

Sri Lanka

Smallholder Agribusiness Partnerships Programme Supervision Report

Main report and appendices

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-LK

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

4P	Public-private-producer partnership
ASM	Agricultural Sector Modernization (World Bank project)
CBSL	Central Bank of Sri Lanka
CRIB	Credit Reference Information Bureau
EB	Executive Board
EOI	Expressions of Interest
ERD	External Resources Department
GoSL	Government of Sri Lanka
MA	Mahaweli Authority
MIS	Management Information System
MoF	Ministry of Finance
Monlar	Movement for Land and Agrarian Reform
MoU	Memorandum of Understanding
NADeP	National Agribusiness Development Programme (IFAD programme)
NSC	National Steering Committee
NO	No Objection
PO/FO	Producer/ Farmer Organization
PFI	Participating Financial Institution
PIM	Programme Implementation Manual
PMU	Programme Management Unit
RDD	Regional Development Department
SAPP	Smallholder Agribusiness Partnerships Programme
SLA	Subsidiary Loan Agreement
SM	Social Mobilisers
SME	Small and/ or Medium Enterprise (private sector)
STaRR	Smallholder Tea and Rubber Revitalization Project (IFAD project)
TA	Technical Assistance
ToT	Training of Trainers
WA	Withdrawal Application
WFP	World Food Programme

A. Project Overview

Region:	Asia and the Pacific Division	Project at Risk Status:	Not at risk
Country:	Sri Lanka	Environmental and Social Category:	B
Project Name:	Smallholder Agribusiness Partnerships Programme	Climate Risk Classification:	2
Project ID:	2000000929	Executing Institution:	Presidential Secretariat-Sri Lanka
Project Type:	Rural Development	Implementing Institutions:	Presidential Secretariat-Sri Lanka
CPM:	Tarek Kotb		
Project Director:	Yasantha Mapatuna		
Project Area:	National		

Approval Date:	10/04/2017	Last audit receipt:	11/09/2019
Signing Date:	26/06/2017	Date of Last SIS Mission:	15/11/2019
Entry into Force Date:	26/06/2017	Number of SIS Missions:	4
Available for Disbursement Date:	12/10/2017	Number of extensions:	0
First Disbursement Date:	16/10/2017	Effectiveness lag:	2 months
MTR Date:	not available yet		
Original Completion Date:	30/06/2023		
Current Completion Date:	30/06/2023		
Financial Closure:	not available yet		

Project total financing

IFAD Financing breakdown	IFAD	\$33,700,000
	IFAD	\$6,178,348
	IFAD	\$14,521,652
Domestic Financing breakdown	Beneficiaries	\$4,494,000
	National Government	\$19,359,000
	Private sector local	\$16,967,000
	Domestic Financing Institutions	\$9,821,000
Co-financing breakdown,		
Project total financing:		\$105,041,000

Current Mission

Mission Dates:	4 - 15 November 2019
Days in the field:	3 days
Mission composition:	Tarek Kotb, Country Director and Mission Leader; Donald Greenberg, Team Leader and Value Chain specialist; Rauno Zander, Rural Finance Specialist; Anura Herath, Economist, Han Lei, Financial Management Specialist, Do Thanh Lam, Agronomist, Radheeka Jirasinha, Environmental Economics and Sustainable Development, Jenneth Sonntag, Gender and Targeting Specialist, Mehri Ismaili, M&E and Results Management Specialist, Dayananda Ratnasekera, Procurement Specialist, Sennai Kebedom, Stories from the Field
Field sites visited:	Wellawaya, Buttala, Ampara, Gonagala, Balangoda, Bandarawela, Welimada, Kotmale, Thabuththegama, Horowpathana, Arunadhapura

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

Effectiveness and Developmental Focus	4	Project Management	4
Effectiveness	4	Quality of Project Management	3
Targeting and Outreach	4	Knowledge Management	5
Gender equality & women's participation	4	Value for Money	3
Agricultural Productivity	3	Coherence between AWPB and Implementation	4
Nutrition	4	Performance of M&E System	3
Adaptation to Climate Change	4	Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)	4

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

Relevance	5
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C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

The USD 105 million Smallholder Agribusiness Partnerships Programme (SAPP), including an IFAD loan in the amount of USD 39.9 million was approved by IFAD's Executive Board (EB) in April 2017 and entered into force in May 2017. The project completion and closing dates are 30 June 2023 and 31 December 2023 respectively. The lead programme agency is the Presidential Secretariat. In September 2017 the EB approved the first additional financing, and in December 2018, the EB approved a second additional financing that entirely filled the financing gap. In total, IFAD has allocated USD 54.5 million to SAP through the first loan and the two additional financings.

The SAPP development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder households involved in commercially oriented production and marketing systems. The main target subgroups are: (i) 35,000 new rural household producers (owning less than 1 ha of land and relying on agriculture for at least 50 per cent of their household income) that will benefit from increased livelihood opportunities through their engagement with 4P schemes – this includes at least 4,000 households organized in 70 producer/ farmer organizations (P/FOs); (ii) 20,000 households already participating in 4P schemes established under the National Agribusiness Development Programme (NADeP) that will benefit from SAPP continued support in the form of seasonal working-capital loans; and (iii) 2,500 poor young women and men supported to become entrepreneurs, responding to demand for products or services generated along the value chain and complementing the 4Ps.

This second IFAD and Government of Sri Lanka (GoSL) supervision mission of SAPP took place from 4 to 15 November 2019. The main objectives of the mission were to: (i) assess the programme implementation progress; (ii) review progress against the 2018 and 2019 AWPB and procurement plan; (iii) identify actual and potential/ emerging operational problems; and (iv) propose solutions, corrective measures or improvements to be made for an acceleration of the programme.

The mission held consultations and working sessions with key partners, including CBSL, ERD, and CRIB; four PFIs Hatton National Bank, DFCC Bank, Sanasa Development Bank and the People's Bank of Sri Lanka. Two focus group meetings were held in Colombo with i) private sector partners in commercially-led 4P projects and ii) FOs/PO partners and potential partners in 4P projects. Three mission teams spent three days in the field visiting a representative sample ongoing and pipeline 4P partners, meeting with farmers, FO/POs, and the private sector. A final wrap-up meeting was held in Colombo on 13 November, chaired by the Secretary to the President

Key Mission Agreements and Conclusions

Support 4P Promoters and Value Chain players supporting FOs/POs and target beneficiaries There was no provision in the SAPP design to provide material support for the private sector promoters or the other value chain players that invest in the 4Ps, and who accept the considerable risks and hassles of working with smallholders. Thus the mission recommended that the 4P agreements allow for a relatively small cost-sharing grant fund for private sector 4P promoters, where these funds can be shown to have a direct positive impact on smallholders (e.g. milk analyzers for dairy groups, software systems for smallholder farm contract management, technical training for promoter extension workers). Similarly, the mission recommended that the 4P agreements incorporate a credit facility in the 4Ps for promoters for commercial investments in equipment that is dedicated to directly benefit smallholders (e.g. milk collection centers, sugar combine harvesters). For both grant and credit facilities, a minimum 50% of matching contribution from the private sector would be required.

Support for Rural Infrastructure. In many potential 4Ps, the viability of the smallholder (and private sector) investments in the 4Ps is greatly reduced by weak local public infrastructure, e.g. roads connecting farmers to markets. The PMU has requested this inclusion of this in SAPP, and the National Steering Committee (NSC) has given their approval. The mission recommended that SAPP immediately take the necessary steps to include these investments where justified in 4Ps. For FO/PO led 4Ps, funds for rural infrastructure may be taken from the allocated amount for FO/PO start-up support. For private sector led 4Ps, the PMU is to propose appropriate funding mechanisms.

Realign NADeP 4P Follow-on Credit support. The Project Appraisal set a target of 20,000 households to benefit from follow-on working capital loans in previous NADeP sub-projects under the SAPP line of credit. However, at most 6,208 households in existing 4P NADeP schemes could qualify for SAPP follow-on loans during the project life. The mission recommended that the target number of beneficiary households under the NADeP follow-on category be reduced from 20,000 to a realistic target of less than 6,000, with credit line funding reallocated to support the SAPP 4P beneficiaries.

Incipient Farmer Organization led 4Ps. The Project Appraisal set a target to support 40 incipient FO/PO-led 4Ps within the Mahaweli Authority (MA) schemes. The MA was envisioned to play a leading role in the identification, selection, on-the-ground institutional support, and business mentoring of the selected FO/POs. Support from the MA has not materialized, despite considerable efforts from the PMU. SAPP does not otherwise have the resources replace the MA in this role. Thus, the mission recommended that support to incipient FO/POs be focused only on those within private sector or mature FO/PO led 4Ps.

D. Overview and Project Progress

The overall assessment of programme implementation performance is moderately satisfactory (4), with commendable progress in outreach during the 14 months since the 1st supervision mission in 2018.

The mission is of the view that implementation concerns notwithstanding, that the SAPP 4P model in general remains relevant and highly attractive to both 4P promoters and beneficiaries.

16 4Ps, targeted to reach 15,403 beneficiaries, have been approved as of 30 September 2019. Another 18 4Ps are in the pipeline and are expected to be finalized in 2020, eventually reaching an additional 10,263 beneficiaries. If these 4Ps materialize as planned, over 67% of the target 35,000 4P beneficiaries will have been reached. However, implementation in many 4Ps has been slow; key reasons include: a lack of marketing, management, and financial capacity on the part of the 4P promoters; inadequate selection of farmer participants that can meet business, creditworthy, and targeting standards; and a lack of incentives for PFIs to participate; and inadequate provision for value chain player support.

SAPP 4Ps: In terms of concrete benefits, only 5,031 beneficiaries in the 4Ps have received SAPP credit; of these, 75% are participants in one 4P agreement (Gal Oya Sugar), where the company took the highly unusual step of providing a full corporate guarantee for smallholder debt to the PFI. Only 3,601 4P grants have been disbursed to small holders, and 90% of these grants were made to beneficiaries in the Gal Oya 4P.

Thus, only 20% of expected 2nd year loan and grant disbursements have been made. That said, a significant number of farmers and FO/POs in many 4Ps have received some benefits from capacity building and training delivered or coordinated by SAPP, before grant and credits have disbursed.

NADeP 2nd loans: Out of the 20,000 expected NADeP second loans (not including beneficiaries in the new 4Ps), only 584 have received loans.

Component 1: Access to Commercial Partnerships (4Ps)

This component is rated overall as moderately satisfactory (4). This component includes two sub-components: (1.1) Establishing 4Ps and ancillary youth projects to reach 37,500 household beneficiaries; and (1.2) Institutional strengthening and capacity building of FO/PO groups sponsoring or participating in 4Ps.

C1.1. Establishing 4Ps.

A total of 16 4P agreements have been signed as of 06 October, which are targeted to support 8,142 households in 2019 (roughly 34% of projections in the PDR); and eventually up to 15,403 beneficiary farmers (or 44% of overall targets). 4Ps that are scale-ups of NADeP have had the highest level of outreach, and are expected to reach 72% of 2019 targets. New private sector led 4Ps and FO-led 4Ps have had relatively low outreach, expected to reach 12% and 23% respectively of 2019 targets. The PMU indicated that the slow rate of progress on new private 4Ps is due to a reduced interest from partners, who are more interested in the World Bank Agricultural Sector Modernization (ASM) program that also covers 4P type projects but offers more generous terms, especially cost-sharing for promoter investments. Based on stakeholder discussions, this does not appear to be the case. In fact, SAPP covers many value chains not covered by ASM, and offers a far broader level of support to smallholder beneficiaries. Indeed, companies may opt to work with both projects, with SAPP focusing on strengthening the smallholder supply chain, and ASM supporting technology upgrading of core equipment and infrastructure. In this line, the PMU is encouraged to work with the World Bank and other donors on coordinating and harmonizing project terms and conditions.

C1.2 Institutional strengthening and capacity building of producer groups

That scale-up 4P beneficiary targets have been largely met is not surprising, as in these cases SAPP is working with experienced companies who are already sourcing from smallholders, and have accepted and implemented the conditions of 4P agreements. In addition, as a general case, companies that are already heavily dependent on smallholder suppliers, such as tea factories and dairy companies, are more likely to have the capacity and desire to manage 4P projects to the benefit of both parties. Smaller, newer promoters face many challenges in terms of readiness and capacity of management. This is especially the case with incipient FOs, because of significant and unresolved management and marketing issues within these organizations that will likely take many years to overcome.

SAPP undertook a number of awareness programmes that resulted in 112 Expressions of Interest (EOIs) received from PO/FOs, of which 62 were accepted, 24 rejected and 26 pending due to incompleteness of required documents. Of these, 7 proposals were approved by the National Steering Committee (NSC) and received IFAD no objection for implementation.

For the four approved 4P FO/PO led projects, a number of institutional and capacity building activities were carried out by the PMU including technical training programmes on land preparation, crop cultivation techniques, fertilization, pest and diseases management, etc, aimed at improving agricultural productivity; (ii) financial literacy training manual jointly developed by SAPP, CBSL and PFIs (iii) exposure visits organized for floriculture and turmeric cultivation; (iv) P2B events

carried out for farmers and promoter companies/FOs; and (v) workshops on 4P value chain development organized for all promoter companies/FOs.

One consultancy firm (Lanka Social Ventures) has been contracted to provide capacity building and organization strengthening of two approved FO promoters, with similar contracts about to be awarded to another service provider for strengthening another two FOs.

Most but not all FO/PO 4P promoters selected to date have weak management and marketing capabilities and low financial capacity that will severely reduce their ability to manage a successful 4P. The PMU was strongly advised to only select as promoters FO/POs that have the ability to manage 4Ps, and to support incipient FO/POs only under the rubric of stronger private sector and FO/PO 4P promoters.

Component 2: Access to rural finance

This component is rated as moderately satisfactory (4). The objective of this component is to facilitate access to rural finance and rural financial services to smallholders under the 4P arrangement in a sustainable manner and at affordable rates.

In January, 2019 IFAD fielded an implementation support mission specifically for rural finance (both for SAPP and STARR projects). Following the January mission, and accelerated in this supervision mission, a number of recommendations were proposed: adjustment of the rates of interest to provide reasonable incentives for PFIs to participate in 4Ps; streamlining of systems and procedures for 4P project identification and loan origination, (including adjustment of maximum loan ceilings under 4P arrangements), and commencement of a dialogue with Government on cooperating with CBSL for mutual benefit and with a view to broadening potential PFIs towards those which are currently not supervised by CBSL and thus are not considered as PFIs. These are addressed further below.

C.2.1 Financing of 4Ps

Three types of financing are proceeding at different speeds of implementation: Out of the targeted 35,000 households taking part in new 4Ps, loans have been committed (but not disbursed) for 13 projects and 14,000 households. However, for NADeP second loans, only 6,208 households can be reached, so the targeted number of 20,000 households is not realistic. Up to end December, 2019, 444 Youth loans are to be disbursed out of a total envisaged of 2,500. Discussions with banks indicated that there is interest among PFIs to collaborate specifically on the youth loans, as they have higher loan sizes and have a more straightforward origination process. Against this background, the following recommendations are proposed:

- (i) to adjust the upper ceilings of 4P loans to final borrowers from the current ceiling of LKRS 300,000 to LKRS 500,000 to adjust to loss of purchasing power and increase the flexibility for the lending PFIs;
- (ii) introduce direct support to promoters and other value chain players supporting smallholders in the 4Ps in the form of a line of credit with full matching by the promoter. Detailed recommendations are in Appendix 4, but the general guidance is i) a maximum loan size of USD 100,000 ii) loans to be taken out by 4P promoters, although the equipment may be leased/rented to service providers for the 4Ps iii) interest rates to be determined by the CBSL commensurate with SME lending policy;
- (iii) publicize to all PFIs that proposals for new 4P projects may be generated by PFIs. The documentation and approval procedures for 4Ps would remain the same;
- (iv) encourage proposals from the Sanasa Development Bank that include their member cooperative societies as FOs/POs, subject to the normal SAPP review of 4P promoter and FO/PO eligibility and capability. In addition to crop production, these cooperative societies could play other value chain roles such as service providers, storage facilities, or input suppliers.

