, upfront payments, etc.) - Systematic use of purchase orders for small value goods, works and non-consulting services | Finance Manager, Procurement Coordinator | |
| Designated account reconciliation Monthly monitoring and justification of exchange rate differences | Finance manager | |
| Internal audit <ul style="list-style-type: none"> - Sharing of IA annual work plan and quarterly reports with IFAD - Functional reporting line of IA to Chief Internal Auditor MPI | MPI | |
| Beneficiary contributions Monitoring and submission to PMU of beneficiary contributions in kind on a regular basis | DPMUs | |
| Project management expenses Close monitoring of operating costs/ project management expenses to avoid overspending | Project Director and Finance Manager | |

| | | |
|---|--------------------|--|
| Withdrawal applications preparation <ul style="list-style-type: none"> - Correction of categorization errors in the next WA - Proper completion of all fields in Form 102 and inclusion of explicit/ detailed descriptions - Indication of the correct AWPB activity codes in Form 102 (matching the approved AWPB) | Finance Manager | |
|---|--------------------|--|

Smallholder Tea and Rubber Revitalization Project

Logical Framework

| Results Hierarchy | Indicators | | | | | | | Means of verification | | | Assumptions |
|-------------------|---|----------|----------|------------|----------------------|--------------------------|----------------------------|-----------------------|-----------|----------------|-------------|
| | Name | Baseline | Mid-Term | End Target | Annual Result (2017) | Cumulative Result (2017) | Cumulative Result % (2017) | Source | Frequency | Responsibility | |
| Outreach | 1.b Estimated corresponding total number of households members | | | | | | | | | | |
| | Household members | | | | | | | | | | |
| | 1.a Corresponding number of households reached | | | | | | | RIMS | Annual | | |
| | Non-women-headed households | | | 32000 | 16546 | 16546 | 51.7 | | | | |
| | Women-headed households | | | | | | | | | | |
| | 1 Persons receiving services promoted or supported by the project | | | | | | | | | | |
| | Indigenous people | | | | | | | | | | |
| | Males | | | | 10153 | 10153 | | | | | |
| | Not Young | | | | | | | | | | |
| | Total number of persons receiving services | | | 144000 | 16546 | 16546 | 11.5 | | | | |
| | Non-Indigenous people | | | | | | | | | | |
| | Young | | | | | | | | | | |
| | Females | | | | 6393 | 6393 | | | | | |
| | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|---|--|------|-------|------|------|------|--|---|---|--|
| Goal Enable poor rural people to improve their food security, increase their incomes and strengthen their resilience | Number of households (HH) benefiting from project services | | | | | | | RIMS impact surveys at baseline and completion - Special impact evaluation studies by external agencies | Year 1 - At the end of 4th project year | M&E Coordinator/ Project Manager | Government will continue to have favorable policies towards tea and rubber sub-sectors - The economy in general will have favorable growth and low cost escalations - Less or no natural calamities affecting tea and rubber community |
| | Number of HHs | | 7300 | 27600 | 5307 | 5307 | 19.2 | | | | |
| | Improved HH assets | | | | | | | RIMS impact surveys at baseline and completion - Special impact evaluation studies by external agencies | Year 1 - At the end of 4th project year | M&E Coordinator/ Project Manager | |
| | % improved HHs assets | | 30 | 40 | | | | | | | |
| | Improved food security | | | | | | | RIMS impact surveys at baseline and completion - Special impact evaluation studies by external agencies | Year 1 - At the end of 4th project year | M&E Coordinator/ Project Manager | |
| | No. of HHs not experiencing hunger period of more than 1 year | | | 27600 | | | | | | | |
| | Reduction in prevalence of child malnutrition | | | | | | | RIMS impact surveys at baseline and completion - Special impact evaluation studies by external agencies | Year 1 - At the end of 4th project year | M&E Coordinator/ Project Manager | |
| | % of prevalence of child malnutrition reduced | | | 20 | | | | | | | |
| Objective Smallholders' economic activities in tea & rubber become more productive, profitable and resilient | Increased productivity | | | | | | | M&E reports - Records of rubber societies - Reports of service providers, BDOs, pvt sector linkage coordinator | Monthly | M&E Coordinator/ Community Development Officer as the field-level M&E supported by Business Development Officers (BDOs) | Price recovery over next five-year economic/price cycle - Lands be timely available for planting |
| | Average of production kg/ha | | | | | | | | | | |
| | | | | | | | | | | | |

