

Sri Lanka

Iranamadu Irrigation Development Project

Supervision report

Main report and appendices

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Abbreviations and acronyms

ADB	Asian Development Bank
AWPB	Annual Work Plan and Budget
BWAS	Bulk Water Allocation System
CBO	Community Based Organisation
CPO	Country Programme Officer
DAPH	Department of Animal Production and Health
DSD	Divisional Secretariats Division (Administrative Unit)
FO	Farmers Organizations
FSA	Forward sales agreements
GN	Grama Niladhari
GoSL	Government of Sri Lanka
IIDP	Iranamadu Irrigation Development Project
IOM	Implementation and Operational Manual
KDWDF	Kilinochchi District Women Development Federation
MPCRD	Ministry of Provincial Councils and Regional Development
NGO	Non- Governmental Organisation
NSC	National Steering Committee
PD	Project Director
PID	Provincial Irrigation Department
PM	Project Manager
PMC	Project Management Committee
PMO	Project Management Office
PRA	Participatory Rural Appraisal
RIMS	Results and Impact Management System
SM	Social Mobilisers
UNDP	United Nations Development Programme
USD	US Dollar
VAT	Varietal Adaptability Trials
WRDS	Women Rural Development Societies

A. Introduction¹

1. The Iranamadu Irrigation Development Project (IIDP) entered into force on 30 January 2012, with a project completion date of 31 March 2017. The total project cost is estimated at USD 29.32 million, comprising IFAD financing in the amount of USD 22.23 million (highly concessional loan), Government contribution of USD 3.16 million, private sector contribution in the amount of USD 1.23 million, and beneficiary contribution of USD 2.7 million. The Lead Project Agency is the Ministry of Provincial Councils and Local Government (MoPCLG).

2. The goal of the project is to contribute to poverty reduction and increased incomes of 7000 households (approximately 22,000 individuals) in the Kilinochchi District of the Northern Province, and within the Iranamadu Tank command area covering 8455 ha. The project development objectives are: (i) to promote the effective and sustainable management of the irrigation infrastructure; and (ii) to achieve sustainable improvement of water and land productivity. To achieve these objectives, the project comprises two components: (i) Infrastructure Development; and (ii) Production and Marketing.

3. The current mission took place from 10 to 25 April (10-18 April for fiduciary review; 17-25 for the comprehensive review), following the March 2016 implementation support mission, and serving as the last full supervision before the project reaches completion on 31 March 2017. The main objectives of the mission were to: (i) assess performance and implementation progress since the MTR and latest SIS missions, as well taking into consideration recommendations of the January 2016 National Steering Committee; (ii) review progress against the 2016 APWB and PP; (iii) identify actual and potential/ emerging operational challenges; (iv) propose solutions and corrective measures; and (v) provide priority direction and early guidance in preparation for completion.

4. The mission spent five days in the field, visiting project sites and holding consultations with the PMO and project stakeholders including public representatives, beneficiaries, service providers and other partners. As well, the mission held three focused working sessions with the NGO for capacity building activities, with representatives of the 21 FOs in the project area, and with contractors. Following a pre-wrap up meeting held in Kilinochchi with the PMO, a final wrap-up meeting was held in Colombo, chaired by the Secretary of Provincial Councils and Local Government on 25 April.

5. With the limited remaining implementation period to achieve the development objectives, the mission has made a number of recommendations which highlight the priorities towards improved project performance, and which need to be acted on without delay. The mission would like to express its gratitude to the Government of Sri Lanka, the PMO and project beneficiaries for their cooperation and support during the mission. This report reflects the main mission findings and recommendations, duly endorsed in the wrap-up meeting.

B. Overall assessment of project implementation

6. The overall assessment of project implementation and likelihood of achieving the development objectives *are both rated as moderately satisfactory (4)*, strictly based on the physical results assessed at the time of the mission, and against the background of project completion in less than one year. The project is now at a critical juncture, with the overall performance on a tipping scale; on the one hand, if the planning, preparatory activities and commitments are followed-through in an accelerated and timely fashion with attention to quality, there is good reason to expect that the moderately satisfactory rating could be improved within a six month period; however, if the current rate of progress remains and the underlying issues as identified by the mission are not addressed within the next three months, the overall project performance will deteriorate quickly.