The mission raised for discussion at the wrap-up the issue of the interest rates for PFIs lending to 4P beneficiaries. In the SAPP PDR, the interest rate for the end small-holder borrower was to be set at rates slightly below 10% p.a., which is already well below general market interest rate. This interest rate would be subject to an annual review conducted during subsequent supervision missions. In practice, this interest rate was set at 6.5%, on par with many other GoSL programs. There are a number of concerns with this decision that were raised in the wrap-up. First, by only allowing PFIs a 3.5% margin (their cost of funds is 3%), the banks may not be inclined to lend to the 4P beneficiary farmers, who are amongst the poorer (and riskier) of potential clients, many of whom have never had a bank loan. The 3.5% margin is insufficient to offset the risks of default. Without offering the banks other means of risk mitigation, there is a risk that the banks will not extend loans to farmers as demanded by the SAPP. In this case, SAPP will not reach the target number of beneficiaries, and the lines of credit will not be fully utilized. Third, when loans at such low interest are made to smallholders, there is a danger that monies could be diverted for non-agricultural purposes. Even if the loan funds are used for agricultural purposes, they may do little to encourage stringent evaluation of investment opportunities by smallholders because even non-viable investments could succeed at such low interest rates. Fourth, IFAD policy stipulates that interest rates not be subsidized at client level; even at original agreed rate of ~ 9.5%, the subsidy is substantial. If this issue is not addressed, the SAPP approach may not be sustainable, and the exit strategy not viable.

The GoSL was not ready at this time to consider changes to the 6.5% interest rate, and cited concerns that changing the interest rate during the project may not be acceptable (although this was part of the agreed design). They indicated that through streamlining procedures, and increasing awareness and outreach campaigns to the banks, there would be an increased willingness by the PFIs to lend.

C.2.2 Institutional strengthening of the financial services sector

Two training events took place in 2019: first, PFIs and a CBSL representative attended the Boulder Rural and Agriculture Finance Program. Also, SAPP organized a residential workshop on agricultural finance at the training college of the central bank of Sri Lanka. Follow up visits at PFIs showed that participants appreciated this training, however this should now be followed with a focused value chain finance workshop with international trainers. Systems to evaluate the impact of these trainings should be an integral part of the delivery.

Component 3: Programme Management and Policy Dialogue

C.3.1 Programme Management

Overall Programme Management is moderately unsatisfactory. The mission notes there has been staff turnover due to a number of reasons including more attractive opportunities, withdrawal of GoSL seconded staff, or not meeting annual performance review standards. The key positions of M&E, Business Development, Program Officer, and ICT officers remain vacant. Consultants are largely used to fill in capacity gaps, particularly with respect to business development and microcredit related activities, and service providers are not sufficiently selected, evaluated and managed in terms of achieving SAPP's core outcomes.

The quality of technical component management could be improved. For Component 1, the fundamentals of the 4P strategy of SAPP has not been completely internalized, leading to degree of diversion of programme time and resources on activities not focused directly on 4P development; e.g., attempting to strengthen FO/POs outside of the context of a competent 4P promoter (either experienced FO/PO cooperative or private sector firm), especially absent the planned participation of the Mahaweli Authority for this purpose. For Component 2, a greater understanding of the principles of value chain finance would strengthen leadership and contribute to stronger partnerships with PFIs and more appropriately structured loans to beneficiaries. In both cases this has had impact on the ability to recruit, manage, and retain technically qualified and motivated staff, consultants, and service providers.

Management of financial and procurement issues are addressed below in Financial Management.

C.3.2 Policy Dialogue

Under this sub-component, SAPP engages in direct policy advocacy. The project plans to focus initially on dairy sector issues which is sensible, given that the number of 4Ps in this sector, and key issues such as importation of skim milk powder (SMP) and restrictions on private sector veterinarians/technicians provide important services such as artificial insemination. The PMU plans to host a multi-stakeholder meeting for the dairy sector in December 2019 to discuss policy issues.

Agreed Action	Responsibility	Agreed Date
Support for 4P value chain players Incorporate SAPP line of credit for 4P promoter and other value chain players for commercial investments in equipment that will be used to directly benefit smallholders, with strict criteria for eligibility and minimum 50% matching contribution. Details in Appendix 4.	PMU	01/2019
NADeP 2nd loan support Reduce target beneficiaries from 20,000 to less than 6,000 and reallocate credit for beneficiaries of approved SAPP 4Ps	PMU	12/2019
Support for 4P value chain players Incorporate limited matching grant support to 4P promoters (up to USD 10,000) for market/business development activities that directly benefit smallholders with strict criteria for eligibility and minimum 50% matching contribution	PMU	03/2020
Incipient FO/PO 4P Support to incipient FO/PO 4Ps to be undertaken through their linkage with 4Ps (either private sector or established FO/POs); no further efforts to collaborate with the Mahaweli Authority are required	PMU	

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus

Effectiveness

Rating: 4

Previous rating: 3

Justification of rating

There has been significant gains in project outreach, with 16 4Ps signed that will reach 15,403 beneficiaries if implemented as planned. Now, greater attention needs to be placed on implementation. Only four 4Ps are fully operational (i.e. disbursed at least 25% of their target 2019 loans/grants). In seven 4Ps, beneficiaries have yet to receive loan or grant support. For former NADeP 4P 2nd loans (credit only), only 543 beneficiaries have received credit, less than 3% of 2019 targets.

Log-Frame Analysis & Main Issues of Effectiveness

There are four main challenges accounting for the low rate of disbursement of grants and loans.

First, overly optimistic assumptions in the SAPP design;

- 20,000 NADeP loan beneficiaries assumed to immediately qualify for 2nd working capital loans under the SAPP line of credit, when in fact the maximum number of qualifying NADeP beneficiaries is 6,028 (not 16,400 mentioned in the first supervision mission).
- Reliance on the Mahaweli Authority to implement support for incipient FO/POs that did not materialize.

Second, gaps in the SAPP design:

- No provision of support for 4P value chain players other than smallholder farmers, reducing their ability and incentive to participate
- No provision for support of rural public infrastructure, especially market access, which in certain areas could reduce returns of both smallholders and 4P promoters.

Third, the decision by the GoSL to set the maximum allowable PFI interest rate to 6.5%, rather than the mutually agreed

“slightly less than 10%”. This has greatly lowered the incentives of PFIs to participate.

Fourth, shortcoming in the capacity of SAPP project team and service providers which have resulted in a lack of success in selecting candidates (both private sector and FO/PO promoters) who have the marketing and management capacity to implement 4P sub-projects, and to identify beneficiaries that will qualify for SAPP support, both from a targeting and creditworthiness perspective.

Since January 2019, IFAD and the PMU have been putting in place countermeasures to overcome the bottlenecks generated by the above-mentioned challenges, i.e. acceleration of microcredit release, establishment of FO 4Ps, etc. Thus, although implementation efforts now need to be accelerated, more than 70% of the main physical targets will be achieved at completion if agreed actions are implemented. The relevant recommendations for Development Effectiveness are contained in the Key Mission Agreed Actions and in the individual section Agreed Actions.

Development Focus		
Targeting and Outreach	Rating: 4	Previous rating: 4

Justification of rating

Targeting: The target of 40% of women for the project has been reached, with 43% of women being beneficiaries. There are 388 youth beneficiaries, 77% out the AWPB target of 500, and the PMU believes that target can be reached by 31 December 2019.

Outreach: Potential outreach is strong; 16 4Ps targeted to reach 15,403 beneficiaries have been approved as of 30 September 2019. Another 18 4Ps are in the pipeline and are expected to be finalized in 2020, eventually reaching an additional 10,263 beneficiaries. If these 4Ps materialize as planned, over 67% of the target 35,000 4P beneficiaries will have been reached.

Main issues

Targeting: Baseline surveys with data are conducted all ongoing projects, but not all have been completed. The project M&E system uses participatory monitoring, collection/analysis of sex and age-disaggregated data and gender-sensitive indicators. There have been delays in the implementation of gender and nutrition programs.

Outreach: For the 4P sub-projects, only 5031 beneficiaries have received credit, and of these only 3601 have received grants; out of the target set at appraisal of 35,000. The underlying factors have been analysed and addressed, with recommendations provided, elsewhere in this report.

For the NADeP follow-on loans, only 584 beneficiaries have received credit, out of the appraisal target of 20,000. As above, the underlying issues have been analysed and addressed, with recommendations provided, elsewhere in this report.

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

Rural men and women are being empowered to participate in sub-project activities. Sex-disaggregated data and gender specific issues have been used to portray women's role in value chain and access to rural finance. The SAPP gender strategy promotes women economic empowerment through inclusion in economic opportunities brought about by the 4Ps schemes. For all 4P sub-projects sex disaggregated data is collected. The PMU has a part-time gender consultant who is managing the workload at a moderately satisfactory level. The PMU is developing a gender action plan.

Main issues

4P Sub-projects lack guidance from the PMU on setting up gender equal working spaces at the initial stage of the project. There are gender equity concerns in some sub-projects. For example, men and women do not seem to have an equal voice in rural institutions and organizations; decision making bodies consist of men; work roles are identified based on gender; there is an apparent gender pay gap, with women being paid less for the same amount of time spent. Examples of 4P sub-projects with some of these concerns are Janatha Govi Samagama Kahaththwewa Limited Liability Company, and Green Veg.

The gender component workload is large as all beneficiaries need to be trained, and impact data collected. As per the gender action plan there are gender trainings scheduled for all sub-project participants on gender stereotypes, gender discrimination etc., thereby expanding women's technologies.

All sub-projects need more guidance from the PMU on how to set up gender equal working spaces at the initial stage of the project. This will allow for more women in decision making positions in the sub-projects, and address any gender pay gaps.

Agreed Action	Responsibility	Agreed Date
Collect impact data from trainings PMU to design an impact data evaluation form to validate quality of gender-related training and other gender-related 4P activities.	PMU	02/2020
Provide sub-projects with initial gender equity guidance in project set up Develop sub-project start up guidance checklist and monitor implementation.	PMU	03/2020
Reach out to female heads of households PMU to develop and implement strategy to work with 4P's and youth on engaging female heads of households.	PMU	03/2020

Agricultural Productivity

Rating: 3

Previous rating: 4

Justification of rating

Although it is early to assess SAPP impact on agricultural productivity, from what is seen on the ground there is a good potential for increase in agricultural productivity from access to improved methods, inputs, and equipment from the various players in the 4P sub-projects. This is especially the case for scale-ups of ongoing 4Ps, where positive agricultural productivity results have already been demonstrated (e.g. Gal Oya sugar).

Main issues

In order to deepen and make sustainable the increase in agricultural productivity, greater efforts will need to be made in ensuring that government agencies at different levels, different donors-funded projects, local NGOs, and private service providers are consulted and participate as appropriate. Specific areas that were flagged were access to certified seeds, irrigation facilities, good agricultural practices, and application of more climate adaptation technologies and techniques.

Agreed Action	Responsibility	Agreed Date
Develop M&E systems to ensure collection of productivity data at baseline through endline Develop an approach that enables social mobilisers to capture relevant productivity data collection	PMU	03/2020

Nutrition

Rating: 4

Previous rating: 4

Justification of rating

Nutrition data is being captured through project baseline data, with nutrition monitoring throughout the project. Nutrition education awareness trainings are taking place together with environmental trainings. The trainings differ according to area and nutritional needs of the beneficiaries. The nutrition awareness program identifies available unutilized food sources and educates the beneficiaries, based on identified nutritional needs. The 2019 target to reduce childhood malnutrition is by 2%. However, the project will not be able to measure achievement of this target this year as baseline nutrition data is not available for many sub-projects yet.

Main issues

SAPP is encouraging beneficiaries to develop home gardens to increase nutrition amongst project beneficiaries and their families to achieve project nutrition targets.

SAPP is conducting ToTs on nutrition amongst value chain mobilizers, training them to collect nutrition data and plans to hire a firm to conduct awareness trainings as well. Value chain mobilizers have been trained on collecting data with self-reporting being done by beneficiaries on household consumption. It will be another 6 months to a year before enough data can be gathered for specific nutrition-based interventions.

Adaptation to Climate Change

Rating: 4

Previous rating: 4

Justification of rating

An Environment Conservation and Climate Change Adaptation and Mitigation Framework has been developed which outlines the key issues faced by farmers and potential areas of project intervention. Within this framework, adaptation to climate change interventions are planned and the educational programmes/trainings are being conducted, however few practical solutions have been implemented and there is room to streamline interventions.

Main issues

The framework includes awareness raising/training programmes (such as soil and water conservation measures) for different stakeholders of the project including beneficiaries, social mobilisers and agricultural extension officers, and the identification of environment and climate risks and solutions of each business proposal (4P project). In the last year (2018/19), environmental conservation, waste management and nutrition educational programmes have been carried out, however specific programs that could increase the climate resilience of farmers or practical solutions (e.g. evaluating the use of drought-resilient varieties or drip irrigation) are yet to be implemented. Furthermore, implementing the planned activities for the remaining project duration, may not be feasible for one part-time consultant and methods to mainstream activities into the business proposals should be considered.

Climate change mitigation plans have been included in the framework for the remaining project duration, encouraging biogas generation and planting of trees on agricultural lands.

Partnering with private sector companies have the potential to encourage mono-cultivation among project beneficiaries, increasing vulnerability to effects of climate change (droughts, floods etc.). Although some 4P agreements explicitly incorporate crop diversification (e.g. planting legume as an intercrop when replanting tea/sugar), this should be consistently evaluated and included as relevant into 4P project agreements. This can be done by utilising the findings of the baseline/feasibility assessments to inform specific activities and clearly identifying the responsible agent. In these cases, the 4P agreements could incorporate the necessary resources for equipment provision, training, and monitoring.

Agreed Action	Responsibility	Agreed Date
Measuring Climate Resilience Propose and implement methods to measure climate resilience impacts in the M&E system	PMU	06/2020
Climate adaption//mitigation activities to be a requirement of each 4P The findings of the environment and climate assessments of the baseline/feasibility stages should be used to propose specific mitigation activities in the 4P. These activities and responsible parties (e.g. promoter, FO/PO, farmer, SAPP field staff, etc.) and any funding consequences associated with these activities need to be clearly articulated in the 4Ps submitted for clearance to the NSC.	PMU	

b. Sustainability and Scaling up

Institutions and Policy Engagement	Rating: 3	Previous rating: 4
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Justification of rating

SAPP has taken initial steps identify key institutional and policy issues that will impede sustainability and scale-up, but more incisive and direct action is required.