| | | | | | | | | | | |
|--|---|--|----|----|--|--|---|---------|---|--|
| Outcome Better organized tea & rubber smallholders able to sustainably produce & market their products | Societies organised and selling members' tea & rubber | | | | | | M&E reports - Records of tea & rubber societies | Monthly | M&E Coordinator to coordinate with originators of reports | No holdups of the project tea replanting incentive and the TSHDA subsidy paid to the beneficiaries |
| | No. of societies | | 50 | 70 | | | | | | |
| | 2.2.6 Households reporting improved physical access to markets, processing and storage facilities | | | | | | RIMS | Annual | | |
| | Non-Indigenous people | | | | | | | | | |
| | Size of households | | | | | | | | | |
| | Males | | | | | | | | | |
| | Non-Indigenous people | | | | | | | | | |
| | Young | | | | | | | | | |
| | Not Young | | | | | | | | | |
| | Women-headed households | | | | | | | | | |
| | Young | | | | | | | | | |
| | Young | | | | | | | | | |
| | Households reporting improved physical access to processing facilities | | | | | | | | | |
| | Non-women-headed households | | | | | | | | | |
| | Not Young | | | | | | | | | |
| | Indigenous people | | | | | | | | | |
| | Indigenous people | | | | | | | | | |
| | Females | | | | | | | | | |
| | Not Young | | | | | | | | | |
| | Females | | | | | | | | | |
| | Males | | | | | | | | | |
| | Size of households | | | | | | | | | |

[illegible]

| | | | | | | | | | | | |
|---|---|--|-----|------|--------|--------|------|---|------------|--|---|
| | | | | | | | | | | | |
| Output Overhauling farm roads in tea areas | 2.1.5 Roads constructed, rehabilitated or upgraded | | | | | | | M&E reports - Records of tea societies - Reports of service providers, BDOs | Monthly | M&E Coordinator to coordinate with originators of reports | MPI use a scheme to pay the “target related incremental payment” to participating TSHDA staff - TSHDA will continue with the proposed modified infilling scheme |
| | Length of roads | | 50 | 80 | 0 | 0 | 0.0 | | | | |
| Output Rubber society capacity built including gender | Number of rubber societies diagnosed & capacity built | | | | | | | M&E reports - Records of rubber societies - RReports of service providers, BDOs | All months | M&E Coordinator to coordinate with originators of reports | MPI resolves at earliest the scheme to pay the “target related incremental remuneration” to participating RDD staff |
| | No. of societies | | 40 | 60 | 35 | 35 | 58.3 | | | | |
| Output Smallholder rubber planted in 2 districts | Rubber planted extent | | | | | | | M&E reports - Records of rubber societies - RReports of service providers, BDOs | All months | M&E Coordinator to coordinate with originators of reports | MPI resolves at earliest the scheme to pay the “target related incremental remuneration” to participating RDD staff |
| | HA of rubber planted | | 900 | 3000 | 346.17 | 346.17 | 11.5 | | | | |
| Output Overhauling farm roads in rubber areas | 2.1.5 Roads constructed, rehabilitated or upgraded | | | | | | | RIMS | Annual | M&E Coordinator to coordinate with originators of reports & RIMS | MPI resolves at earliest the scheme to pay the “target related incremental remuneration” to participating RDD staff |
| | Length of roads | | 50 | 70 | 0 | 0 | 0.0 | | | | |
| | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|--|------|-------|--|--|---|---|--|--|------|
| Outcome Tea & rubber smallholders get increased access to credits | Number of tea & rubber growers got loans | | | | | | Partner bank monitoring reports; progress reports of facilitators | Partner bank reports quarterly and others monthly | BDOs at the field level and M&E Coordinator at PMU level | Commitment of banks in financing tea and rubber sub-sectors - Political uncertainties and special initiatives related to agricultural finance do not affect credit culture | |
| | No. of tea & rubber growers | | 1450 | 16000 | | | | | | | |
| | 1.2.5 Households reporting using rural financial services | | | | | | RIMS | Annual | | | |
| | Households | | | | | | | | | | |
| | Females | | | | | | | | | | |
| | Non-Indigenous people | | | | | | | | | | |
| | Young | | | | | | | | | | |
| | Total number of household members | | | | | | | | | | |
| | Not Young | | | | | | | | | | |
| | Males | | | | | | | | | | |
| | Women-headed households | | | | | | | | | | |
| | Non-women-headed households | | | | | | | | | | |
| | Indigenous people | | | | | | | | | | |
| | 2.2.5 Rural producers' organizations reporting an increase in sales | | | | | | | | | | RIMS |
| | Number of rural POs - livestock | | | | | | | | | | |
| | Number of rural POs - fisheries | | | | | | | | | | |
| | Rural POs with women in leadership position | | | | | | | | | | |
| | Number of rural POs | | | | | | | | | | |
| | Number of rural POs - crop | | | | | | | | | | |
| | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|------|--------|--|--|
| | Percentage of rural POs | | | | | | | | | | |
| | Number of rural POs - forestry | | | | | | | | | | |
| Output Persons in rural areas accessing financial services | 1.1.5 Persons in rural areas accessing financial services | | | | | | | RIMS | Annual | | |
| | Indigenous people in rural areas accessing financial services - credit | | | | | | | | | | |
| | Not young people in rural areas accessing financial services - savings | | | | | | | | | | |
| | Not young people in rural areas accessing financial services - credit | | | | | | | | | | |
| | Women in rural areas accessing financial services - credit | | | | | | | | | | |
| | Non indigenous people in rural areas accessing financial services - credit | | | | | | | | | | |
| | Men in rural areas accessing financial services - savings | | | | | | | | | | |
| | Non indigenous people in rural areas accessing financial services - savings | | | | | | | | | | |
| | Men in rural areas accessing financial services - credit | | | | | | | | | | |
| | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|---|--|--|--|------|------|--|------|--------|-----|--|
| | Women in rural areas accessing financial services - savings | | | | | | | | | | |
| | Young people in rural areas accessing financial services - savings | | | | | | | | | | |
| | Indigenous people in rural areas accessing financial services - savings | | | | | | | | | | |
| | Young people in rural areas accessing financial services - credit | | | | | | | | | | |
| Output Rural producers members of rural producers' organizations | 2.1.4 Supported rural producers that are members of a rural producers' organization | | | | | | | RIMS | Annual | PMU | |
| | Non-Indigenous people | | | | | | | | | | |
| | Women in leadership position | | | | | | | | | | |
| | Young | | | | | | | | | | |
| | Females | | | | | | | | | | |
| | Indigenous people | | | | | | | | | | |
| | Males | | | | 4676 | 4676 | | | | | |
| | Not Young | | | | | | | | | | |
| | Village community plans formulated | | | | | | | RIMS | Annual | PMU | |
| | No. of plans fomulated | | | | 52 | 52 | | | | | |
| | 1.1.4 Persons trained in production practices and/or technologies | | | | | | | RIMS | Annual | PMU | |
| | Young people trained in fishery | | | | | | | | | | |
| | Total persons trained in livestock | | | | | | | | | | |
| | | | | | | | | | | | |