7. Given the allocation of the financing and the original design approach, the infrastructure development component is the critical investment component, providing justification in terms of reinforcing the promotion of crop diversification and the bulk water allocation system (BWAS).

¹ Mission composition: Mr Hubert Boirard, Country Programme Manager and Mission Leader; Mr Anura Herath, Country Programme Officer and co-Mission Leader; Ms Tamara Lampe, co-Mission Leader and Institutional Specialist; Mr Shankar Achuthan Kutty, Procurement Specialist; and Mr Arsalan Vardag, Financial Management Specialist.

Similarly, the mission also notes that the long-term sustainability of the achievements made under infrastructure development could be better assured with more advanced progress in building the capacity of farmer organizations (FOs) and communities, especially for operation and maintenance (O&M) and roll-out of BWAS. Today, an evaluation and mapping of the status of rehabilitation works and the surface area now operational (with the 8455 ha target) as a result of the works is needed.

8. The overall physical progress is approximately 60%, mainly attributable to the level of achievement in the infrastructure development component. The strategy of the project has been to rehabilitate the most critical sections of the overall irrigation scheme (with priority on the main canals, D-canals and earth works linking structures). Today, 237 km of (partially rehabilitated) canals (23 km of main canals, 39 km of branch canals, 52 km of D canals and 40 km of field canals (26% of 135 km required) have been realised, representing 66% of the overall target of 359 km; this however, represents only 1/3 of the 8455 ha to be operational. Notably, the full rehabilitation of the field canals would allow the total potential surface area to be irrigated, and achieve the development objective. In complement, the 275 field canal groups comprising members of the 21 FOs implicated in the scheme have been formed and the various trainings have commenced.

9. Financial progress has improved since the MTR, with the cumulative disbursement rate rising from 28% to 50%. Today, the unspent funds represents more than USD 14 million in what remains of the implementation period. With the anticipation that works progress and payments are processed in a timely fashion, it is expected that the disbursement rate will increase to approximately 80% by October 2016. However, with an acceleration of physical progress, cash flow will be squeezed, prompting the mission recommendation to increase the authorized allocation to at least USD 3 million, and for the project to prepare and send at least 2 WAs per month.

C. Outputs and outcomes

10. **Component 1: Infrastructure Development.** This component is comprised of two sub-components: irrigation infrastructure rehabilitation and other infrastructure development. Based on the current results, planning and interim measures in place, this component is overall rated *moderately satisfactory* (4). While there has been some progress in achieving component targets, notably in the rehabilitation of the irrigation scheme itself, there are some concerns regarding the long-term functionality, sustainability and availability of support for BWAS. There is need for improved leadership and commitment to manage the infrastructure works (mitigating delays and ensuring timely completion) and to fully operationalize and implement the BWAS at least on a pilot basis, drawing on lessons from the pilot to improve and upscale the BWAS beyond the project lifetime.

11. **Irrigation infrastructure rehabilitation sub-component.** The objective of this sub-component is to improve irrigation infrastructure, facilitating effective and efficient use of water in terms of its allocation, distribution and management by FOs in particular (including women), and the adoption of water-saving management methods.

12. With less than one year remaining until project completion, the priority will be to ensure the completion of infrastructure works, mindful that any overruns cannot be financed with IFAD funds. Today, the project has identified 209 contract packages (130 NCB; 79 CBO small contracts with value less than USD 15,000) with an estimated total contract value of LKR 3 billion (USD 20 million); the increase in planned works is an outcome of competitive processes; release of overcommitted funds upon completion of contracts and the reallocation of resources ('savings') from implementation of ongoing contracts and on past works. Achievement level is however mixed; rollover of works from 2014 has finally been completed (with the exception of one contract package expected to be completed in May 2016), though there remains significant rollover of works from 2015.