Main issues

As noted above in the Component 2 discussion, the interest rate charged by banks to smallholders is a key issue for sustainability and scaling-up. SAPP management has identified risk mitigation measures as one important mechanism that would increase PFI participation, but has yet to develop a well-analyzed, concrete and sustainable proposals. This is a policy level issue, however, that will be addressed through ongoing dialogue between IFAD and Presidential Secretariat.

SAPP management flagged the issue of the lack of performance of the Mahaweli Authority in supporting incipient FO/POs, but the solutions proposed were not sustainable (direct SAPP project provision of services). The relevant recommendation for this are contained in the Key Mission Agreed Actions.

A new law to supersede existing microfinance legislation is currently under consideration, the proposed "Credit Regulatory Authority Act". This Act is likely to establish a separate regulatory authority to regulate licensed moneylenders, licensed microfinance institutions and to coordinate with other relevant regulatory authorities such as co-operatives and entities formed under the Agrarian Development Act, and will issue appropriate guidelines on their regulation, supervision and consumer protection. This could broaden the scope of dynamic value chain finance options for smallholders in general and through SAPP, including buyer finance, cooperative financial institutions, or village level financial institutions.

Agreed Action	Responsibility	Agreed Date
Policy advocacy MTR to assess the scope for the PMU to engage in policy advocacy around the proposed Credit Regulatory Act, in close consultation with the Central Bank	IFAD/PMU	06/2020

Partnership-building

Rating: 4

Previous rating: 5

Justification of rating

SAPP's 4P strategy is to structure and support win-win partnerships between farmers, FOs/POs, PFIs, and the private sector. With 16 approved 4Ps, and another 14 in the pipeline, SAPP has been overall successful in its core mission of partnership building. The partnership envisioned during appraisal with the Mahaweli Authority (MA) to support incipient FOs/POs has not materialized, but this appears to be largely beyond the control of the PMU. There is an ongoing to ensure that these 4Ps are structured to be commercially sustainable for all parties, at this point especially for the PFIs. There is an ongoing need, as well, to ensure that local government authorities, NGOs, potential service providers, and other stakeholders are consistently brought into the 4Ps as relevant.

Main issues

SAPP has conducted awareness program about SAPP at the national level, for the regional heads of the Department of Agriculture (DoA). And at the DoA regional offices in Jaffna, Gampaha, Kurunegala, Kandy, Anuradhapura SAPP has consulted to identify 4P projects and discuss specific issues of design and implementation (e.g., related to organic market for local products, GAP certification and development of market linkages). Thanks to these discussions, agriculture instructors and specialists in all districts are fully engaged in the providing relevant technical trainings to 4P farmers. SAPP worked particularly closely with Department of Agrarian Development in identification of maize sub-projects in Anuradhapura, and implementation of a diary 4P sub-project. UNDP has been consulted; it has shared experiences in farmer markets and cooperated in identification of 4P projects.

The envisioned partnership with MA in identification, selection, on-the-ground institutional support, and business mentoring of the incipient FO/POs for FO/POs led 4P projects has not been materialized as expected from the Project Design, despite considerable efforts from the PMU. In any event, it does not appear that the MA would even have the capacity to provide this support, even with considerable capacity building. SAPP does not have the resources or decentralized program management to support to step in and provide the continual and ongoing support that these incipient FO/POs would require to manage a successful 4P on their own. Thus, the mission has recommended that the support to incipient FO/POs be focused on those that would be part of private sector led 4Ps or mature FO/PO led 4Ps (see Key Mission Agreed Actions for the relevant recommendation)

SAPP has approached Movement for Land and Agrarian Reform (MONLAR) as national implementing agency in Sri Lanka for Medium Term Cooperation Program Phase 2 (MTCP2), a grant-funded project to build and strengthen capacities of farmers organizations to engage in policy work and deliver services to their members, but so far no positive response has been received from this agency yet. It is unlikely that further efforts in this vein would yield significant results.

Agreed Action	Responsibility	Agreed Date
4Ps sub-projects Ensure that 4P sub-projects are designed and implemented with broad consultation and support from local GoSL, NGO, and civil society partners	PMU	

Human and Social Capital and Empowerment

Rating: 4

Previous rating: 3

Justification of rating

Managerial, technical, organizational capacities of poor men and women are being developed through trainings and

awareness programs facilitated by through the 4P and youth projects. Beneficiaries and are being supported at an individual level, as well as through support to POs/FOs. However, there needs to be more capacity development support provided through project mechanisms to enable beneficiaries and FOs/POs to play a more effective role in decision making, negotiation, planning, budgeting etc.

Main issues

The beneficiaries need to become more independent, confident and empowered to make key economic decisions rather than relying on 4P partners or SAPP staff/consultants/service providers. The beneficiaries need to understand how institutions such as banks, and companies function so that they can manage business and financial relationships. The relevant recommendation for this is financial literacy addressed elsewhere. Exchange visits between empowered FO's/PO's and youth may help with the visualization and empowering process.

Agreed Action	Responsibility	Agreed Date
Exchange visits Prepare and implement program for exchange visits between empowered FO's/PO's and youth	PMU	

Quality of Beneficiary Participation

Rating: 4

Previous rating: 4

Justification of rating

Beneficiary participation in sub-projects is good but could be improved. In the visited sub-projects, beneficiaries are aware of SAPP's role and have participated in the 4P design process. Feedback, redress and grievance mechanisms are embedded in some 4P and youth activity agreements, and this is planned be done consistently.

Main issues

The project has made good efforts to target beneficiaries within the income, land ownership and farm size criteria. More efforts can be made to reach women-headed households.

Agreed Action	Responsibility	Agreed Date
4P's and youth Ensure that all 4P's and youth project agreements have equitable redress guidelines and mechanisms	PMU	03/2020

Responsiveness of Service Providers

Rating: 3

Previous rating: 4

Justification of rating

Service providers recruited by SAPP have implemented their terms of reference adequately. There is a deficiency in service provider attention to ensuring that the FO/POs have established markets, and have sufficient management and financial capacity to lead 4P sub-projects. However, this is more a management issue within SAPP and the service providers are undertaking activities as contracted.

Main issues

Three services providers – Lanka Social Ventures (LSV), International Institute of Development Training Pvt. Ltd. (IIDT), and PricewaterhouseCoopers Sri Lanka (PwC) have been approved by SAPP. They support the selected FO/PO/cooperatives to develop business proposals and capacity building. The mission observes that the irregular bidding procedures flagged in the procurement section may have led to a reduced motivation on the part of the service providers to be responsive to SAPP requirements.

So far only one of the three selected service providers, LSV, has been contracted by the PMU to provide capacity building and organization strengthening of FOs – Integrated Agro Business Company Ltd., (Backyard Poultry Project) and Uthsahaya Cinnamon Growers Welfare Society (Cinnamon Cultivation Project). The activity plans developed by this service provider are responsive to contract stipulations.

Agreed Action	Responsibility	Agreed Date
Contracts Ensure that contracts with service providers are focused building capacity within the assisted FOs/POs to maintain and develop their initiatives interdependently.	PMU	11/2019

Environment and Natural Resource Management

Rating: 4

Previous rating: 4

Justification of rating

An Environment Conservation and Climate Change Adaptation and Mitigation Framework has been developed outlining potential interventions during the remaining project period. While educational programmes on environment conservation, waste management and nutrition have been conducted, it is too early to observe the impacts of these interventions. Social mobilisers and agricultural extension officers have received trainings on similar topics.

Main issues

It has been observed that in the 4P models where private sector companies have certification schemes (e.g. GAP, Organic certifications), there is strong monitoring of farmlands and support to ensure that sustainable land management practices are being conducted. During development and implementation of 4Ps, the introduction of certification schemes should be considered based on considerations of market demand, practicality, and cost/benefit analysis. Costs of these borne by 4P promoters or FO/PO may be covered through SAPP matching grant program.

Agreed Action	Responsibility	Agreed Date
Certification system Evaluate the introduction of certification systems in 4P projects based on market, practicality, and cost/benefit assessment.	PMU	

Exit Strategy

Rating: 4

Previous rating: 4

Justification of rating

At the sub-project level, the SAPP design assumption is that an exit strategy is implicit in the 4P agreement. Once the production commences with anticipated market demands and with commercially empowered producers, the SAPP may exit from the 4P. At this point, business will continue to the mutual benefit of promoter and smallholder. Further expansion and deepening of investments will come from retained earnings.

As noted in Overview and Project Progress, Component 2, resolution of the interest rate issue will be an important component of a viable exit strategy for SAPP.

At the strategic level, should the SAPP 4P model does prove to be broadly successful, the key question will be how will the key SAPP functions of identification and support of 4Ps be assumed by the GoSL and other partners? This issue will need to be addressed explicitly well before the time of project closure.

Main issues

Many of the 4Ps in operation, particularly those with SME and FO/PO promoters, are heavily dependent on SAPP support for grant and loan financing, capacity building and technical training, market arrangements, and linkages with technical institutions to be viable. Until these are provided and are sustainable SAPP's presence with 4Ps is required. SAPP has to be strategic in providing such facilities at a quicker pace and exit from a set 4Ps and move to another.

For the SAPP lines of credit, design stipulates that these will be transformed/transferred into a revolving fund which will be managed by the CBSL and RDD.

Agreed Action	Responsibility	Agreed Date
Strategic plans MTR to address strategic plans for continuation of 4P support post-SAPP	IFAD/PMU	06/2020
Draft exit strategy PMU will prepare a draft exit strategy document and refine it as 4Ps and SAP generally mature. This living document will eventually be finalized by the time SAP is completed.	PMU	

Potential for Scaling-up

Rating:

Previous rating: 4

c. Project Management

Quality of Project Management

Rating: 3

Previous rating: 3

Justification of rating

There has been staff turnover due to a number of reasons including more attractive opportunities, withdrawal of GoSL seconded staff, and individuals not meeting annual performance review standards. The key positions of M&E, Business Development, Program Officer, and ICT officers remain vacant. Consultants are largely used to fill in capacity gaps, particularly with respect to business development and microcredit related activities, and service providers are not sufficiently selected, evaluated and managed in terms of achieving SAPP's core outcomes.

Main issues

The quality of technical component management could be improved. For Component 1, some fundamental principles of the 4P strategy of SAPP has not been completely internalized, leading to degree of diversion of programme time and resources on activities not focused directly on 4P development and achieving results. For Component 2, a greater understanding of the principles of value chain finance would strengthen leadership and contribute to stronger partnerships with PFIs and more appropriately structured loans to beneficiaries. In both cases this has had impact on the ability to recruit, manage, and retain qualified staff, consultants, and service providers.

Agreed Action	Responsibility	Agreed Date
Streamline Proposal development procedures Improve and streamlined procedures for documentation and development and approval of 4P proposals, modifying PIM as necessary in conducting feasibility studies and proposal development	PMU	12/2019
Staff Capacity Development Provide staff training in 4P and agribusiness concepts to ensure retaining those with strong business development expertise	PMU	
Service Provider results-based contracts Ensure stringent selection of SPs, using results-based management to ensure achievement of SAPP output and outcome indicators.	PMU	

Knowledge Management

Rating: 5

Previous rating: 4

Justification of rating

Although SAPP is in an early stage of implementation, a notable amount of Knowledge Management (KM) products have been developed and disseminated. Since the last supervision mission the project KM team has finalised the official website, now being further developed to incorporate the major social media platforms. The Knowledge Management Strategy and KM Manual have been finalized and KM activities are included in the AWPB and adequate budget allocated.

Main issues

In the last twelve months, a substantial number of KM products and initiatives have been successfully launched and delivered providing high visibility to the programme at national level. Two documentaries focusing on the important mainstreaming agenda of women and youth were produced and uploaded on the SAPP official website. SAPP used both printed and electronic media to disseminate knowledge products. Eight newspaper articles were published that included case studies in Sinhala and English. In terms of electronic media, two TV programmes were telecasted as well as four documentaries were produced of which two were already telecasted. SAPP has also participated in a radio programme widely listened to in rural areas. The programme has printed a number of leaflets and pull-up banners for both the programme itself and promoters. Finally, SAPP participated in five Producers to Business (P2B) exhibitions, three with Enterprise Sri Lanka, 1 with Lanka Social Ventures, and one with Pro-Food Pro-Pack exhibition. Social Mobilizers produce case studies on their respective project/ beneficiaries which are sent to the PMU. The KM Consultant uses such case studies to reproduce articles to be published in newspapers/web site by giving due recognition to SMs. The KM consultant produces annual reports (2017-2019) sent to the PS and IFAD Mission (2018-2019).

SAPP has begun to locate information board in project sites listing the financiers, number of beneficiaries, and kind of activities/services extended.

In October 2019 IFAD produced a video documentary called "Recipes for Change", with objective to demonstrate how climate change has negatively impacted the diet of the most affected areas, making produce less available. A world-renowned chef visited a project site in Anurapadhura, and together with a SAPP beneficiary prepared a traditional meal. The final video will be disseminated through all IFAD social media platforms and also shown in-air on major international airlines (Qatar, Emirates, and Alitalia).

Agreed Action	Responsibility	Agreed Date
Communication Strategy Prepare a communication strategy and identify the target audience	PMU	03/2020
Information Board Finalise the location of all information boards on all project sites	PMU	06/2020

Value for Money

Rating: 3

Previous rating: 4

Justification of rating

The profitability analysis of the 4P models that have so far been established show a lower financial viability for the producers than was expected in the design, for reasons listed below.

The cost structure of the SAPP provides expected unit cost for 4Ps, and the cost of implementing the current 4Ps is within the rate of unit cost allocated. The project funds are allocated through loans and grants which are within the cost allocation. The cost of conducting training sessions, sensitization workshops, exposure visits and other related expenditure are within the budget allocations. No cost item so far has been reported as over expenditure in the unit cost.

Main issues

The value for money of the SAPP investment depends on the incremental financial returns of the 4Ps that have been supported by the SAPP. Only few 4Ps are sufficiently advanced in operations to test the assumptions. For example, the financial viability of floriculture 4P (this was not included in the design) and the chillies seeds production 4P (included in the design) were analysed. The financial viability results show that the design estimation of financial internal rate of return (IRR) is notably higher than the preliminary estimates of IRR from the actual 4Ps. The main reasons are (i) the product price assumed during the design was higher than the actual prices realised (for example chillies seeds); and (ii) the production levels assumed at the design could not be realised in the current production situations. The IRR estimated for the floriculture producers in that 4P, which is 26%, much lower than any of the examples that were taken for the design.

The Economic IRR (EIRR) of SAPP at the design was estimated at 52%. The EIRR of the SAPP at MTR will not likely be higher than 30%, according to the very preliminary estimate of the EFA undertaken during the supervision mission. The main reasons for the notable differences are (i) the establishment of 4Ps and obtaining financial gain was delayed by about two years than that was expected during the design; (ii) the actual production levels of some 4Ps (chilli seeds for example) are lower than what was expected in the design EFA; (iii) the number of producers of the 4Ps expected at the design in the first year of the SAPP was 18,100, whereas the number of producers are just over 5,000 at end of October 2019.

Obtaining financial benefits from the SAPP supported 4Ps got delayed by about 2 years and any further delay in commencing production and operationalizing 4Ps would bring the value drastically down for the money that is invested by the SAPP.