| | | | | | | |
|---|--|--|--|------|------|--|
| Men trained in livestock | | | | | | |
| Total persons trained in fishery | | | | | | |
| Women trained in livestock | | | | | | |
| Total persons trained in crop | | | | | | |
| Men trained in forestry | | | | | | |
| Total persons trained in forestry | | | | | | |
| Women trained in forestry | | | | | | |
| Indigenous people trained in crop | | | | | | |
| Men trained in crop | | | | 5561 | 5561 | |
| Not young people trained in crop | | | | | | |
| Non indigenous people trained in forestry | | | | | | |
| Young people trained in crop | | | | | | |
| Women trained in fishery | | | | | | |
| Not young people trained in fishery | | | | | | |
| Non indigenous people trained in fishery | | | | | | |
| Indigenous people trained in livestock | | | | | | |
| Non indigenous people trained in crop | | | | | | |

| | | | | | | | | | |
|--|---|--|--|--|------|------|------|--------|-----|
| | Non indigenous people trained in livestock | | | | | | | | |
| | Women trained in crop | | | | 2455 | 2455 | | | |
| | Not young people trained in livestock | | | | | | | | |
| | Men trained in fishery | | | | | | | | |
| | Young people trained in livestock | | | | | | | | |
| | Indigenous people trained in fishery | | | | | | | | |
| | Young people trained in forestry | | | | | | | | |
| | Indigenous people trained in forestry | | | | | | | | |
| | Not young people trained in forestry | | | | | | | | |
| | Government officials and staff trained | | | | | | RIMS | Annual | PMU |
| | Females | | | | 513 | 513 | | | |
| | Males | | | | 488 | 488 | | | |
| | People trained in community management topics | | | | | | | | |
| | Women trained in health | | | | | | | | |
| | Women trained in other | | | | 6393 | 6393 | | | |
| | Men trained in planning | | | | | | | | |
| | Men trained in literacy | | | | | | | | |
| | Men trained in bookkeeping | | | | | | | | |
| | | | | | | | | | |

| | | | | | | | | | | |
|--|--|--|--|-------|-------|--|--|--|--|--|
| Women trained in gender | | | | | | | | | | |
| Men trained in gender | | | | | | | | | | |
| Total persons trained in leadership | | | | | | | | | | |
| Women trained in bookkeeping | | | | | | | | | | |
| Men trained in other | | | | 10153 | 10153 | | | | | |
| Women trained in leadership | | | | | | | | | | |
| Total persons trained in book-keeping | | | | | | | | | | |
| Total persons trained in other | | | | | | | | | | |
| Men trained in leadership | | | | | | | | | | |
| Total persons trained in literacy | | | | | | | | | | |
| Men trained in health | | | | | | | | | | |
| Total persons trained in gender | | | | | | | | | | |
| Total persons trained in planning | | | | | | | | | | |
| Women trained in literacy | | | | | | | | | | |
| Women trained in planning | | | | | | | | | | |
| Total persons trained in health | | | | | | | | | | |
| Land under improved management practices | | | | | | | | | | |
| Hectares of land | | | | 1003 | 1003 | | | | | |