Table 1: Summary achievement level of works (NCB and CBO contract packages)

Year	No. of Packages	Physical Progress	No. of Contracts
2013	NCB – 10	100%	10
2014	NCB – 16	100%	15
	CBO – 25	80%	01
2015	NCB – 40	100%	25
		Incomplete – above 75%	08
		Incomplete – 50% – 75%	14
		Incomplete – 25% – 50%	09
		Incomplete – 0% – 25%	09
	CBO – 28	100%	01
		Incomplete – above 50%	04
		Incomplete – 25% – 50%	05
		Incomplete – 0% – 25%	18
2016	NCB – 64	Awarded	29
		Bid invited	14
		To be invited	21
	CBO – 26	To be awarded	26
TOTAL	NCB – 130	Total incomplete: 105 (81%)	
	CBO – 79	Total incomplete: 53 (67%)	

13. In sum, 237 km of irrigation canals have been partially rehabilitated. Although the critical large works on the main and distributary canals are completed, the summary table above indicates that more than 45% of total infrastructure works are not yet completed and some serious delays have been experienced. With the Maha season to commence in full in October 2016, the implication is that the vast majority of the ongoing and planned (works still to commence) contract packages would have to reach 100% physical progress in less than six months. If the rate of physical progress remains at its current level, there is a real risk that this will not be achieved. Effectively, the value of these 158 works contracts ongoing and planned is equivalent to USD 11.6 million (including GoSL contribution). As a priority, the project is tasked with the following: (i) complete all NCB works on the main canals (LB and RB); (ii) complete all NCB works on the branch and (21) D-canals and drainage canals; and (iii) complete all necessary earth works linking the priority structures (CBO and NCB).

14. In an effort to facilitate an accelerated physical progress (and financial progress) and mitigate risks of unnecessary delays, the mission has reviewed the level of progress (and payment lags) for ongoing contract packages in the presence of the contractors, and made various recommendations for improved contract management; these include calling for penalties on the delays, and in one case, termination of the contract with the remaining balance of works under these contracts to be completed by the identified best-performing contractors² (see procurement section for detail).

15. With many works behind schedule, new completion deadlines had been set at the March 2016 implementation support mission. The current mission further analysed the contract packages, and a 'traffic light' risk ranking has been applied, identifying the low, medium and high risk contracts (see Annex); this tool will need to be monitored very closely and updated, with monthly reporting (including to IFAD). For each contract at risk, the project with the contractor, will agree to an Action Plan for risk mitigation and to ensure timely completion of works.

16. Deadlines have now been set as follows: (i) all works that were awarded in 2014/2015, must be completed and fully paid by 30 June 2016; (ii) all already awarded NCB contracts in 2016, must be completed by 31 August 2016; (iii) all awarded CBO contract packages must be completed with full payment by 30 May 2016; if any contract is completed ahead of May, additional work may be awarded to the CBO, though July would be the last month for award of contract; and (iv) for the seven ongoing contracts awarded to Nadun Construction and Abeywardena Construction, physical progress must reach 60% by 30 June 2016, 80% by 31 July 2016 and 100% by 31 August 2016. The current mission

² The project will identify best-performing contractors, who will subsequently provide quotations for balance works through local shopping procedure

reiterates that if deadlines are not respected, penalties must be applied; furthermore, invoices must be submitted within one month of completion of works.

17. The multiple occurrences of inconsistency between the physical and financial progress, indicate that there are some significant time lags from completion of works and payment for works. The factors behind this include the late submission of bills from the contractor, delayed validation/ certification of works and in some cases unnecessary delays in processing payments. The project has also experienced some instances of quality issues related to ongoing works, although the quality control lab is working at full capacity.

18. In favour of improving performance, the previous mission recommendation to augment the infrastructure operational unit teams has finally been addressed; in April 2016, 52 additional staff on assignment basis have reported to the project, comprising 4 irrigation engineers, 10 technical officers, 4 draughtsman and 34 work supervisors. This enhanced team is critical to improve communication and provide timely support for design, works supervision, quality control, works certification (especially related to the release of final payments on works completion), and will as well provide assistance to contractors for timely submission of bills (payment invoices); the mobility of these additional hires needs to be assured (motorbikes can be procured through local shopping).