Agreed Action	Responsibility	Agreed Date
IRR for 4P approval Ensure that realistic appraisals of financial viability are part of the 4P appraisal process, and establish a minimum IRR for 4P approval. Modify the relevant sections in the PIM to standardize this.	PMU	06/2020

Coherence between AWPB and Implementation

Rating: 4

Previous rating: 3

Justification of rating

The total value of the AWPB of 2019 was USD 11.73 million and the actual expenditure was USD 9.85 million as at 31st October 2019 which is 84%. Both the rate of disbursement and the coherence between actual and planned expenditure in 2019 has improved substantially in comparison to the rates of expenditure for 2017 and 2018 which were 10% and 8% respectively. The low rate in the first two years was mainly caused by the challenges that the PMU had to face in getting the 4P implementation procedures finalised, and capacitating the staff to fully understand that procedure and start implementing it.

AWPB Inputs and Outputs Review and Implementation Progress

The AWPB of the SAPP is directly linked to expenditure of the 4Ps. The credit and the grants provided to the 4Ps under 1st and 2nd components consume about 90% of the budget. Any delays in initiating the 4Ps would therefore directly affects the performance of the AWPB which could then drop the disbursement rate in the next two years. The high rate of disbursement in 2019 indicates the good potential of the PMU to increase the rate of implementation. Taking this momentum further, it is crucial for the SAPP to maintain the high disbursement rate that was achieved in 2019 in 2020 AWPB as well to ensure an overall satisfactory disbursement of the project financial resources.

Agreed Action	Responsibility	Agreed Date
Realistic targets for AWPB Taking into consideration the 4Ps that have been approved, and in addition, the 4Ps that are in the pipeline, set realistic targets in the AWPB for 2020. In this target setting, project overall 4P targets to be achieved and the PMU capacity to implement these should be carefully considered	PMU	01/2020
Implementation rate of 4Ps By realizing the agreed actions listed under the 1st and the 2nd components, ensure increased implementation rate of 4Ps	PMU	

Performance of M&E System

Rating: 3

Previous rating: 4

Justification of rating

M&E responsibilities are currently with the Deputy Programme Director, supported by one consultant, two IT staff and one PO. The position of Deputy Manager M&E has been vacant since May 2019. The position was temporarily filled for 4 months, and since October 2019 the position is vacant again. This pivotal position for the PMU needs to be recruited and on-boarded as soon as possible.

M&E System Review

Learning from the experience of NADeP, SAPP has designed an MIS web-based system, which currently contains four modules, which capture information related to programme management; beneficiary management; disbursement management and trainings. This system allows the downloading of basic reports as Excel spreadsheets. The enhancement of the SAPP MIS system follow the good practice of the NADeP MIS, and assigns a unique identifier number to each beneficiary which avoids the problem of double counting and facilitates the monitoring of the services and assistance provided to each. The system should be further customised to capture KM and lessons learned to monitor the performance of the POs, communities and farmers to understand needs of interventions and to help in decision making. The programme monitoring continues to be more on activity and output levels and rarely deals with results and outcomes. With the functioning of the web-based MIS system and appropriate training to Social Mobiliser, the project can start also reporting better outcomes achievements. Disaggregated indicators for gender and youth are properly reported.

Out of the eleven projects baseline surveys have been conducted for nine for which the reports were finalised and submitted. The remaining two surveys have been awarded to a service provider to be carried out.

The mission appreciated the efforts in preparing the annual outcome survey which will be conducted from next year and it will be an integral and complementary part for the results reporting (ORMS).

The mission notes that the flow data coming from farmers through Social Mobilizers, and through companies up to the PMU, are still transmitted and recorded on paper-based records. These records are then manually inputted in the MIS requiring a great deal of manual intervention. The process could be streamlined in providing access to Social Mobilizers and 4P partners to the central MIS system allowing for more updated KPIs and progress reports to be generated. Data analysis is carried out by M&E staff in PMU and through frequent field visits they can validate the accuracy of the data. All M&E activities are properly included in the AWPB and adequate budget is allocated. The physical progress of these activities are monitored through a detailed annual action plan.

The mission noted that tablets have been purchased for social mobilisers and recommends installing GPS in each tablet to capture geo reference information during their missions. Capturing geo reference information allows PMU to understand support and services provides (trainings; access to rural finance etc.) in specific geographical areas and can help them assess if, when, and how an intervention is required.

The mission recommends a basic training on M&E concepts for social mobilizers and companies through which they can understand the importance of reliable data. In December 2018 SAPP staff along with STaRR PMU staff attended a training delivered by IFAD on Monitoring and Evaluation for non M&E staff (component managers and financial managers).

Agreed Action	Responsibility	Agreed Date
Staffing Advertise the position of Deputy Manager M&E as soon as possible and proceed with the immediate recruitment	PMU	01/2020
Direct link to MIS Develop an application for Social Mobilizers to be able to transmit data in a timely manner to the central MIS system.	PMU	06/2020
GPS Install GPS to identify programme areas with geo-reference information to generate maps.	PMU	09/2020

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

Rating: 4

Previous rating: 3

Justification of rating

SECAP related documents have been produced (Environment Conservation and Climate Change Adaptation and Mitigation Framework) and the quality of mitigation measures are good. The project is starting integrating the SECAP in project procedures.

SECAP Review

Due to the SAPP project having an environment risk category B, and a moderate climate risk category the following documents needed to be developed – Environment and Social Management Plan (ESMP) and basic climate risk analysis. This was achieved through the development of the Environment Conservation and CC Adaptation and Mitigation Framework (done by the Environment Consultant, PMU), and the framework includes a detailed plan on conducting environment and climate assessments (as part of the baseline study) for every new 4P project.

However, the approach and reporting systems need to be standardized. The same level of assessments as planned in the Mitigation Framework for new 4P projects should be conducted for ongoing 4Ps as well, and the mitigation/adaptation measures should be included in ongoing activities.

Agreed Action	Responsibility	Agreed Date
Environment and Climate Assessments of Ongoing 4P Projects Conduct basic climate risk analysis and environment assessments (as per the developed framework) using standardized methods, including ongoing 4P projects; and introduce relevant resilience/mitigation activities.	PMU	03/2020

d. Financial Management & Execution

Acceptable Disbursement Rate	Rating: 3	Previous rating: 4
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Justification of rating

Automated rating based on IFAD disbursement data

Main issues

The overall disbursement rate is 30.5% against IFAD loan as of 30 October 2019. IFAD has allocated USD 54.5 million to SAP through one loan and two additional financings over six years. As of 31 October 2019, the accumulative expenditures of IFAD loan is USD 10,278,147.65 including an initial deposit of USD 2.8 million. There are six disbursements made in 2019 totalling to USD 6,255,628.65. The PMU is preparing WA No. 12 amounting to approximately USD 552,378 soon ready to submit by 20 November and WA No. 13 approximately USD 3.24 million is also expected by end of 2019.

Agreed Action	Responsibility	Agreed Date
WA submission a. Submit WA12 to IFAD by 20 November b. Send WA13 to IFAD by 31 December	PMU	12/2019

Fiduciary aspects

Quality of Financial Management	Rating: 4	Previous rating: 4
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Justification of rating

The financial management arrangements are generally in compliance with the Financing Agreement (FA). The Deputy FM Manager is on board and FM team established sufficient structure to segregate duties. The project submits its withdrawal applications through IFAD ICP. The core staff in current PMU carries institutional memories from previous NaDeP in terms of financial management. There is adequate time assigned for project budget preparation and timely approval of government counterpart budget. The project submitted interim financial reports (IFRs) to IFAD by due date in 2019.

Main issues

Budgeting. The AWPB is approved in a timely fashion. Total IFAD budget in 2019 AWPB is USD 11.73 million (22% of total IFAD allocation) with 84% realized as of 31 October 2019. The mission observed timely counterpart funding channelled to the project, including government contribution, private sectors, and commercial banks. The GOSL has committed approximately USD 7.6 million for 2019 (approximately 39% against the appraisal) to the project. Beneficiary and PFI contribution are not timely recognized by the project. The mission urged the project to keep track of all in-kind contributions from beneficiary and PFI.

Fund flows and Disbursements / Withdrawals. There has been a discernible improvement on disbursement in 2019. IFAD disbursed six WAs as of date amounting to USD 6,255,628.65. The mission sampled SOE for previous WA and found SOE expenditures are traceable.

Internal Control. The PMU has an internal control system with defined responsibilities and segregation of duties. It has an existing PIM as the basis for internal controls for the program but the PMU should update specific FM arrangements to PIM (PIM-FM). The mission recommends further revisions to current draft PIM-FM: (i) add narrative on anticorruption policy and arrangements in PMU; (ii) illustrate Statement of Expenditures (SOE) procedure, requirements and thresholds; (iii) insert outflow of funds and processing of payments for goods, works and services; and (iv) define auditor's TOR that one opinion on the Project's financial statements should be provided in the audit report and auditor must prepare management letter accordingly. The FM Manager should send updated PIM-FM to IFAD Finance Officer for non-objection.

Agreed Action	Responsibility	Agreed Date
Submit revised FM section of the PIM	FM	12/2019
Update of PIM-FM Finalize FM arrangements for IFAD Finance Officer's non- objection	PMU	12/2019

Quality and Timeliness of Audit

Rating: 3

Justification of rating

The project provides true and fair financial reports providing comprehensive information for assessment but the management letter is missing

Main issues

Audited report received late by 4 days without the management letter. The project submitted the management letter separately with 2.5 month delay.

IFAD's assessment of the Quality and timeliness of audit work as **moderately unsatisfactory** due to a major delay on the submission of the management letter. IFAD also suggests the following to the auditors and project:

The Auditor is required to examine and assess the internal control, recommend action to the Project management, if any, in the management letter of 2019 audit. We are looking forward to receiving a comprehensive assessment on project's internal control environment in the management letter next year.

- The Project needs to reply to the Auditors recommendation within 30 days after the issuance of the management letter
- The Management is required to prepare Schedule of Fixed Assets for 2019 financial statements to be audited.

Agreed Action	Responsibility	Agreed Date
Follow up of audit recommendations Auditor confirms completed corrective measures for previous year in audit report	PMU	12/2019
Follow up of audit recommendations Auditor confirms completed corrective measures for previous year in audit report	PMU	12/2019
Submit audit report to IFAD Submit audit report to IFAD submit both audited Financial Statements and management letter on time for fiscal year 2019.	AGDSR/PMU	06/2020
Submit audit report to IFAD Submit audit report to IFAD submit both audited Financial Statements and management letter on time for fiscal year 2019.	AGDSR/PMU	06/2020

Counterparts Funds

Rating: 4

Previous rating: 5

Justification of rating

The mission observed timely counterpart funding channelled to the project, including government contribution, private sectors, commercial banks and farmer beneficiaries. The GOSL has committed approximately USD7.6 million for 2019

(approximately 39% against the appraisal and 68% of the 2019 funding budget) to the project.

Main issues

The project utilized approximately USD 5.13 million of government counterpart contribution as of 30 October, representing 68% of the government counterpart funding budget for 2019. The mission noted the GOSL committed USD18.3 million to establish a revolving fund to match with IFAD lines of credits during project implementation. In 2019, USD 4.9 million of government contribution committed for this purpose and approximately USD 4.3 million is expected to be realized by end of 2019. The accumulative realization rate against total RF commitment is barely 4%. Beneficiary and PFI contribution are not timely recognized by the project.

The project conducted an asset physical count for previous NADEP and identified assets equivalent to about USD 34,939 to be carried to SAP as government in kind contribution. The mission requested the PMU to review the residual value and book the net value after depreciation which is in line with common practice of IFAD.

The mission noted the GOSL committed USD18.3million to establish a revolving fund to match with IFAD lines of credits during project implementation. Instead of having one tranche for pooling of full amount in the segregated account in CBSL, the GOSL budgeted annually for this purpose. For 2019, approximately USD 4.9million committed for this purpose. This is not in line with the FA and partial capitalization of revolving fund will hinder project impacts and targeting for planned purpose. The mission urged the GOSL immediate release the rest of its commitment to the pool for revolving fund in CBSL.

<i>Agreed Action</i>	<i>Responsibility</i>	<i>Agreed Date</i>
Revolving fund Release all commitment of Revolving fund to CBSL	GOSL	03/2020

Compliance with Loan Covenants

Rating: 4

Previous rating: 4

Justification of rating

The financing covenants are generally complied with except for an instance of training activities that had not previously been approved in the AWPB, and for which IFAD NO was not obtained.

Main issues

As stipulated in the Para. 8.1 of Financing Agreement Schedule 1, key managerial staff are to be selected according to local applicable procedures, and recruitment decisions subject to IFAD NO. The Although a block NO was obtained for staffing appointments prior to July 2018, the PMU should submit a staffing proposal to IFAD including: (i) appointments for current PMU including TOR, staff qualifications and annual performance reviews; and (ii) draft TORs for vacant posts. The PMU should send all newly selected candidates to IFAD for NO before finalizing their appointments.

<i>Agreed Action</i>	<i>Responsibility</i>	<i>Agreed Date</i>
IFAD Non-Objection on staff Appointments a. send staff selection recommendations to IFAD for non-objection before appointments; b. send IFAD current staff profiles for endorsement.	PMU	12/2019

Procurement

Procurement

Rating: 4

Previous rating: 4

Justification of rating

Processes, procedures and systems applied exhibit some gaps and inconsistencies that have limited impact on project implementation and performance. Implementation support is required, however, prompt resolution of issues/constraints is likely.

Procurement Review

Review of procurement plan: The procurement plan is in line with AWPB and has been updated up to the second quarter. Updated plan up to the third quarter is overdue. Non-consulting services such as hiring vehicles, recruitment of service mobilizers were erroneously categorised under Goods and Capacity building of RFI officials categorised under

Consulting Services. Only two procurements were subject to prior review. One of these, RFI training, was completed without prior approval. Provision made for leasing office premises, and information and communication materials were inadequate. Making adequate budgetary provision, regular updating, proper categorisation of items, preparing PP in line with the IFAD procurement plan templates and strict adherence to the prior review requirements are the recommended improvements.

Review of process and procedure from prequalification to bidding The mission reviewed 12 randomly selected procurements representing around 45% of the total procurements. The procurement process conforms largely with the Government procurement Guidelines and is consistent with IFAD procurement Guidelines and Letter to the Borrower (LTB). The only major deficiency in this area is non availability of a Tender Box to deposit bidding documents. Bids were delivered to the Procurement Unit and kept there until Bid opening Committee meeting is held. Mission advised to procure Tender Box without further delay.

Process and procedure for evaluation of award SAP has complied with most of the requirements of the Government and IFAD's Procurement Guidelines including provisions of the Financing Agreement and Letter to the Borrower (LTB) under this section too. However, the method used in selection of consultancy firms for strengthening farmer societies and preparation of Business proposals was unique and does not fall entirely in line with standard procurement practices. Awarding Business plan preparation to three selected firms at the discretion of the PMU is not permissible under standard procedure. Some firms got more assignments than others though they all were prequalified for the contract. It is recommended that PMU follow standard procurement methods for all procurements instead of using modified procedures where transparency and fairness of awarding contracts are questionable.

Contract administration and management: While the respective sectional heads are responsible for management of 4P contracts, the responsibility of both contract administration and management of all other contracts' rests with the procurement specialist. Lack of co-ordination between contract administration and management is observed in this area. Contracts such as strengthening FOs of Cinnamon and Backyard Poultry were behind the schedule. Payment details and extension of contracts are not referred / intimated to the Procurement Unit. The mission informed the relevant sectional heads and emphasised the need of an effective system of communication between these two sections to ensure all contracts are completed according to the agreed terms and conditions.