| | | | | | | | | | | |
|--|---|--|--|--|------|------|------|--------|-----|--|
| | 1.1.3 Rural producers accessing production inputs and/or technological packages | | | | | | RIMS | Annual | PMU | |
| | Rural producers accessing..... (total) | | | | 4676 | 4676 | | | | |
| | Non-Indigenous people | | | | | | | | | |
| | Females | | | | | | | | | |
| | Young | | | | | | | | | |
| | Males | | | | | | | | | |
| | Indigenous people | | | | | | | | | |
| | Not Young | | | | | | | | | |

Sri Lanka

Smallholder Tea and Rubber Revitalization Project

Supervision Report

Appendix 1: Financial: actual financial performance; by financier by component and disbursements by category

Mission Dates: 10 - 21 May 2018

Document Date: 24/07/2018

Project No. 1100001731

Report No. 4825-LK

Asia and the Pacific Division
Programme Management Department

Appendix 1: Financial: actual financial performance by financier; by component and disbursements by category

Table 1A - Financial performance by financier as at 30 April, 2018 (in USD '000)

| Financier | Original Allocation | Disbursements* | Per cent disbursed incl. initial advance |
|----------------|---------------------|----------------|--|
| IFAD Loan | 25,764 | 4,753 | 18.4% |
| GOSL | 32,762 | 462 | 1.4% |
| Beneficiaries | 3,610 | 19 | 0.5% |
| Banks | 3,251 | 0 | 0% |
| Private sector | 15 | 0 | 0% |
| Total | 65,402 | 5,234 | 8.0% |

* Including WA #7 (January-April 18 disbursements) to be submitted to IFAD

Table 1B - Financial performance by financier, by component as at 30 April, 2018 (in USD '000)

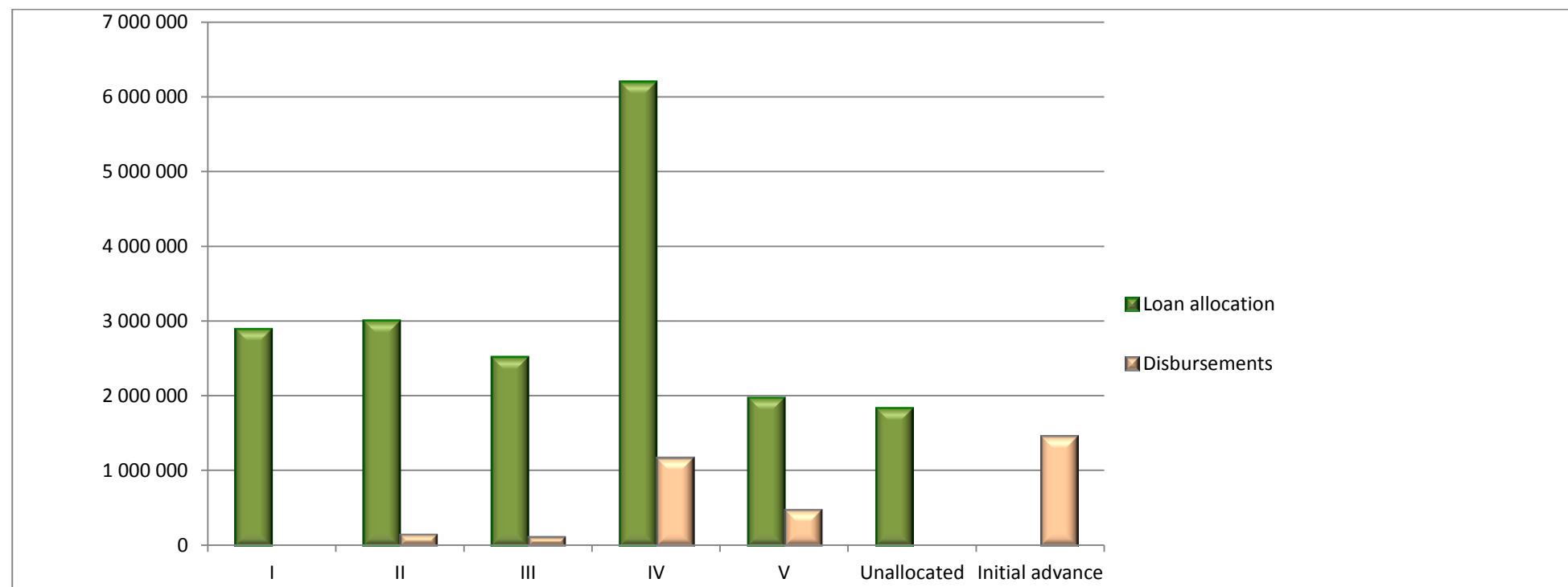
| Component | IFAD Loan | | | GOSL | | | Beneficiaries | | | Banks | | | Private sector | | | Total | | |
|----------------------------------|---------------|--------------|------------|---------------|------------|-----------|---------------|-----------|-----------|--------------|----------|-----------|----------------|----------|-----------|---------------|--------------|-----------|
| | Appraisal | Actual | % | Appraisal | Actual | % | Appraisal | Actual | % | Appraisal | Actual | % | Appraisal | Actual | % | Appraisal | Actual | % |
| 1. Tea smallholder Development | 16,380 | 1,485 | 9% | 26,107 | 174 | 1% | 1,955 | 19 | 1% | | | | | | | 44,442 | 1,679 | 4% |
| 2 Rubber Smallholder Development | 7,635 | 350 | 5% | 5,480 | 57 | 1% | 1,655 | 0 | 0% | | | | 15 | 0 | 0% | 14,785 | 407 | 3% |
| 3. Inclusive Rural financing | 50 | 0 | 0% | 201 | 0 | 0% | | | | 3,251 | 0 | 0% | | | | 3,502 | 0 | 0% |
| 4. Project Management | 1,699 | 918 | 54% | 974 | 230 | 24% | | | | | | | | | | 2,673 | 1,148 | 43% |
| Initial advance | | 2,000 | | | | | | | | | | | | | | | 2,000 | - |
| Total | 25,764 | 4,753 | 18% | 32,762 | 462 | 1% | 3,610 | 19 | 1% | 3,251 | 0 | 0% | 15 | 0 | 0% | 65,402 | 5,234 | 8% |