19. Following a consultative discussion with representatives of the 21 FOs, three important issues were raised: (i) farmers are particularly interested to see rehabilitation of their field canals; whilst the present project budget is not sufficient to meet these requirements, the mission encourages the PID and FOs to continue to lobby for these additional funds; (ii) farmers have been sensitized on the BWAS and are highly supportive of this approach; and (iii) farmers raised concerns regarding the level of progress on the Iranamadu tank head works, as delays will have particular consequence on water availability during the 2017 Yala season; whilst farmers have agreed to forego the 2016 Yala season, this is at a substantial cost equivalent to LKR 20 million in lost earnings, which they cannot afford to repeat. Subsequently, the mission recommends that on farmers' request, the project can facilitate formally communicating their concerns to ADB.

20. Finally, as most works are expected to be completed in the coming months, the mission recommends to undertake GPS mapping in September, to establish an updated map (e.g. on google maps) of the completed works, showcasing the rehabilitated sections and points under the Iranamadu scheme; this map will also serve to guide any future interventions to address irrigation scheme sections not rehabilitated through the current project.

21. **Other infrastructure sub-component.** This sub-component takes into account the 2016 revisions to the contract packages and procurement plan, namely: (i) paddy storage units; (ii) drying floors; (iii) agro-wells; and (iv) farm roads. The progress as at March 2016 are as follows: (i) the bidding process is on-going to construct 3 paddy stores; (ii) three contracts have been awarded to construct 21 drying floors, with expectation of completion in July 2016; and (iii) two contracts have been awarded to construct 40 agro-wells by July 2016 while 40 more are expected to be awarded in two contracts by 26 May 2016. Related to these additional works, the mission recommends the following:

- A concept note should be developed and submitted to IFAD for no objection before offering the contract for construction of paddy stores. The concept note should include proposed designs, storage capacity, technical specifications, and management and O&M scheme. The respective FO should verify its acceptance of the proposal by signing the concept note. In this way, the responsibilities and assigned and obligations of the FO are transparently known to the FO Executive Committee.
- For drying floors and agro-wells, the clearance for land use needs to be obtained from the respective authority. Possible arrangements could be the following: (a) FO's certification if the land can be managed by them with user-rights; (b) individual land donated for the purpose with the certification from the *Grama Niladhari* and the Divisional Secretary; or (c) government lands certified and allocated for the purpose by the respective authority. These certifications should be submitted for IFAD's prior review, with a report detailing the responsible FO

managing the facility, the number of beneficiaries of the structures, and management and maintenance arrangements.

- For farm roads, the rehabilitation design, rationale behind the support to the road (i.e. the main bottleneck that the road is addressing - paddy output transportation, farm input delivery etc.), and the maintenance arrangements (including the final ownership of roads, whether it is a FO or Pradeshiya sabha, etc.) should be documented and submitted for IFAD's prior review. Nevertheless, the D- and field canals remain the priority in order to ensure that the maximum surface area is served by a functional irrigation system.

22. **Water management and the Bulk Water Allocation System (BWAS).** As conceived at project design, a key feature of the project was to introduce and implement the bulk water allocation system (BWAS) to the Iranamadu command area, and which farmers are voicing support for, following the sensitization and awareness raising campaign organized by the project with the NGO implementing partner (NBA). However, a formal and organised approach to operationalize the system in practice has not yet materialized, which would result in a BWAS Implementation and Operational Manual (IOM) that can be referred to by stakeholders, and FOs/ farmers especially; the O&M of the canals (D-level and field canal) vis-à-vis FO/ farmer responsibilities must also be clear and included. Subsequently, as a priority, the mission recommends that a specialist consultant experienced in BWAS, be hired on short-term assignment to work with the NGO and develop this Manual by end July.

23. In terms of introducing the BWAS model, very strong coordination between the project, the NGO, Local Government and the Provincial Irrigation Department in particular, is fundamental; today, this is not evidently the case. Although efforts are taking place, they are done in an ad-hoc manner. Likewise, the 21 FOs within the overall BWAS scheme, require comprehensive capacity building to effectively take part in the decision-making, management and governance of the scheme as envisaged by the principles of BWAS.