Review of procurement filing system and the ease of document retrieval The mission observed series of weakness in this area such as absence of proper filing system where all important documents are chronologically numbered with indexing to enable retrieving them as and when need arises.

Other relevant issues: All project procurements are handled by the Procurement Specialist himself. It is not a very good arrangement though the mission does not have concerns with the competency of the Procurement specialist. Therefore, mission strongly recommend that the PMU provide at least one support staff to assist him.

Agreed Action	Responsibility	Agreed Date
Filing system Improve procurement filing system as per the instructions given in Procurement Handbook.	PMU	11/2019
Management information system Introduce an effective management information system between contract management and administration	PMU	12/2019
IFAD Guidelines Adherence to the standard procurement methods in IFAD guidelines and prior Review Requirements	PMU	
Procurement plan Submission of updated procurement plan to IFAD regularly	PMU	
Template Comply with IFAD procurement template and categorisation of procurements	PMU	

e. Key SIS Indicators

Likelihood of Achieving the Development Objective	Rating: 4	Previous rating: 4
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Justification of rating

SAPP's physical progress with respect to the establishment of fully functional 4Ps is still below target, as a total of 16 4P agreements have been signed, which aim to support approximately 34% of the beneficiaries anticipated in the PDR ; and finally up to 44% of the overall target beneficiaries in the months to come. More incentives to the private sector could help speed up the pace of project implementation, hence the scope and likelihood that the objectives will be fully achieved by completion. The benefits of SAPP for a large segment of beneficiaries reached to date are well recognized and include sufficient elements of sustainability; e.g., 4Ps providing chicken eggs and spices to the Hilton hotel.

Assessment of the Overall Implementation Performance	Rating: 4	Previous rating: 4
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Justification of rating

Both main components on the establishment of 4Ps and access to finance are moderately satisfactory as they are yet below target, with issues to be addressed during the MTR such as providing more incentives to the private sector and the reluctance of some banks to lend at subsidized interest rate. There are issues with fiduciary management to be corrected, but generally, financial management is sufficiently organized with room for improvement.

F. Relevance

Relevance	Rating: 5	Previous rating: 5
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Justification of rating

The SAPP strategy to transform rural farming systems into commercial oriented production systems through the win-win 4P partnerships using a value chain approach, and this remains valid, robust and relevant for the current situation. The project is well aligned with the Government's priorities. The Presidential Secretariat has categorically indicated that the government is very keen to apply the SAPP model as an approach to increase agricultural production and at the same time to support rural poor.

Main issues

Under increasingly volatile market situations, escalating environmental risks, and decreasing competitiveness, commercialization of agriculture with arranged marketing remains one of the dependable, remunerative and sustainable ways of continuing rural agriculture. The traditional systems attract very low proportion of women and youth due to its inherent drudgery and low capacity for application of modern technology. The 4P sub-projects that are in operation provide opportunities and attractiveness for the youth and women as well to revert to agriculture.

The long term experience of IFAD projects in particular and general agriculture development programmes in general in Sri Lanka have shown that the divergence in seasonal production volumes and unremunerative prices has been one of the main reasons for grossly inadequate net income for smallholders. At least four IFAD projects have made concerted efforts to narrow this divergence through arranging product supply chains with collecting centres; contract farming; out-grower models; farmer organizations to become producers, collectors and marketers; value chain development; and providing market information for the producers. The experiences and lessons learnt out of such operations formed the basis for NADeP and then for the SAPP.

The out-grower models that were in operation in the past demonstrated acceptable level of quasi-institutional arrangements including buy-back arrangements with a formal forward contract, financial transaction modalities showing value chain financing characters and input supply systems. There were indications that such arrangements can continue as they are mutually required and beneficial. Further, if the marketing arrangements are dependable, it has demonstrated that there will be minimum out-side sales, especially when there are no alternative buyers for the products that are in operations (for example potato chips, greenhouse tomatoes etc in SAPP 4Ps). Input pre-financing on credit managed by the 4P owners has also been in practice with varying success. The private sector has shown concrete interest in the SAPP which is demonstrated by submitting concept notes and also business plans in some cases. The mission discussions with FOs/POs also confirm their continuous interest in the SAPP. These organizations have broadly understood the scope of the SAPP and how best they can be benefited by the Project.

G. Agreed Actions

Agreed Action	Responsibility	Agreed Date
Overview and Project Progress		
Support for 4P value chain players Incorporate SAPP line of credit for 4P promoter and other value chain players for commercial investments in equipment that will be used to directly benefit smallholders, with strict criteria for eligibility and minimum 50% matching contribution. Details in Appendix 4.	PMU	01/2019
NADeP 2nd loan support Reduce target beneficiaries from 20,000 to less than 6,000 and reallocate credit for beneficiaries of approved SAPP 4Ps	PMU	12/2019
Support for 4P value chain players Incorporate limited matching grant support to 4P promoters (up to USD 10,000) for market/business development activities that directly benefit smallholders with strict criteria for eligibility and minimum 50% matching contribution	PMU	03/2020
Incipient FO/PO 4P Support to incipient FO/PO 4Ps to be undertaken through their linkage with 4Ps (either private sector or established FO/POs); no further efforts to collaborate with the Mahaweli Authority are required	PMU	
Development Effectiveness		
Collect impact data from trainings PMU to design an impact data evaluation form to validate quality of gender-related training and other gender-related 4P activities.	PMU	02/2020
Provide sub-projects with initial gender equity guidance in project set up Develop sub-project start up guidance checklist and monitor implementation.	PMU	03/2020
Reach out to female heads of households PMU to develop and implement strategy to work with 4P's and youth on engaging female heads of households.	PMU	03/2020
Develop M&E systems to ensure collection of productivity data at baseline through endline Develop an approach that enables social mobilisers to capture relevant productivity data collection	PMU	03/2020
Measuring Climate Resilience Propose and implement methods to measure climate resilience impacts in the M&E system	PMU	06/2020

Climate adaption//mitigation activities to be a requirement of each 4P The findings of the environment and climate assessments of the baseline/feasibility stages should be used to propose specific mitigation activities in the 4P. These activities and responsible parties (e.g. promoter, FO/PO, farmer, SAPP field staff, etc.) and any funding consequences associated with these activities need to be clearly articulated in the 4Ps submitted for clearance to the NSC.	PMU	
Sustainability and Scaling up		
Contracts Ensure that contracts with service providers are focused building capacity within the assisted FOs/POs to maintain and develop their initiatives interdependently.	PMU	11/2019
4P's and youth Ensure that all 4P's and youth project agreements have equitable redress guidelines and mechanisms	PMU	03/2020
Policy advocacy MTR to assess the scope for the PMU to engage in policy advocacy around the proposed Credit Regulatory Act, in close consultation with the Central Bank	IFAD/PMU	06/2020
Strategic plans MTR to address strategic plans for continuation of 4P support post-SAPP	IFAD/PMU	06/2020
4Ps sub-projects Ensure that 4P sub-projects are designed and implemented with broad consultation and support from local GoSL, NGO, and civil society partners	PMU	
Exchange visits Prepare and implement program for exchange visits between empowered FO's/PO's and youth	PMU	
Certification system Evaluate the introduction of certification systems in 4P projects based on market, practicality, and cost/benefit assessment.	PMU	
Draft exit strategy PMU will prepare a draft exit strategy document and refine it as 4Ps and SAP generally mature. This living document will eventually be finalized by the time SAP is completed.	PMU	
Project Management		
Streamline Proposal development procedures Improve and streamlined procedures for documentation and development and approval of 4P proposals, modifying PIM as necessary in conducting feasibility studies and proposal development	PMU	12/2019

Realistic targets for AWPB Taking into consideration the 4Ps that have been approved, and in addition, the 4Ps that are in the pipeline, set realistic targets in the AWPB for 2020. In this target setting, project overall 4P targets to be achieved and the PMU capacity to implement these should be carefully considered	PMU	01/2020
Staffing Advertise the position of Deputy Manager M&E as soon as possible and proceed with the immediate recruitment	PMU	01/2020
Communication Strategy Prepare a communication strategy and identify the target audience	PMU	03/2020
Environment and Climate Assessments of Ongoing 4P Projects Conduct basic climate risk analysis and environment assessments (as per the developed framework) using standardized methods, including ongoing 4P projects; and introduce relevant resilience/mitigation activities.	PMU	03/2020
Information Board Finalise the location of all information boards on all project sites	PMU	06/2020
IRR for 4P approval Ensure that realistic appraisals of financial viability are part of the 4P appraisal process, and establish a minimum IRR for 4P approval. Modify the relevant sections in the PIM to standardize this.	PMU	06/2020
Direct link to MIS Develop an application for Social Mobilizers to be able to transmit data in a timely manner to the central MIS system.	PMU	06/2020
GPS Install GPS to identify programme areas with geo-reference information to generate maps.	PMU	09/2020
Staff Capacity Development Provide staff training in 4P and agribusiness concepts to ensure retaining those with strong business development expertise	PMU	
Service Provider results-based contracts Ensure stringent selection of SPs, using results-based management to ensure achievement of SAPP output and outcome indicators.	PMU	
Implementation rate of 4Ps By realizing the agreed actions listed under the 1st and the 2nd components, ensure increased implementation rate of 4Ps	PMU	
Financial Management & Execution		

Filing system Improve procurement filing system as per the instructions given in Procurement Handbook.	PMU	11/2019
IFAD Non-Objection on staff Appointments a. send staff selection recommendations to IFAD for non-objection before appointments; b. send IFAD current staff profiles for endorsement.	PMU	12/2019
Management information system Introduce an effective management information system between contract management and administration	PMU	12/2019
Submit revised FM section of the PIM	FM	12/2019
Follow up of audit recommendations Auditor confirms completed corrective measures for previous year in audit report	PMU	12/2019
Follow up of audit recommendations Auditor confirms completed corrective measures for previous year in audit report	PMU	12/2019
WA submission a. Submit WA12 to IFAD by 20 November b. Send WA13 to IFAD by 31 December	PMU	12/2019
Update of PIM-FM Finalize FM arrangements for IFAD Finance Officer's non- objection	PMU	12/2019
Revolving fund Release all commitment of Revolving fund to CBSL	GOSL	03/2020
Submit audit report to IFAD Submit audit report to IFAD submit both audited Financial Statements and management letter on time for fiscal year 2019.	AGDSR/PMU	06/2020
Submit audit report to IFAD Submit audit report to IFAD submit both audited Financial Statements and management letter on time for fiscal year 2019.	AGDSR/PMU	06/2020
IFAD Guidelines Adherence to the standard procurement methods in IFAD guidelines and prior Review Requirements	PMU	

Procurement plan Submission of updated procurement plan to IFAD regularly	PMU	
Template Comply with IFAD procurement template and categorisation of procurements	PMU	

Smallholder Agribusiness Partnerships Programme

Logical Framework

Results Hierarchy	Indicators							Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
Outreach	1.a Corresponding number of households reached							RIMS	Annual		
	Women-headed households				4 007	4 007					
	Non-women-headed households				349	349					
	Households			57 500	4 356	4 356	7.6				
	1 Persons receiving services promoted or supported by the project										
	Females				2 000	2 000					
	Males				2 356	2 356					
	Young				1 861	1 861					
	Not Young				2 495	2 495					
	Indigenous people										
	Non-Indigenous people										
	Total number of persons receiving services				4 356	4 356					
	1.b Estimated corresponding total number of households members										
	Household members			230 000	17 424	17 424	7.6				

Results Hierarchy	Indicators							Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
Project Goal Contribute to Sri Lanka's smallholders poverty reduction and competitiveness	% of households with improvements in asset ownership							RIMS; Impact surveys; National database	baseline/ completion	LPA / Programme	Political commitment - Stable macro-economic conditions
	Households		30	70	1	1	1.4				
	Prevalence of childhood malnutrition in the programme area reduced							RIMS; Impact surveys; National database	Yearly	LPA / Programme	
	Childhood malnutrition		5	10							
Development Objective Sustainably increase the income and quality of diet of smallholders (57,500 hhs) involved in commercially-oriented production and marketing systems	% of supported households reporting an increase in income (60% on average)							RIMS; AOS, IP reports	Year	Programme; IPs	Availability and uptake of GAP and technologies - Steady market demand and conditions
	Households		40	70							
Outcome Improved access of smallholder farmers and their organizations to markets in partnership with the private sector	% of 4P partnerships/ agreements in operation after 3 years										Commitment and willingness of beneficiaries and their institutions
	% of partnerships with 4Ps		50	75							
	1.2.4 Households reporting an increase in production							RIMS	Annual		
	Households		40	70							
	2.2.4 Supported rural producers' organizations members reporting new or improved services provided by their organization							RIMS	Annual		
	Number of POs				5	5					
	Percentage of POs members		33	55							
	Total size of POs				148	148					
	Males				14	14					
	Females				134	134					

Results Hierarchy	Indicators							Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
	Indigenous people										
	Non-Indigenous people										
	Women in leadership position				15	15					
	% increase in average volume and value of sales through 4P agreements							AOS; market studies	Bi-annually	IPs; Programme	
	% of average volume and value of sales		15	40							
Output 4P business arrangements in place	No. of farming households engaged in 4Ps implemented							Progress Reports	Bi-annually	Programme	Willingness and mutual benefits to producers and companies; Mature institutions
	Farming households engaged	20 000	45 000	57 500	4 356	4 356	7.6				
Output Organizational strengthening and capacity development of producer organizations and their members	% of programme-supported producer groups registered							AOS; particip. Surveys; Progress reports	Yearly	Programme	Commitment and willingness of beneficiaries and their institutions; Favourable and stable market conditions and demand
	% supported producers groups		40	70	8	8	11.4				
	1.1.3 Rural producers accessing production inputs and/or technological packages							RIMS	Annual		
	Females		18 000	23 000	2 000	2 000	8.7				
	Males		27 000	34 500	2 356	2 356	6.8				
	Young				1 861	1 861					
	Not Young				2 495	2 495					
	Indigenous people										

Results Hierarchy	Indicators							Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility	
	Non-Indigenous people										
Outcome 57,500 households supported under SAP have access to rural financial services in a sustainable manner and at affordable rates	1.2.6 Partner financial service providers with portfolio-at-risk ≥30 days below 5%							RIMS	Annual		CBSL and PFI commitment
	Percentage		3	5							
	1.2.5 Households reporting using rural financial services							RIMS	Annual		
	Households		70	100	7	7	7				
	Males				2 356	2 356					
	Females				2 000	2 000					
	Young				1 861	1 861					
	Not Young				2 495	2 495					
	Indigenous people										
	Non-Indigenous people										
	Women-headed households				349	349					
	Non-women-headed households				4 007	4 007					
Output Small producers access targeted and pro-poor financial products	Funds leveraged through PFI own-resources (as % of total loans outstanding funded from the LOC)							CBSL/PFI reports; Progress Reports	Bi-annually	Programme; CBSL; PFIs	Willingness of PFIs and enabling regulatory framework
	% Funds leveraged through PFI		25	45							
	1.1.5 Persons in rural areas accessing financial services							RIMS	Annual		

Results Hierarchy	Indicators							Means of Verification			Assumptions			
	Name	Baseline	Mid-Term	End Target	Annual Result (2018)	Cumulative Result (2018)	Cumulative Result % (2018)	Source	Frequency	Responsibility				
	Women in rural areas accessing financial services - savings		18 000	23 000	2 000	2 000	8.7							
	Men in rural areas accessing financial services - savings		27 000	34 500	2 356	2 356	6.8							
	Number of rural youth (40% female) receiving credit to finance their income generating activity (disaggregated by sex and age)*											CBSL/PFI reports; Progress Reports	Bi-annually	Programme
	Males		600	1 500										
	Females		400	1 000										
	Young													
	Not Young													
Output Institutional strengthening and capacity building of Central Bank and PFIs	Share of agricultural loans in total loan portfolio							CBSL/PFI reports	Bi-annually	CBSL; PFIs	Stable macro-economic conditions			
	% agri loans in total loan portfolio		1	2										
Outcome Improved policy environment for equitable and sustainable smallholder farmer–sourced agribusiness development	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment							RIMS and Progress Reports	Annual	Programme; CCC	Quality, relevance and acceptability of recommendations of analysis			
	Number		3	6										
Output Analysis conducted on prioritised policy issues/constraints and programme models/lessons learned	Policy 1 Policy-relevant knowledge products completed							RIMS and Progress Reports	Yearly	Programme	Focus of PMU on policy agenda maintained			
	Number		8	18										

Sri Lanka

Smallholder Agribusiness Partnerships Programme

Supervision Report

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

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-LK

Asia and the Pacific Division
Programme Management Department

Table 1A: Financial performance by financier as at 31 October, 2019

Financier	Approval (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan(*1843)	33 700	10 832	32%
IFAD AF(*1984)	6 178	-	-
IFAD AF(*2639)	14 521	-	-
Government	19 359	858	4%
Beneficiaries	4 494		0%
Private sector	16 967	326	2%
Private FI	9 821		0%
Total	105 040	12 017	11%
Note: Disbursement rate including intial deposit.			