Table 1C – IFAD Loan disbursements at 30 April, 2018 (in SDR)

| Category | Description | Loan Allocation | Cumulative Disbursement** | % Disbursed | Available Balance |
|-----------------|--|-------------------|---------------------------|-------------|-------------------|
| I | Civil works | 2 900 000 | 0 | 0% | 2 900 000 |
| II | Equipment & materials | 3 010 000 | 151 951 | 5% | 2 858 049 |
| III | Goods & services | 2 520 000 | 116 516 | 5% | 2 403 484 |
| IV | Grants & subsidies | 6 200 000 | 1 173 240 | 19% | 5 026 760 |
| V | Salaries, Allowances & Operating costs | 1 980 000 | 481 847 | 24% | 1 498 153 |
| Unallocated | Unallocated | 1 840 000 | 0 | | |
| Initial advance | Initial Advance | 0 | 1 461 636 | - | -1 461 636 |
| | TOTAL | 18 450 000 | 3 385 190 | 18% | 15 064 810 |

** Including pending WA #7 (January-April 18 disbursements) ready to be submitted to IFAD

Figure 1: IFAD loan disbursement, comparisons between original allocation and actual disbursements



Sri Lanka

Smallholder Tea and Rubber Revitalization Project

Supervision Report

Appendix 2: Physical progress measured against AWP&B

Mission Dates: 10 - 21 May 2018
Document Date: 24/07/2018
Project No. 1100001731
Report No. 4825-LK

Asia and the Pacific Division
Programme Management Department

Appendix 2: Physical progress measured against AWP&B

| Results | Objective/ Expected Results | | Unit | Physical Progress | | Financial Progress- Rs.,000 | |
|--|---|--|-----------------------|-------------------|------------------------------|-----------------------------|------------------------------|
| | | Sub Activity | | Planned Total | Achieved Cumulative (annual) | Planned Total | Achieved Cumulative (annual) |
| | | | | | | | |
| Component 1 : Tea Smallholders' Development | | | | | | | |
| | 1.1.Tea Societies capacity built including gender | 1.1.1. IEC Campaigns | Programmes | 260 | 549 | 1 715 000 | 597 182 |
| Outputs | | 1.1.2. TOT Programme for Filed Animators on PRA Techniques/Tools | FA Regions/Programmes | 50 | 43 | 1 425 000 | 115 263 |
| | | 1.1.3. Participatory Rural Appraisal (PRA) for preparation of Society Strengthening Plan | Societies | 150 | 57 | 975 000 | 842 292 |
| | | 1.1.4. Diagnostic Study | Societies | 200 | 205 | 6 050 000 | 955 716 |
| | | 1.1.5. Training of Tea Society Members on Business Development | Programmes | 14 | 30 | 1 645 750 | 146 053 |
| | | 1.1.6. Tools and Equipment for Tea Societies | Societies | 100 | 0 | 28 322 000 | - |
| | 1.2. Smallholder tea replanted in 6 districts | 1.2.1. Up Front Subsidies for Small Holder Farmers | HA | 1655 | 1002.95 | 248 250 000 | 135 223 591 |
| 1.2.2. Government Subsidies for Small Holder Farmers | | HA | 1655 | 20.12 | 215 150 000 | 1 798 351 | |
| 1.2.3. Service Payment to TSHDA agreed under the MoU | | HA | 1655 | 1002.95 | 9 220 965 | 4 888 358 | |