24. Some preparations have taken place to facilitate BWAS roll-out. From the 21 identified FOs, 275 Field Canal Groups (FCGs) have been formed and sensitized (awareness raising) with the support of the NGO. However, the 21 D-canal groups and 3 main canal groups are not yet formed, nor has a project management committee been formed; the expectation is that these organizational levels will be both formed, sensitized and trained by August 2016. In order to pilot the system in a select area, strictly adhering to the timeline is critical. It is as well important, that the governance arrangements within and across the various BWAS group levels are well defined and understood (this too should be included in the IOM); with water allocation a potentially sensitive issue, an established complaints mechanism is key.

25. To-date, six exposure visits to the Mahaweli site (operating BWAS) have been arranged for 300 members at FO/FCG level, and 21 basic training sessions on BWAS O&M are completed (one per FO). However, two critical trainings have not yet started, namely: (i) in-depth training on BWAS management, both for technical staff and FO and FCG members; and (ii) practical field training, provided by technical specialists who have BWAS experience from Mahaweli. Overall training needs for BWAS is not insubstantial, and include: training in preparation of integrated seasonal allocation plans; preparation of farmer cultivation plans based on water availability; preparation of water issues timetable; water measurement, estimation of water availability at any stage of the cultivation period, on-farm distribution; canal system O&M; and finally strong record keeping. The related manuals and guidelines for farmer reference are currently being developed, but will need to be finalized, distributed and included in the BWAS IOM by end July.

26. Practical field training is contingent on availability of water in the Iranamadu tank (reservoir), which remains empty due to head works (and with sufficient water unlikely to be available to test the system before the beginning of 2017). As water allocation under BWAS is based on the measurement of the probable volume of water available per annum, the incompleteness of the infrastructure works (on canals and on the main reservoir tank), make water volume calculation a challenge, and subsequently water allocation measurement a challenge. However, it is possible to test the system during the coming Maha season, although conditions are not ideal. To do this, it would be necessary for the measuring structures to be in place; whilst the design of the measuring structures is underway,

they have not yet been constructed. Similarly, it is clear that the testing can only be done in a limited geographical area. It is presently unclear to the mission as to how the project intends to pilot the BWAS; it is recommended that the system should be piloted in a restricted area, covering at most, 2 FOs.

27. As well, today the planning for up-scaling of the system is not clear. The mission is of the opinion that stronger leadership is necessary, to encourage buy-in from potential stakeholders and those at policy level in particular, as farmer interest in the scheme is strong.

Agreed action	Responsibility	Agreed date
Infrastructure development		
1. All 2014-2015 contracts completed by end June (except 2 contractors)	PD	30 Jun 16
2. All 2016 already awarded contracts completed by end August	PD	31 Aug 16
3. All ongoing CBO contracts completed and paid by end May	PD	31 May 16
4. Penalties will be applied for all contracts with time over-runs	PD	Continuous
5. Monthly physical and financial progress reporting to Irrigation Department, Lead Agency and IFAD (as well, provide cash forecast/ disbursement plan (by category), to be monitored by the NSC); all additional award of new contracts and other procurement are based on IFAD No Objection; priority is for D-canals with CBOs on monthly result based contracts or NCB.	PD	Monthly, continuous
6. Establish Action Plan for all contracts at-risk	PMO	05 May 16
7. Mapping by Google earth of the operational area of the irrigation scheme at 15 April and updating every 2 weeks with the physical progress report. GPS report mapping of status/ progress of rehabilitated scheme works – location of all sites rehabilitated, all infrastructures	PMO	15 Sept 16
8. Support FOs to communicate any concerns over headworks to ADB	PD	As needed
9. Submit concept notes and rationale for the 'other-infrastructure' proposals with detailed exit strategy demonstrating the sustainability of the proposed investments	PD	15 May 16
Water management and BWAS		
10. Develop the BWAS Implementation And Operational Manual	PD	01 Jul 16
11. Implement new BWAS training schedule; FOs to organize themselves to adopt a plan to operationalize, manage and maintain the D-canals	NBA	Immediate, continuous
12. Formation and training of the D-canal and main canal groups; establishment of the Project Management Committee	NBA	31 Aug 16
13. Establish strategy for BWAS piloting	PD	15 Jul 16