Table 1B: Financial performance by financier by component (USD '000) as at 31/10/2019

Component	IFAD loan & Additional Financing			Government			Benefeciaries			Private Sector			Private FI			Total		
	Approval	Actual	%	Approval	Actual	%	Approval	Actual	%	Approval	Actual	%	Approval	Actual	%	Approval	Actual	%
I. Commercial Partnerships	36 314	874.9	2%	185	1.8	1%				16 967	326.1	2%				53 466	1 202.71	2%
II. Access to Rrual Credit	12 641	6 513.2	52%	18 470	745.4	4%	4 494	-	0%				9 821		0%	45 426	7 258.64	16%
III. Project Management, KM, M&E, Croscutting	5 437	644.4	12%	705	111.1	16%										6 142	755.50	
Initial Deposit		2 800.0															2 800.00	
Total	54 392	10 832.4	20%	19 360	858.4	4%	4 494	-	0%	16 967	326.1	2%	9 821	-	0%	105 034	9 216.85	9%

Table 1C(i): IFAD loan disbursements (USD, as at 31/10/2019)

Category	Category description	Original allocation	Disbursement	Balance	Per cent disbursed
200008	Consultancies	2 830 000	246 948.67	2 583 051.33	8.73%
200010	Credit and guarantee funds	11 790 000	6 461 722.97	5 328 277.03	54.81%
200011	Equipment and materials	520 000	40 950.76	479 049.24	7.88%
200012	Grants and subsidies	14 450 000	347 738.71	14 102 261.29	2.41%
200016	Operating costs	740 000	380 786.53	359 213.47	51.46%
290001	Unallocated	3 370 000		3 370 000.00	0.00%
270001	Initial deposit*		2 800 000.00		
	Total	33 700 000	10 278 147.64	23 421 852.36	30.50%

Table 1C(ii): IFAD Additional Financing disbursements (USD, as at 31/10/2019)

Category	Category description	Original allocation	Disbursement	Balance	Per cent disbursed
200008	Consultancies	1 720 000	-	-	-
200011	Equipment and materials	110 000	-	-	-
200012	Grants and subsidies	3 230 000	-	-	-
200016	Operating costs	500 000	-	-	-
290001	Unallocated	620 000	-	-	-
	Total	6 180 000	-	-	-

Table 1C(iii): IFAD Additional Financing disbursements (USD, as at 31/10/2019)

Category	Category description	Original allocation	Disbursement	Balance	Per cent disbursed
200008	Consultancies	4 080 000.00			
200011	Equipment and materials	220 000.00			
200012	Grants and subsidies	7 680 000.00			
200016	Operating costs	1 070 000.00			
290001	Unallocated	1 472 000.00			
	Total	14 522 000	-	-	

Sri Lanka

Smallholder Agribusiness Partnerships Programme Supervision Report

Appendix 2: Physical progress measured against AWP&B

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-LK

Asia and the Pacific Division
Programme Management Department

Appendix 2: Physical progress measured against AWP&B

Component / Sub component	Indicator	Units	PHY - 1		PHY - 2		Cumulative		
			2018		As at 30th Oct 2019				
			AWPB	Actual	AWPB	Actual	Actual	Appraisal	%
Component 1 - Access to Commercial Partnerships	New 4Ps - Individual financed private sector-led (project)	Number	150	-	1,580	291	291	12,000	2%
	Scaled up Individual Nadep 4Ps (project)	Number	-	-	1,134	4,216	4,216	8,000	53%
	Start Up funds involving FO s (on farm development)	Number	-	-	613	612	612	4,000	15%
	Private sector contribution to individual 4Ps	Number			-	-	-	-	
Youth Start Up Fund and Expansion	Youth Start Up Fund	Number	-	-	500	45	45	1,000	5%
	Youth Start Up Expansion phase	Number	-	-	-	-	-	1	0%
Farmer Organzition-led 4Ps: FO Start-Up Funds	New 4Ps private sector led with FOs	Number	-	-	3	2	2	10	20%
	Provision for New 4Ps private sector led with Fos	Number	-	-	-	-	-	-	
FO led 4Ps - Coops in business	FO led 4Ps - Coops in business	Number	-	-	5	4	4	10	40%
	Provision for FO led 4Ps - Coops in business/c	Number	-	-	-	-	-	-	
FO led 4Ps - new Fos (Mahaweli + incipient FO)	FO led 4Ps - new Fos (Mahaweli + incipient FO)	Number	-	-	2	1	1	28	4%
	FO led 4Ps - new Fos (Mahaweli + incipient FO)	Number	-	-	-	-	-	-	
Sensitization	Sensitization workshop/ training on 4P principals and cross cutting (e.g. CC, Youth)	Number	-	-	40	17	17	2	850%
	4P advertisment	Number	1	1	1	1	2	2	100%
	4P consultation workshop process (one national, four field level)	Number	-	-	-	-	-	2	0%
	4P development process	Number					-	2	0%
	4P Biannual review workshop	Number					-	2	0%
	Farmer Training (VC awareness)	Number					-	2	0%
Institutional Strengthening of Farmer Organizations	For Coops in business						-		
	Technical assistance/f	Number	-	-	3	3	3	15	20%
	New 4Ps private sector led with FOs						-		
	Technical assistance/f	Number	-	-	-	-	-	30	0%
	For new FOs (Mahaweli + incipient FO)						-		
	Technical assistance/f	Number	-	-	-	-	-	60	0%
Training and exchange visits for all FOs (under all categories)	Mahaweli Authority consultant pool /i	per year	-	-	15	10	10	16	63%
	Exchange visit at domestic level	Units	-	-	6	3	3	2	150%
	Exchange visit in the Asia Region	Units	-	-	-	-	-	3	0%
	Training	Units	10	4	40	22	26	3	867%
	Business advisory services (TA for all Fos)	Units	-	-	-	-	-	6	0%
	Lumsum provisioning for yrs,4 to 6/j	Units	-	-	-		-	-	
Social mobilizers and equipment	Tablets for data entry by SMs/k	Units	-	-	24	20	20	45	44%
	Training of SMs	Number	4	3	5	3	6	2	300%
	Social Mobilizers	Person	20	20	24	19	39	80	49%
	Record keeping books	Units	-	-	15,000	14,830	14,830	30,000	49%

Component / Sub component	Indicator	Units	PHY - 1		PHY - 2		Cumulative		
			2018		As at 30th Oct 2019				
			AWPB	Actual	AWPB	Actual	Actual	Appraisal	% out of appraisal
Component 2: Credit Lines	Line of Credit	Number of loans	7,737	2,119	7,951	5,853	7,972	57,500	14%
	Revolving Fund (GOSL): Recovery	Number of loans	634	578	666	-	578		
	Private Financial Institutions (PFIs)	Number	-	-	-	-	-	7	0%
	Farmer Organization Contribution	Number	-	-	-	-	-	4	0%
Institutional Strengthening to CBSL and PFI /	Central Bank of Sri Lanka						-		
	Technical Assistance in formulating the MF guidelines (International TA)	Per month	-	-	-	-	-	24	0%
	Technical Assistance in formulating the MF guidelines	Per Month	-	-	-	-	-	48	0%
	Workshops with stake holders	workshop	-	-	-	-	-	9	0%
	Conferences for stake holders	Number	-	-	-	-	-	1	0%
	Training of MFIs on new policies	Number	-	-	-	-	-	2	0%
Technical assistance to PFIs	Training of PFIs on agriculture/ micro / group finance/c	Number	14	13	-	-	13	8	163%
	Training on systems development for MFIs /d	Number	-	-	-	-	-	3	0%
	PFI training on Technical Issues, including appraisal /e	Number	-	-	-	-	-	13	0%
	ITA on systems development & Training of Staff	Per month	-	-	-	-	-	5	0%
	Sensitisation workshops with PFIs	workshop	1	1	-	-	1	4	25%
	PMU- CBSL-PFI reviews of procedures/f	workshop	6	6	-	-	6	8	75%

Component / Sub component	Indicator	Units	PHY - 1		PHY - 2		Cumulative		
			2018		As at 30th Oct 2019				
			AWPB	Actual	AWPB	Actual	Actual	Appraisal	%
Component 3 - Programme Management and Policy Dialogue							-		
M&E and Knowledge Management	Start up workshop	workshop	-	-	-	-	-	1	0%
	Sensitisation & Education Workshops	Number	-	-	2	-	-	1	0%
	Annual Stakeholder Planning/ Review Workshops	workshop	-	-	1	-	-	2	0%
	Annual Business Forums	number	-	-	-	-	-	2	0%
Studies and Surveys	Baseline/ Annual Outcome/Impact Surveys/PCR	Survey	3	3	10	6	9	6	150%
	Technical Studies	Number	-	-	4	-	-	4	0%
	External Audit	number	-	-	-	-	-	2	0%
Knowledge Management and Training	No of Information and Communication Materials /g	Number	5	3	2	8	11	2	
			-	-	10	16	16		7%
	No of Training Manuals	set	-	-	6	3	3	1	300%
	Development of environmental/climate change manual	unit	-	-	1	1	1	1	100%
	Gender strategy	unit	-	-	1	1	1	1	100%
Youth	Youth strategy	Number	-	-	-	-	-	1	0%
	Training package - financial literacy	Number	-	-	40	30	30	1,000	3%
	Technical training /i	Number	-	-	8	3	3	1,000	0%
Policy Dialogue /k	Stakeholder meetings	number	-	-	-	-	-	3	0%
	Reserach studies, policy issues	number	-	-	1	-	-	4	0%
	Scaling up studies, data collection	number	-	-	-	-	-	-	
	Activity Communication /m	number	-	-	-	-	-	-	
	Publications	Number	-	-	-	-	-	2	0%
	Policy advocacy /n	Number	-	-	-	-	-	1	0%
	Exposure visits /o	person	-	-	-	-	-	5	0%
	Support for policy design and implementation /p	Number	-	-	-	-	-	1	0%
Dialogue, R&D/private sector /q	Number	-	-	-	-	-	1	0%	

Sri Lanka

Smallholder Agribusiness Partnerships Programme Supervision Report

Appendix 3: Compliance with legal covenants: status of implementation

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-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
FA Section B.8	The Borrower shall provide counterpart financing for the Programme in an approximate amount of nineteen million three hundred thousand United States Dollars (USD 19 300 000) comprising the estimated amount of eighteen million five hundred thousand United States Dollars (USD 18 500 000) towards the line of credit (LOC) for on- lending to beneficiaries which will be held in a segregated account at CBSL. The remaining approximate amount of one million USD will cover taxes and duties related to the Financing, and salaries of Government staff.		Being complied	
FA Section E2(a)	The Borrower has duly opened the Designated Account and the two Programme Account, respectively for IFAD and GOSL		Complied	
FA Section E 2 (b)	The Borrower has established the National Steering Committee (NSC) and the PMU in accordance with section II paragraph A7 of Schedule 1 to this Agreement;		Complied	
FA Section E.2(c)	The Borrower has appointed the PMU Programme Director and Finance Manager with terms of reference and qualifications acceptable to the Fund;		Complied	
FA Section E.2(d)	The Borrower has prepared a draft PIM as described in section II of Schedule 1, in form and substance satisfactory to the Fund.		Partially complied	PIM-FM needs to be further updated and sent to IFAD Finance Officer for Non-objection

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
FA Section E.3(a)	No funds will be disbursed under Category III "Credit" before the Borrower and CBSL have entered into a Subsidiary Loan Agreement (SLA) as outlined in section II paragraph B11 of Schedule 1, in form and substance satisfactory to the Fund.		Complied	
FA Schedule 1-8.1	The PMU will absorb the current staff of the NADEP PMU, and will be further strengthened with additional positions. The key managerial staff, as described in the PIM, will be selected according to the Borrower applicable procedures to the extent these are acceptable to the Fund and their recruitment shall be subject to the Fund's non objection.		Partially complied	PMU recruited staff were not sent to IFAD for non objection before appointments.
FA Schedule 3-1	Gender. The Borrower shall develop a gender strategy for the Programme to ensure that gender concerns shall be reflected, in order to offer equal opportunities under the Programme to men, women and youth		Complied	
FA Schedule 3-2	Implementation. The Programme will adhere with IFAD policies and strategies for environment and natural resources management, climate change and social and environmental and climate assessment.		Partially Complied	The strategies have been developed but are yet to be implemented and mainstreamed in project activities
FA Schedule 3-3	Accounting. The Programme will procure an accounting software meeting IFAD's requirements for financial reporting. The system will be in place and finance staff trained in its usage at implementation start-up.		Complied	
FA Schedule 3-4	Line of credit (LOC). The Borrower will ensure that one consolidated line of credit is established to be utilized for the Programme, drawing on funds from previous IFAD financed lines of credit and new financing. The LOC will be held in a segregated account at CBSL and will be governed by an MOU		Complied	

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	between the Borrower and CBSL.			
GC Section 7.05	Procurement of goods, works and services carried out in accordance with the procedures laid down in Schedule 3		Continuous	In compliance
GC Section 7.08	(a) The Borrower/Recipient or the Lead Project Agency shall insure all goods and buildings used in the Project against such risks and in such amounts as shall be consistent with sound commercial practice. (b) The Borrower/Recipient or the Lead Project Agency shall insure the goods imported for the Project which are financed by the Financing against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation in accordance with sound commercial practice.		Partially Complied	Except for vehicles, government assets are not insured.
GC Section 9.02	The Borrower/Recipient shall deliver to the Fund detailed financial statements of the operations, resources and expenditures related to the Project for each Fiscal Year prepared in accordance with standards and procedures acceptable to the Fund and deliver such financial statements to the Fund within four (4) months of the end of each Fiscal Year.		Beijing complied	
GC Section 9.03	The Borrower/Recipient shall within six (6) months of the end of each Fiscal Year, furnish to the Fund a certified copy of the audit report. The Borrower/Recipient shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof; Within		Partially Complied	Management Letter for 2018 was seriously delayed

Sri Lanka

Smallholder Agribusiness Partnerships Programme Supervision Report

Appendix 4: Technical background analysis

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-LK

Asia and the Pacific Division
Programme Management Department

Appendix 4: Rural Finance Technical Paper

1. Acceleration of component 2.1 Financing of 4P proposals

An experimental and innovative programme such as SAPP will continuously need to adjust and finetune its systems and procedures and respond to learnings and changing market environments. This not only refers to the adequate pricing of loans (see next section), but also to a simplification of procedures where advised and adjustments of criteria and target groups for project interventions. With this in mind, it is proposed

- (i) to adjust the upper ceilings of 4P loans to final borrowers to LKRS 500,000;

It should be noted that with current average loan amounts, it is not expected that overall average loan sizes will increase significantly. Rather, for individual cases and for the 20% farmers outside the target group criteria, this arrangement will increase flexibility.