| | | | | | | | |
|--|--|--|------------|-----|----|------------|---------|
| | | 1.2.4. Piloting Farm Development to reduce Soil rehabilitation period (Months 18->12) | Farms | 10 | 0 | 3 500 000 | - |
| | | 1.2.5. Piloting Farm Development to reduce Soil rehabilitation period (Months 18->0) | Farms | 6 | 0 | 2 100 000 | - |
| | | 1.2.6. Training Material Development | Modules | 12 | 0 | 300 000 | - |
| | | 1.2.7. Extension support for tea growers on Land Preparation/Soil consecration/Grass Cultivation and Shading | Programmes | 230 | 55 | 3 915 950 | 933 337 |
| | | 1.2.8. Training Nursery Growers on Nursery Management, Technical Know How | Programmes | 18 | 13 | 297 000 | 87 973 |
| | 1.3. Developing business and Market Linkages | 1.3.1. TOT Training on BP and Financial Modelling | Programmes | 1 | 1 | 296 000 | 426 612 |
| | | 1.3.2. Development of Business Plans - based on the marketing of Products of societies | BPs | 13 | 0 | 240 500 | - |
| | | 1.3.3. Workshops on Business Promotion for Tea Industry (Private Sector Linkages for Business Plan Implementation) | Workshops | 13 | 0 | 380 000 | - |
| | | 1.3.4. Matching Grant as seed capital for new IGAs who meet the selection criteria | BPs | 800 | 0 | 80 000 000 | - |
| | | 1.3.5. Exposure learning visits to learn best harvesting and post harvesting methodologies | Visits | 12 | 0 | 1 080 000 | - |

| | | | | | | | |
|--|--|--|-------------------------|-----|-----|-------------|-------------|
| | | 1.3.6. Training of beneficiaries on nursery management /BP who are wiling start/develop new nurseries | Nurseries | 10 | 0 | 250 000 | - |
| | 1.4. Overhauling farm roads in Tea replanting areas | 1.4.1 Preparation of bills of quantities, Technical Drawing, bids opening, Quality Assurance, Construction supervision | KM | 19 | 0 | 3 124 373 | - |
| | | 1.4.8. Rehabilitation of Farm Roads | KM | 20 | 0 | 104 145 778 | - |
| | | 1.4.0 Project Coordination - Tea Sector | | | | | 8 592 321 |
| Total Budget for Component # 1 | | | | | | 712 383 316 | 154 607 048 |
| Component 2 : Rubber Smallholders' Development | | | | | | | |
| | | | | | | | |
| Outputs | 2.1. Rubber Societies capacity Building including gender | 2.1.1. IEC Campaigns | Programmes | 22 | 138 | 1 042 000 | 78 680 |
| | | 2.1.2. TOT Programme for Filed Animators on PRA Techniques/Tools | RDO Regions /Programmes | 14 | 0 | 371 000 | - |
| | | 2.1.3. Participatory Rural Appraisal (PRA) for preparation of Society Strengthening Plan | Programmes | 86 | 7 | 559 000 | 79 170 |
| | | 2.1.4. Diagnostic Study | Societies | 100 | 35 | 3 050 000 | 3 500 |
| | | 2.1.5. Training of Tea Society Members on Business Development | Programmes | 6 | 0 | 740 250 | - |
| | | 2.1.6. Sustainable NRM Training | | | | | - |
| | | 2.1.7. Tools and Equipment for Tea Societies | Societies | 63 | 0 | 8 203 230 | - |
| | 2.2. Smallholder rubber planted in 2 districts | 2.2.1. Land Surveying | HA's | 765 | 292 | 15 300 000 | 1 755 610 |