28. **Component 2: Production and Marketing.** This component is overall rated *moderately satisfactory* (4). In the given context, the particular project setting, which less than ten years ago was situated at the heart of the protracted civil war and saw heavy destruction, including that of social cohesion and economic means, has to be given due consideration. Against this background, asset building and the re-introduction of diversified production and productive means is critical, and in itself, serves as a solid foundation for future development and sustainability of livelihood activities of the rural poor.

29. **Social mobilization and training sub-component.** As a fundamental measure, this sub-component focuses on building the capacity of farmers and their organizations (FOs) on the one hand, and strengthening social and group cohesion and dynamics on the other. Through these interventions, farmer on and off-farm activities can be reinforced, and will also facilitate BWAS roll-out.

30. Progress has been challenged by prolonged delays in engaging the NGO implementing partner (Nation Builders Association). As a consequence of the reduced duration to achieve results, discussions were held to reduce the scope of activities to a realistic and manageable level, without undermining the principal objectives.

31. As evidenced by the newly agreed plan and schedule, the scope of work is still considerable with the following key expected outputs: (i) strengthen FOs to be self-reliant in management,

production and marketing; (ii) facilitate increased gender participation in economic activities; (iii) mobilise, train and support piloting BWAS; (iv) mobilise and train groups in land, water and crop productivity, and market linkages; and (v) mobilise, train and promote off-farm livelihood activities. In total, 77 activity areas, 27 training programmes and 504 sessions are scheduled; with less than one year remaining, progress under the NGO is currently around 36% (28 activity areas and 184 training sessions completed).

32. To-date, a strengthened capacity team of 12 Social Mobilisers (SM) has supported the formation of: 100 MFGs (647 member households); 455 NPCGs (implicating 3157 member households); and 275 FCGs under the 21 FOs (5937 member households). In terms of the project, the formation of the FCGs represents the key beneficiary entry point, with the intention that these farming households will eventually adopt and implement BWAS throughout the scheme (see component 1); for the most part, these same households are grouped into the NPCGs and MFGs, thus able to benefit from training that can be employed at the field level and aided by the more effective irrigation and water management system anticipated. In the lead up to commencement of the Maha season, the mission recommends that a consultative workshop be held with the FOs and groups, which would have the following purposes: (i) as a knowledge sharing and learning exercise to jointly identify the best practices for paddy and non-paddy cultivation, based on the experience of farmer groups who have received inputs and training; (ii) to identify the most economically profitable livelihood activities and/or cultivation practices; and (iii) to allow for tentative planning for Maha (putting theory and experience into practice).

33. In addition to the agreed training programme for the respective groups, specialised training is also being undertaken to build the capacity of 100 farmer/ beneficiaries to act as 'para-professionals', in part taking on a social mobiliser role in their respective communities, and which would contribute to an exit strategy for the continuation of basic advisory and facilitator services. Whilst 21 para-professionals have already received initial training, the remaining 79 identified must now also be trained and follow the progression of trainings across the various groups.

34. As the capacity building activity plan is substantial and implementation period limited, the agreed implementation schedule should be respected. As well, the mission recommends to urgently complete the individual FO profiles by end May. By mid-December, the FOs should be re-evaluated, to determine the impact of the various capacity-building interventions, and to update the profiles with the longer-term development objectives of the FO (including for BWAS).

35. **Production, extension and marketing sub-component.** As envisaged, this sub-component focuses on the promotion of crop diversification for improved food and nutrition security and income generation. Establishing market linkages with private sector actors features as a complementary and long-term approach. The entry point is predominantly through the NPCGs.