- (ii) introduce direct support to promoters and other aggregators in the different support supply chains in the form of a small experimental line of credit and a separate facility for grants.

Proposed eligibility criteria are contained below. CBSL as the administrator for the credit line in IFAD to decide on the applicable rates of interest in accordance with prevailing rates for MSME loans in the country.

- (iii) publicize that proposals for new 4P projects can now also be generated by PFIs. This also includes 4Ps with FOs in the lead;
- (iv) encourage proposals from the Sanasa Development Bank that include their member cooperative societies as FOs/POs, subject to the normal SAPP review of 4P promoter and FO/PO eligibility and capability. This could bring additional solid proposals for SAPP support that include other value chain players such as service providers, storage facilities, or input suppliers.

2. Interest rates

Interest rates were set at below market rates and final costs for the end borrower proposed in the PDR slightly below 10% p.a., and subject to an annual review conducted during the supervision mission. To this end, SAPP rates of interest to borrowers should be on par with those of similar Government refinancing schemes of the CBSL, and a rate of 9.5% p.a. should be adopted for SAPP operations for all project proposals that have not yet reached finalization stage i.e., adoption of new rates for all projects following the first 13 currently under implementation or under finalization. (Note: this was not adopted by the final wrap up meeting and the rate instead left at 6.5%

The rates of interest for the lending facility to promoters to be set by CBSL in accordance with the prevailing rates for SME investment loans.

3. Component 2.2 institutional strengthening of the financial services sector

A new law to supersede the existing microfinance legislation is currently under consideration, the Credit Regulatory Authority Act. Proposals foresee the establishment of a separate regulatory

authority to regulate licensed moneylenders, licensed microfinance institutions and to coordinate with other relevant regulatory authorities such as the Co-operatives and entities formed under the Agrarian Development Act and issue appropriate guidelines on their regulation, supervision and consumer protection. This in effect broadens the formal and regulated segment of rural finance profiles and may open new areas for business through decentralized village level financial institutions. The MTR should assess whether there is scope to engage through SAPP under component 2.2 of the project and in close consultation with the Central Bank.

4. Synergies with other projects

SAPP and its predecessor NADeP created a value chain based 3P (NADeP) and 4P (SAPP) model that is novel in the promotion of pro-poor rural and agricultural value chains. Other development partners have entered and above all in targeting larger promoters, it would be useful to coordinate and develop synergies with other projects with a similar focus. The PMU may consider setting up a Consultative Committee under the Presidential Secretariat in this regard.

5. Value chain finance trainings for SAPP participating financial institutions

Following a recommendation of IFAD (PMI), SAPP organized a residential workshop on agricultural finance at the training college of the central bank of Sri Lanka. Follow up visits at PFIs showed that participants appreciated this training. This should now be followed with a focused value chain finance workshop with international trainers. A follow up method to evaluate the impact of these trainings should be an integral part of the delivery of this.

6. Wider issues in summary for policy dialogue and for possible follow up during MTR:

A few other issues have emerged in discussions with 4 PFIs, the Credit Information Bureau of Sri Lanka (CRIB) and the PMU, which should be kept in view with possible more structured follow up during mid-term review:

(i) Credit Information Bureau of Sri Lanka and new legislation

CRIB entries block a sizeable number of appraised SAPP loan applicants from accessing formal finance. In principle, it is useful and correct for the financial system to generate these data for information to the banks which in turn have the final say on how to handle these data. There may be a rationale in future however to differentiate between minor arrears outstanding as well as whether these are direct or indirectly (guarantors) affected clients in arrears. This entire area should be reviewed in the near future when licensed MFIs and other rural and hitherto informal financial institutions are entering the fray, are regulated by the new authority and are then eligible to be included in the CRIB. In future, additional PFIs may possibly be registered once the new law comes into effect and the stance of CBSL towards licensed MFIs and cooperative finance institutions becomes apparent.

(ii) age of borrowers

Bank internal policies set age limits for committing new loans at 55 years. This is not, however, a legal requirements but an actuarial precaution on the part of the banks. Recipient farmers, on the other hand, have often surpassed their 40s and early 50s and thus are already excluded from SAPP loan receipt only on account of their age. The PMU may explore how this issue may be addressed,

perhaps through the introduction of mandatory life insurance policies.

(iii) implications of the Central Bank managing the line of credit under SAPP

The registration requirements of CBSL pose certain challenges that are due to their specific double role of regulator and supervisor on one hand, and managing entity of a credit line on the other. Registering each individual borrower, no matter how small the loan size, in addition to the initial registration of each PFI, requires review in terms of effectiveness and value added. Likewise, the fact that CBSL does not register cooperative finance institutions as PFIs poses another restriction. It remains to be seen to what extent the proposed new legislation eases the concerns of CBSL in terms of financial institutions that were hitherto beyond the direct supervisory reach of CBSL.

Stand-alone line of credit for promoters – proposed eligibility criteria

The following criteria should be incorporated into the Operating Guidelines of the Central Bank (by 31 January 2020) and adjust the PIM for SAPP accordingly. The OP then serves as a base of PFIs to adjust their lending criteria to take account of the new line of credit for promoters.

Following are the criteria proposed:

- The 4P partnership must be projected to reach a minimum of 250 farmers (including with the addition of the capital equipment).
- Purpose of the credit facility is for Capital Investment which should have a direct tangible impact on its smallholders.
- Should have a minimum 50% of the total capital investment as its own contribution and balance from the SAPP line of credit
- Total amount of the loan should not exceed the equivalent of USD 100,000

Sri Lanka

Smallholder Agribusiness Partnerships Programme

Supervision Report

Appendix 5: Mission preparation and planning, TORs, schedules, people met

Mission Dates: 4 - 15 November 2019
Document Date 20/12/2019
Project No. 2000000929
Report No. 5292-LK

Asia and the Pacific Division
Programme Management Department

Terms of Reference for Consultants and other persons hired by IFAD to participate in missions under a non-staff contract

COUNTRY OF ASSIGNMENT/LOCATION: Sri Lanka

MISSION NAME: Smallholder Agribusiness Partnerships Programme (SAPP) Mid-Term Review Mission

MISSION START AND END DATES: 4 – 15 November 2019

REPORT TO: Tarek Kotb, Country Director, APR/PMD

MISSION COMPOSITION:

Tarek Kotb, Country Director and Mission Leader
Donald Greenberg, Team Leader, Value Chain and Institutions
Rauno Zander, Rural Finance Specialist
Anura Herath, Economist
Do Thanh Lam, Agronomist
Radheeka Jirasinha, Environmental Economics and Sustainable Development
Jennet Sonntag, Gender and Targeting Specialist
Mehri Ismaili, M&E and KM
Dayananda Ratnasekera, Procurement Specialist
Sennai Kebedom, Stories from the field
Han Lei, Financial Management Specialist

BACKGROUND:

The USD 105 million Smallholder Agribusiness Partnerships Programme (SAPP), including an IFAD loan in the amount of USD 39.9 million (blend terms) was approved by IFAD's Executive Board in April 2017 and entered into force in May 2017. The programme completion and closing dates are 30 June 2023 and 31 December 2023 respectively. The lead programme agency is the Presidential Secretariat. In September 2017 the EB approved the first additional financing and in December 2018, the IFAD EB approved a second additional financing to entirely fill the financing gap. The programme development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder households (initially) involved in commercially oriented production and marketing systems. This would be achieved through three components:

Component 1: Access to commercial partnerships. This component includes two subcomponents: (1.1) establishing 4Ps; and (1.2) institutional strengthening and capacity-building of producer groups (within a market-driven model).

Component 2: Access to rural finance. This component will have two subcomponents: (2.1) financing of 4Ps; and (2.2) institutional strengthening of the financial services sector. The component follows the strategies, modes of intervention and investment opportunities that emerge under component 1, and aims to facilitate sustainable access to rural financial services at affordable rates.

Component 3: Programme management and policy dialogue. This component comprises two subcomponents: (3.1) programme and knowledge management; and (3.2) policy dialogue.

The programme target group comprises 57,500 poor rural households (representing 230,000 individuals), with the potential to become active economic players in a diverse array of value chains. Essentially, there are three target subgroups: (i) 35,000 new rural household producers (owning less than 1 ha of land and relying on agriculture for at least 50 per cent of their household income) that will benefit from increased livelihood opportunities through their engagement with 4P schemes – this includes 4,000 households organized in 70 producer/ farmer organizations (P/FOs); (ii) 20,000 households already participating in 4P schemes established under the NADeP programme that will benefit from SAPP support in the form of access to seasonal working- capital loans to ensure the sustainability of their production systems; and (iii) 2,500 poor young women and men that will be supported in becoming entrepreneurs, responding to demand for products or services generated along the value chain and complementing the 4Ps – they are either unemployed, landless or own less than 1 ha of land. The MTR mission will also focus on the recommendation of the previous supervision mission and specifically to the effectiveness and development focus to the 4Ps, to the sustainability and scaling up and to the programme management.

MISSION OBJECTIVES AND OUTPUTS:

The main objectives of the Mid-Term Review Mission for SAPP will be to: (i) assess the progress made in the implementation of the project; (ii) review progress against the 2018 and 2019 AWPBs and procurement plans;

(iii) identify actual and potential/emerging operational problems; and (iv) propose solutions, corrective measures or improvements to be done for an acceleration of the programme.

In preparation for the mid-term review exercise, the PMU is expected to prepare and submit a brief progress report – this will reflect the latest physical and financial progress, performance data and M&E data (outreach, targeting, BP progress). The PMU will also prepare the documentation required for the review of fiduciary issues ahead of the mission (including procurement records, etc.). In addition, the PMU will prepare the draft field itinerary for the mission.

INDIVIDUAL RESPONSIBILITIES, EXPECTED OUTPUTS AND REQUIRED COMPLETION DATES

Mr Tarek Kotb, Country Director and Mission Leader

The mission leader will assume the overall coordination of the mid-term review mission, review the aide memoire, mtr report and management letter, prior to their finalization. He will lead all wrap-ups meetings with the SAPP and the Government.

Ms Donald Greenberg: Team Leader Institutions and Value Chain Specialist; Component 1 overview and programme management

You will be responsible for coordinating the mission members (and their inputs into the written deliverables), reviewing overall project implementation progress and assessing the general coherence and complementary linkages across components and activities. More specifically, you will assume responsibility for oversight and delegation of component 1 (access to commercial partnerships), programme management and institutional issues:

- (i) Based on appraisal targets, the 2018/2019 AWPBs and the last implementation support mission, review implementation progress related to component 1 and the promotion of 4P business arrangements; you will as well identify actual and potential/emerging operational problems, and propose solutions for corrective measures or improvements to be made;
- (ii) Supported by the rural finance specialist, review progress under sub-component 1.1 – implementation of the approved 4P proposals (BPs) and identify new BPs to be selected;
- (iii) Review the progress under sub-component 1.2 and review the strategy, approach and outreach materials that can integrate the P/FOs into 4P schemes;
- (iv) Assess the ongoing 4P model, including the evaluation and approval process, guiding principles and approach that are being scaled-up under SAPP;
- (v) Assess the quality of programme management and effectiveness/ efficiency of other institutional arrangements in place;
- (vi) Assess the priority activities carried out in the roll-out of SAPP;
- (vii) Consolidate all mission member inputs and provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Mr Rauno Zander: Rural Finance Specialist; Sub-component 1.1 and Component 2

You will be responsible for reviewing implementation progress under component 2 (access to rural finance); you will as well provide technical support and input on sub-component 1.1 (establishing 4Ps). Specifically, you will be tasked to undertake the following:

- (i) Based on appraisal targets, the 2018/2019 AWPBs and the last implementation support mission, review implementation progress related to component 2 and the establishment of 4P business arrangements; you will as well identify actual and potential/emerging operational problems, and propose solutions for corrective measures or improvements to be made;
- (ii) With the team leader, review progress under sub-component 1.1 – implementation of the approved 4P proposals (BPs); as well, provide technical input in the review of new 4P BP proposals for recommendation;
- (iii) Assess the quality and effectiveness of the 4P technical evaluation process currently in place and the achievements;

- (iv) Assess the effectiveness and efficiency of the consolidated revolving line of credit, including a review of the appropriateness of the financial products and services;
- (v) Assess the level of cooperation with PMU, CBSL and PFIs, towards ensuring smooth and complementary delivery of services to the target group;
- (vi) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Mr Anura Herath, Economist

Under the overall direction of the Country Director and Task Team Leader you will work with the other mission team members in light of the MTR mission overall objective; including but not limited to:

- (i) Assessment of outreach and physical targets;
- (ii) Assess the status of implementation of the 2018 supervision mission recommendations; (iii) Assess overall progress against overall targets by the project.
- (iv) With the help of the different team members, assess progress under different subcomponents and whether there is need for any redesign.
- (v) Provide recommendations on how to improve implementation and, as needed, how to adjust activities for the remaining project period;
- (vi) If needed, update the costab for the project to reflect any changes and re-run if needed;
- (vii) Perform the EFA at MTR, incorporating the initial findings to be included in the aide-memoire. The final and full details has to be included in the supervision report.
- (viii) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Mr Do Thanh Lam: Agronomist

Under the leadership of the CD and the team leader, you will assume the role of agronomist for reviewing the implementation progress under sub-component 1.2 (institutional strengthening and capacity building of producer groups), you will as well identify actual and potential/emerging operational problems, and propose solutions for corrective measures or improvements to be made. Specifically, you will be tasked to undertake the following:

- (i) Assess and review the mechanisms and tools for engaging and working with producer/ farmer organizations; (ii) Review the Action Plan for accelerating and operationalising the organizational strengthening and capacity building of selected P/FOs;
- (iii) Review the preparatory materials and guidelines for progressively integrating potential P/FOs into 4P schemes;
- (iv) Evaluate generally that the activities producers have become productive, profitable and resilient, thereby increasing smallholders productivity and incomes;
- (v) Identify mid-term implementation constraints regarding agricultural inputs and project support and recommend countermeasures;
- (vi) Identify opportunities for intercropping and other practices that can offset and increase producer incomes; and (vii) Evaluate the introduction of SAPP to new practices, for example, and provide guidance on possible piloting. (viii) You will carry out a comprehensive analysis of planting production and you will ensure that the appropriate practice is applied in terms of agricultural inputs, financial support, agricultural extension, including the introduction of intercropping. More specifically, you will:
- (ix) Assess the strengthening and capacity building of the P/FOs;
- (x) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