| | | | | | | | |
|--|--|---|------------|------|-----|-------------|------------|
| | | 2.2.2. Up Front Subsidies for Small Holder Farmers | HA's | 1100 | 360 | 75 900 000 | 24 824 602 |
| | | 2.2.3. Government Subsidies for Small Holder Farmers | HA's | 1100 | 0 | 104 189 800 | - |
| | | 2.2.4. Service Payment to RDD agreed under the MoU | HA's | 1100 | 562 | 3 442 500 | 1 087 065 |
| | | 2.2.5. Support for Intercropping (planting Materials, equipment's etc.) | HH's | 550 | 35 | 27 500 000 | 1 759 555 |
| | | 2.2.6. Training Material Development | LS | 1 | 1 | 500 000 | 101 138 |
| | | 2.2.7. Extension support for Rubber growers on Land Preparation/Soil consecration | Programmes | 22 | 31 | 2 682 000 | 30 310 |
| | 2.3. Building number of market linkages for promoting famer based rubber (latex) marketing | 2.3.1. ToT Training on BP and Financial Modelling | Programmes | 1 | - | 222 000 | - |
| | | 2.3.2. Development of Business Plans for society members including GRPCs | Programmes | 8 | - | 148 000 | - |
| | | 2.3.3. Workshop on Business Promotion in Rubber industry | Programmes | 2 | - | 220 000 | - |
| | | 2.3.4. Matching grant as a seed capital for IGAs who meets the selection criteria | BPs | 100 | - | 10 000 000 | - |
| | | 2.3.5. Exposure leaning visits to best harvesting and post harvesting methodologies | Visits | 4 | - | 360 000 | - |

| | | | | | | | |
|---|--|--|--------------|-------|-------|-------------|-------------|
| | | 2.3.6. Strengthen the Padiyathalawa Rubber Nursery | LS | 1 | - | 27 775 500 | - |
| | | 2.3.7. Feasibility Studies on existing GRPCs established under SPeNDP | Studies | 1 | - | 500 000 | - |
| | 2.4. Overhauling farm roads in rubber plating areas | 2.4.1 Preparation of bills of quantities, Technical Drawing, bids opening, Quality Assurance, Construction supervision | KM | 15 | - | 2 272 551 | - |
| | | 2.4.2. Construction of the roads/elephant Fences/Community Infrastructure/ | KM | 15 | - | 87 873 000 | - |
| | | 2.4.0 Project Coordination - Rubber Sector | | | | | 2 214 696 |
| | Total Budget for Component # 2 | | | - | 5 076 | | 372 850 831 |
| Component 3 : Inclusive Rural Financing | | | | | | | |
| Outputs | 3.1. Tea smallholders get increased access to credit | 3.1 District Level awareness/ Credit committee Programme on Rural Financing Component | Programmes | 16 | - | 4 000 000 | - |
| | | 3.2 National Level awareness Programme on Rural Financing Component | Programmes | 1 | - | 1 000 000 | - |
| | | 3.3. Facilitation of Loans for Tea Small Holders | No. of Loans | 3 210 | - | 80 250 000 | - |
| | | 3.4 Facilitation of Loans for Rubber Small Holders | No. of Loans | 2 385 | - | 59 625 000 | - |
| | | | | | | 144 875 000 | - |
| Component 4 : Project Management | | | | | | | |
| Outputs | 4.1. Project Management Cost | 4.1.1. Vehicels and Equipment- Vehicle | Month | 7 | - | 106 400 000 | - |
| | | Motor Bikes | Units | 103 | 75 | 23 675 000 | 17 432 500 |

| | | | | | | | |
|--|--|--|-------------|----|---|---------------|-------------|
| | | Office Equipment | Units | - | | 19 827 270 | 9 161 985 |
| | | Furniture | Units | | | 4 772 000 | 3 895 999 |
| | | 4.1.2. Salaries and salary related payments | Months | 12 | | 113 327 271 | 58 339 657 |
| | | 4.1.3. Office Operating Cost | Months | 12 | | 41 601 300 | 22 133 962 |
| | 4.3 Monitoring and Evaluation and Other Technical Assistance | 4.3.1. Baseline Survey | LS | 1 | 1 | 11 225 810 | 3 237 500 |
| | | 4.3.2. Training Need Assessment | Assessment | 1 | 1 | 1 020 000 | 104 558 |
| | | 4.3.3. Annual Outcome Survey | Survey | 1 | 1 | 500 000 | - |
| | | 4.3.4. Results Impact Management System | Studies | 1 | 1 | 7 000 000 | - |
| | | 4.3.5. Development of GIS maps identifying roads/Elephant fences, rubber societies, new planting areas, etc. | LS | 1 | 1 | 2 660 000 | - |
| | | 4.3.6. Establishment of Accounting Software and Staff Training | LS | 1 | 1 | 6 944 000 | - |
| | | 4.3.7. Start up Workshop | Workshop | 1 | 1 | 1 000 000 | 146 075 |
| | | 4.3.8. National Level Awareness for Stakeholders - Bankers/agribusiness | Workshops | 2 | - | 150 000 | - |
| | | 4.3.9. Shortterm Consultancy - Procurement | | 1 | 1 | 120 000 | 240 500 |
| | | 4.3.9. Short-term Gender Consultancy | Consultancy | 1 | - | 1 000 000 | |
| | Total Budget for Component # 4 | | | | | 341 222 651 | 114 692 736 |
| | | | | | | | |
| | Total Budget for 17 (US\$ '000) | | | | | 1 571 331 798 | 301 234 110 |