36. Today, through a combination of the efforts of the PMO, NGO and Department of Agriculture, demonstration plots have been established covering 3799 acres (with farm household beneficiaries (selection based on targeting criteria) receiving inputs including seeds, fertilizer, and other inputs) with the intention to support diversification into other crops during both the Yala and Maha seasons. Maize, green gram, cowpea, black gram and kuraakan seeds have been distributed, allowing for cultivation on 1988 acres of land; during the Meda season, sandwich cropping has been promoted, with distribution of green gram, cowpea and sesame seeds to 2072 farming households, covering 1618 acres of land. In addition, 1225 farmers have received complementary training in integrated plant nutrition system and integrated pest management³, and others are benefitting from training in good agricultural practices. Discussions with farmer groups have indicated that these early achievements have generated growing interest and demand by farmers, indicating a willingness to invest their own funds in these crops. As the project phases out, it will be important for the project to facilitate the linkage between the interested farmers, input suppliers and financial institutions to provide agricultural credits.

³ Other trainings have also been conducted in post-harvest technologies, compost and bio-pesticide preparation.

37. In terms of marketing, the project has sought to facilitate linkages and a developing partnership between farmers and private companies. At present, the scope of the linkages are relatively basic, with simple forward sales agreements (FSAs) being brokered; effectively, these agreements establish a pre-arranged price for produce and the agreement by the private company to purchase the produce, whilst also providing some limited technical advisory services. Today, 3 FSAs have been established with Agro Industry for maize (554 acres covered for 1274 households), Hayley's for gherkin production (50 households with 12.5 acres of cultivation; 4000 kgs have now been sold to the company) and Cargills for passion fruit production (70 households with 35 acres of cultivation; sales have not yet commenced); the project has provided the required inputs on a grant basis.

38. To-date, a more sophisticated value chain approach has not been applied and may be too early to apply in the current context. However, in the longer-run, the mission recommends that the project take lessons and learn from the experience of the other IFAD-supported NADeP programme in terms of facilitating a more advanced 'partnership' model between farmers, private companies and financial institutions. As well, a stock-taking exercise of these pilot FSAs should be undertaken, to determine the results and profitability of the investment for farmers, and to identify additional options to strengthen the negotiation position of farmers vis-à-vis the private sector. Meanwhile, linkages with other actors to promote farmer sales should continue to be explored, such as the potential partnership with World Vision.

39. **Other off-farm development sub-component.** Another project entry point has been the formation of microfinance groups (MFGs), with multiple functions. On the one hand, the 100 MFGs are functioning as savings group, cumulatively with savings in the amount of LKR 781,650, and who are now providing internal lending. However, the mission notes that these groups have not systematically opened group bank accounts, which presents a real risk as the savings grow; the project should now facilitate and ensure that group bank accounts are established.

40. Social cohesion is being promoted through these groups, with group members supporting one another in their efforts to diversify their livelihoods. Members within these groups are also benefitting from a number of training programmes in microfinance, book-keeping and business development (including how to develop business plans). Today, 224 women have been trained in business development plans, and 75 have been selected to be referred to the NADeP programme and credit line (with linkages to the NADeP partner financial institutions) in support of their on and off-farm microenterprise development plans. As the remaining implementation period is limited, the mission urges the project to accelerate activities and formalize the arrangements with NADeP, including for other collaboration opportunities, and for knowledge sharing. In general, the mission also recommends that a workshop be held with NADeP and financial institutions (FIs), including the Agrarian Bank and other NADeP partner FIs, to further sensitize the FIs to the financial products and services needs of farmers, and where existing bottlenecks can be transparently discussed and possible solutions identified.

41. Finally, the mission has observed that the project has proposed to support selected farmers to pursue microenterprise and agricultural diversification activities, including in the dairy sector, under a matching grant scheme. A strategy on the matching grant, clearly linked to targeting, should be developed; the manuals and any proposals will be subject to IFAD's prior review. In terms of long-term sustainability, establishing partnerships with FIs for credit would be the preferred option.