For **Rural Institutions**, you will be responsible for reviewing implementation progress under F/POs and specifically, you will be tasked to undertake the following:

- (i) Support the agronomist in the assessment and review of the mechanisms and tools for engaging and working with producer/ farmer organizations;

- (ii) Assess the appropriateness and effectiveness of P/FO diagnostics and appraisal procedures, and the selection and identification of the P/FOs having the best potential for engaging in a 4P scheme;
- (iii) Support the Agronomist in the Review the Action Plan for accelerating and operationalising the organizational strengthening and capacity building of selected P/FOs;
- (iv) Review the preparatory materials and guidelines for progressively integrating potential P/FOs into 4P schemes;
- (ix) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Ms Radheeka Jirasinha: Environmental Economics and Sustainable Development

Under the direction of the Mission Team Leader and the Country Director you will support the mission with the completion of the Environment and Climate sections of the SAPP Mid-Term Review. More precisely,

- (i) You will perform an assessment of SAPP's environment and climate activities;
- (ii) You will make suggestions and recommendations for refining SAPP's related activities to environmental and climate issues; and
- (iii) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Ms Jennet Sonntag: Gender and Targeting Specialist

In close collaboration with the M&E and results management specialist, you will be responsible for assessing and providing technical support and assistance on all issues and aspects related to gender and targeting. Specifically, you will be tasked to undertake the following:

- (i) Based on appraisal targets and the 2018/2019 AWPBs, review output and outcome level progress, specifically from a gender and targeting perspective;
- (ii) Assess the progress in preparation of the gender and targeting strategy(ies) (under private-led AND FO-led (iii) 4Ps), and the means by which to operationalise these strategies;
- (iv) Provide technical guidance on developing gender and targeting tools, methodologies, options, etc. to enhance gender and targeting delivery;
- (v) Assess progress in the promotion of youth entrepreneurship and training activities;
- (vi) Review the methodology and the progress in undertaking the baseline survey;
- (vii) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Mehri Ismaili: M&E, KM and Results Management Specialist

You will be responsible for reviewing the efficiency and effectiveness of the M&E system and reporting mechanisms, including the quality of the reporting. Specifically, you will be tasked with reviewing and providing guidance to the PMU, on the preparations required, and the quality expected for effective M&E reporting and results management. You will be tasked with the following:

- (i) Based on appraisal targets and the 2018/2019 AWPBs, review overall output and outcome level progress;
- (ii) Assess and review the current M&E system in place (including responsibilities, arrangements, compliance across project actors), especially its effectiveness in capturing bottom-up information/ data for reporting and as a management tool, and more especially vis-à-vis results measurement for impact (outcome and towards impact level monitoring and reporting);
- (iii) Assess project achievements/ results and the M&E data and information from both a gender and youth-specific perspective;
- (iv) Assess the quality of M&E systems and reporting, and provide training and guidance to the PMU for improved reporting;(v) Identify and recommend options/ opportunities for effective knowledge management and dissemination; linked to this, provide guidance on development of a knowledge and communications strategy/ plan;
- (vi) With the gender and targeting specialist, review the methodology and the progress in undertaking the baseline survey;

- (viii) Prepare an information session and brief presentation of updated IFAD M&E requirements and reporting;
- (viii) Provide guidance in setting up the system for undertaking the annual outcome surveys; support development of tools, etc. that may be required;
- (ix) Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.
- (x) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date.

Mr Dayananda Ratnasekera: Procurement Specialist

You will be responsible for undertaking the procurement review, which should address the following guiding questions and issues: is access to all procurement transactions and documentations of the period available during

mission; provide a brief description of the review of the procurement actions according to the following aspects - structure of the Procurement Unit, Procurement Plan, Procurement Initiation, Terms of Reference/Specifications, Solicitation documents, Procurement Processes/methods, Contract Drafting, Contract Awards, Record Keeping, Contract Management, and any procurement on hold including unresolved issues with contractors; describe in detail if there are any issues of non-compliance in any of the procurements completed or in progress.

Specifically, you will also be tasked with the following:

- (i) Summarize main progresses, issues and constraints in the current procurement process of the project;
- (ii) Review bidding documents (goods, works, and services) and bid evaluation reports prepared by the projects to ensure quality control;
- (iii) Undertake spot checks of procurement related documentation of projects;
- (iv) Review quality and progress in implementation of the procurement plan; provide guidance for updating the procurement plans (in conjunction with the AWPB) as required;
- (v) Assess the procurement capacity of the Implementing Agencies and Projects as may be necessary;
- (vi) Undertake performance checking of projects on procurement, contract management, disbursement, and safeguards and preparing score cards;
- (vii) Identify means for streamlining and improving existing procurement processes to ensure consistency and measures to minimize malpractices during bid submission;
- (viii) Any other related duties that might be requested by the Country Director and the mission leader.

Deliverables: Provide written inputs related to your component/activities for the aide-mémoire and mid-term review report, including: (i) overall assessment; (ii) outputs and outcomes; (iii) implementation progress; (iv) sustainability issues; and (v) updated recommendation table with clear assignments, responsibilities and due date

Mr Sennai Kebedom: Stories from the Field

Under the direction of the Mission Team Leader and the Country Director you will support the mission with the following tasks:

- (i) Review the Agreed action from the previous supervision mission and monitor the status;
- (ii) Support the mission in reviewing the KM strategy and action plans, scout innovation and learning under the various components that can be scaled up and provide suitable recommendations;
- (iii) Report success stories from the field (or prepare a blog during the mission);
- (iv) Any other related tasks as may be assigned by the Mission Leader and by the Country Director.

Han Lei, Financial Management Specialist; Fiduciary aspects

Under the guidance of IFAD/FMD, you will be responsible for all fiduciary aspects and specifically for the tasks listed below:

1. Based on the financial reports prepared by the project, review the financial performance by expenditure category and component to assess the project's overall financial performance to date against (i) appraisal and (ii) approved AWPBs since project start. Review the cumulative status of

funds by category of expenditure, approved AWPB and the project commitments (contracts signed not paid) in order to estimate the adequacy of funds and the potential need for category reallocations. Summarize the reasons for significant variances between expected and actual disbursement rates. Identify actual or potential problems and bottlenecks;

2. Assess the project performance and fiduciary risk and describe major changes since project's inception;
3. Assess regularity of WA preparation. Recommend concrete measures to ensure faster and more efficient disbursements;
4. Review Project disbursement and flow of funds from IFAD. Identify any issues in disbursement and fund flow; Assess the project's treasury planning; analyse adequacy of DA authorised allocation, with respect to projected expenditure requirements;
5. Describe banking arrangements. Examine utilization and status of the Special Account and Project Accounts. Summarize financial progress by expenditure categories and by component in line with the required Aide Memoire formats. Ensure that the bank reconciliations and DA account reconciliations are correctly prepared on a monthly basis. Validate the closing balances from copies of the bank statement and clarify the status of the reconciliation items (if any); Provide support to the appropriate Project staff as required;
6. Identify financing agreement covenants and verify project's compliance;
7. Describe internal audit arrangements including reporting lines, methodology/procedures, audit work plan and status/follow up on past recommendations; review IA reports [if the Borrower is willing to share them], describe findings;
8. Provide guidance to the Project on preparing financial statements and withdrawal applications in line with IFAD procedures and requirements;
9. Review functionality of accounting and financial reporting system, identify accounting standards used and report differences with IFRS/IPSAS. Assess timeliness of recording transactions, budget posting and reconciliations. Assess suitability of the chart of accounts;
10. Review the system for Statement of Expenditures (SOE), including the utilisation of funds and spot checking of the documentation of expenditures claimed under SOE, the need for reallocations and compliance with financial covenants. Provide support and guidance to the Project as required; Document findings on individual SOE items, noting down any ineligible expenditures. Provide recommendations on any internal controls weakness noted.
11. Review the expenditure process from the District offices in terms of quality, completeness, timeliness and compliance;
12. Review functioning of the Borrower's record-keeping and accounting systems, including ensuring that the accounting records are kept updated;
13. Review availability of counterpart funds (government and beneficiaries), identifying bottlenecks if any. Verify that the value of in kind contributions from government and beneficiaries, if any, are estimated and recorded by the project;
14. Review the issue of payment of taxes. Review compliance on the repayment of taxes;
15. Review latest external audit report and project's audit log; assess status of implementation of management letter recommendations. Verify status of preparation of upcoming audit and make recommendations as appropriate for extending the scope of audit to specific implementing entities, physical checks, performance audit, transaction list or other;
16. Review action taken to address recommendations of previous FM-related mission; and
17. Identify current risks arising from material deficiencies and propose practical recommendations for improving financial management functions and/or capacity of staff for financial operations needed to mitigate risks. Prepare the current Summary Risk Analysis;
18. Reporting: Prepare a technical note on the above areas and a relevant section for the Aide Memoire by the date agreed, and submit technical report no later than 2 days after the last day of the field mission; Input to Main body of the aide-memoire: - Section E. Fiduciary Aspects covering : (a) financial

management; (b) disbursement; (c) counterpart funds; (d) loan covenants; (6) external Audit; and the summary Risk Analysis table specifying, as relevant, the agreed actions, responsibilities and dates in respect of fiduciary mitigation actions;

DOCUMENTATION

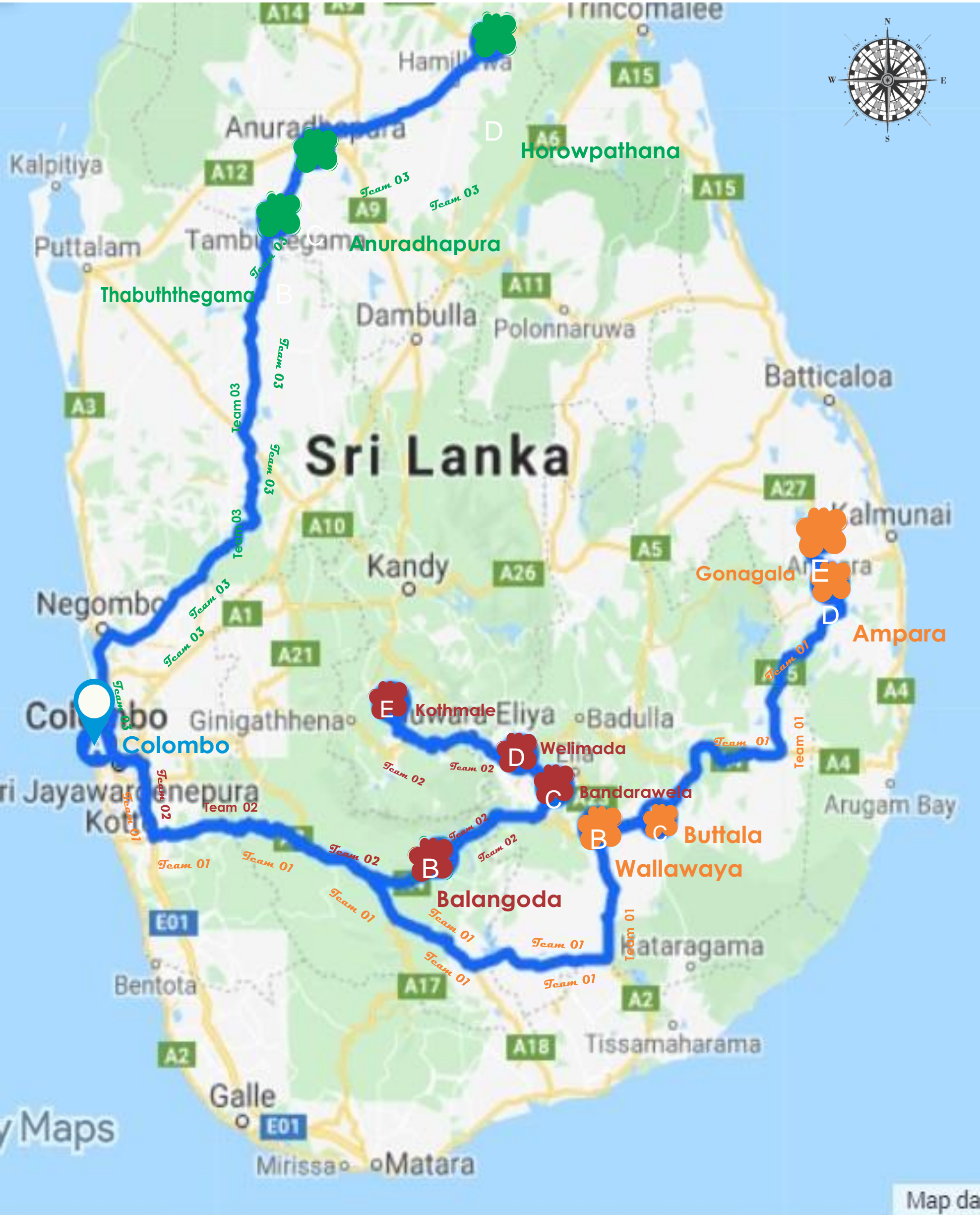
The following documentation will be made available to consultants prior to the assignment:

- Financing Agreement
- 2018 and 2019 AWPB and PP
- Updated physical and financial progress report from the PMU

MISSION SCHEDULE (to be confirmed and fine-tuned):

Date	Programme
03-Nov	Arrival
04-Nov	Visit to PMU - Presentation of progress and approval of the field visit
04-Nov	Afternoon - Courtesy visit to ERD and PS
05-Nov	Departure from Colombo and Field visit
06-Nov	Field visit
07-Nov	Field visit
08-Nov	Field visit and Return to Colombo
09- 10 - 11 Nov	Report writing and meetings with PMU - Meetings with GoSL
12-Nov	Pre-wrap up and technical discussion with PMU
13-Nov	Afternoon - Wrap up
14-Nov	Finalize the report
15-Nov	Departure of the team

All mission members will be expected to provide their full draft written input into the aide memoire 48 hours in advance of the final wrap-up meeting. The draft aide memoire will be provided to the lead project agency 24 hours prior to the wrap-up meeting.



Team 01

Members - Mr. Nilushana, Mr.Wijesingha
Mr.Sajith, Dr.Gamini

03 Days
(02 Nights)

- Area - A. Colombo - Start
B. wellawaya - Project : Ground nut / Project Type : FO led (incipient)
C. Buttala - Project : Herbs & Medicinal Plants / Project Type :FO led (emerging)
D. Ampara - Project : Sugarcane / Project Type : Private Sector led (Scaling up)
E. Gonagala - Project : Turmeric / Project Type : Cooperative (emerging)

Team 02

Members - Mr. Niwantha, Mr.Indika
Mr. Amila , Ms. Anupama

03 Days
(02 Nights)

- Area - A. Colombo -Start
B. Balangoda- Project : Floriculture / Project Type : Privat Sector led (emerging)
C. Bandarawela - Project : Potato / Project Type : Matured FO
D. Welimada - Project : Protected Agriculture- Tomato, Bell pepper and green cucumber / Project Type : Youth
E. Kotmale - Project : Seed Chili / Project Type : Youth

Team 03

Members - Mr.Anura, Mr.Ashoka

03 Days
(02 Nights)

- Area - A. Colombo -Start
B. Thabuththegama - Project : Dairy / Project Type : Privat Sector led
C. Horowpathana - Project : Rice Processing / Project Type : Matured FO (Emerging)
D. Anuradhapura- Project : Backyard Poultry / Project Type : Matured FO