Sri Lanka

Smallholder Tea and Rubber Revitalization Project

Supervision Report

Appendix 3: Compliance with legal covenants: status of implementation

Mission Dates: 10 - 21 May 2018
Document Date: 24/07/2018
Project No. 1100001731
Report No. 4825-LK

Asia and the Pacific Division
Programme Management Department

Appendix 3: Compliance with legal covenants: status of implementation

| Section | Covenant | Target / Action Due Date | Compliance Status / Date | Remarks |
|----------------------------------|--|------------------------------------|----------------------------|--|
| Financing Agreement | | | | |
| B 6 | There shall be (i) a Designated Account at the Central Bank of Sri Lanka and (ii) 2 Project Accounts in a commercial bank acceptable to IFAD and the Borrower for funds from IFAD and GoSL. | Program launch | Complied | Programme Accounts in USD (at CBSL) and LKR (at BOC) have been opened. |
| B 7 | The Borrower shall provide counterpart financing to the project in the approximate amount of USD 32.8 million, to cover the subsidies for the tea and rubber replanting program, taxes and other expenditure defined in the AWPBs. | Continuous | On-going | |
| E 1 | Opening of Designated Account and 2 project Accounts Appointment of Project Director and Finance Manager with IFAD no objection Draft PIM with IFAD no objection | Conditions precedent to withdrawal | Complied | Project Accountant played the role of Finance Manager from project start until May 18. Finance Manager recruited on 15/05/18 |
| Schedule 1, Section 5 para 2 | The Borrower shall establish a National Steering Committee that shall meet at least once a year to approve the AWPB | Continuous | Complied | NSC meetings held 27/11/17 and 09/03/18 |
| Schedule 1, Section 5 para 3 | The Lead Programme Agency shall establish a Programme Management Unit (PMU). | Program launch and on-going | Complied | |
| Schedule 1, Section 5 para 5 | The Lead Programme Agency jointly with IFAD, shall carry out a midterm review no later than Project Year 3 | By 30/06/19 | Not yet due | |
| GC Section 7.01 (b) (ii) AWPB | The Lead Project Agency shall submit the draft Project AWPB to the Fund for comments no later than sixty (60) days before the beginning of the relevant Project Year. | 31 October of each year | Complied with slight delay | 2018 AWPB submitted to IFAD on 06/11/17. |
| GC Section 7.08 | Insurance of all goods and buildings used in the Project against such risks and in such amounts as shall be consistent with sound commercial practice. | Continuous | Not complied | |
| GC Section 7.11. | Health and accident insurance for project personnel | Continuous | Not complied | |
| GC Section 8.01 | Maintenance of records and documents adequate to reflect project operations until project completion date and for at least ten years thereafter. | Continuous | Complied and on-going | |
| GC | Establishment and maintenance of information | Continuous | Complied and | |

| | | | | |
|---------------------------|--|--------------------|-------------------------------|---|
| Section 8.02 | management system | | on-going | |
| GC Section 8.02 | Submission of periodic progress reports to IFAD | Continuous | Complied | |
| GC Section 8.04. | After the Project Completion Date but before Financing Closing Date, submission to IFAD of the project completion report | 31 December 22 | Not yet due | |
| GC Section 9.01 | Maintenance of separate accounts and records until the Financing Closing Date, and at least ten (10) years thereafter. | Continuous | Complied and on-going | |
| GC Section 9.02 | Submission to IFAD of detailed financial statements for each Fiscal Year within four (4) months of the end of each Fiscal Year. | 30 April each year | Complied | 2017 financial statements sent to Auditors on 28/03/18 and to IFAD on 17/05/18 |
| GC Section 9.03 | Audit of accounts for each Fiscal Year and submission to IFAD of audit report and management letter within six (6) months of the end of each Fiscal Year | Continuous | 2017 audit report not yet due | Auditor General of Sri Lanka (AGSL) conducts annual audit of the project. |
| GC Section 11.01 (a) | Financing shall be exempt from all taxes | Continuous | Complied | |
| Letter to Borrower | | | | |
| Para 32 | List of all contracts in the Register of Contracts to be submitted monthly to the CPM | Continuous | Complied | |
| Para 34 | Submission of interim financial reports within 45 days of the end of each quarter | Continuous | Complied | |
| Para 37 | Maintenance and regular update of log of Audit Observations. | Continuous | Complied | |
| Para 39 | Implementation of adequate Internal Audit arrangements | Continuous | Complied | Arrangements not fully satisfactory - see observations in Section E. iv of the supervision report |