Agreed action	Responsibility	Agreed date
1. Complete training of para-professionals	NGO	30 Jun 16
2. Complete 21 FO profiles	NGO	31 May 16
3. Undertake FO assessment/ stock-taking exercise	NGO	15 Dec 16
4. Stock-taking and impact evaluation of FSAs and market linkages; identify best options for farmer profitability	PM and NGO	31 Aug 16
5. Ensure all MFGs open group bank accounts	PM and NGO	31 May 16
6. Prepare IIDP-NADeP collaboration and activity plan for N-O	PM	15 May 16
7. Undertake workshop on BP models and financial access (for microenterprise and agricultural development) with NADeP, FOs and FIs	PM	31 May 16
8. Develop strategy on matching grants for N-O which will condition all future investments in matching grants; in the meantime, the matching grants are on hold	PM	15 May 16

D. Project implementation progress

42. **Project Management** performance is assessed as *moderately satisfactory* (4). The PMO, though fully staffed, requires additional strengthening to reach the time-bound targets. It is also incumbent on the PMO, to provide proper guidance and leadership on the roll-out and sustainability of the introduction of BWAS to the Iranamadu scheme. As a relatively innovative and new approach in the area, BWAS requires a coordinated approach amongst the myriad stakeholders, with definitive institutional leadership (policy-level) for continuity.

43. Given the need to accelerate physical progress (complete remaining infrastructure works) and corresponding financial progress, the addition of the 52 engineering team consultants (on assignment basis) has been a welcome development. Today, this strengthened team deployed across the four engineering units are expected to provide more effective support in quality control, works supervision, and support to contractors to prepare invoices for payment. As there are many new recruits, with varying levels of experience, they must be given firm guidance in the initial months from the Irrigation Engineers and must be well sensitized to the priorities as agreed by the project and the mission.

44. As the level of disbursement needs to improve substantially with the completion of works, the mission recommends that the financial team must also be urgently strengthened, particularly as the accountant is not PMO-based and is working on a part-time basis. Subsequently, the two assigned assistant-level team members should be promoted, and an additional accountant hired on a consultant basis (for further detail, see fiduciary section).

45. As relates to component 2, the engagement of the NGO was expected to vastly augment the manpower to implement activities. Whilst delays were experienced, and performance issues plagued the initial months of engagement, the project and NGO have now agreed to make adjustments to the terms of contract and scope of work (activity plan); the mission recommends that the contract agreement be amended accordingly by end April. As the field activities remain substantial, the NGO needs to be well facilitated to carry-out its deliverables.

46. In summary, across both components, the mission has identified a few gaps which given the limited implementation period remaining, urgently calls for mobilisation of additional support through assignment-based consultants (Accountant, GIS mapping, BWAS Manual, etc.). The experience in the past of the relatively long duration required for approval of these consultancies, must be avoided. The mission recommends that the PMO provide a full package of TORs and information of the consulting needs upfront, and to send this to the higher authorities with a request for the delegation to mobilise these additional consultants.

47. **Coherence between AWPB and implementation** is considered to be *moderately unsatisfactory* (3). In 2015, the execution rate of the AWPB was only 55%. In 2016, the first three-month execution rate is 7%. However, with the hiring of engineers and supporting teams, it is expected that during the remaining nine months of 2016, the execution rate would increase significantly.

48. **Monitoring and Evaluation** is assessed as *moderately satisfactory* (4). With regards to information collection and responsibilities, the M&E, KM and GIS Specialist manages and coordinates the M&E system of the Project. The system has a well-developed M&E Plan including the outcome and target indicator plan (OTIP) that was based on the project log-frame. Data collection and reporting have been arranged in a participatory manner with component related institutions. Today however, the project has not started reporting outcomes, nor undertaken an annual outcome survey. For field verification, the mission recommends to employ a group of university students to collect outcome data from a 10% sample. As well, the M&E system should be utilized further as a management tool, and should be used to improve contract management especially.

49. The mission reminds the project that the Government is responsible for submitting the Project Completion Report; as per IFAD guidelines, the work should commence one year in advance, in order to be able to have the full range of information and analysis required, including impact analysis and post-project economic and financial analysis.

50. **Gender Focus** is rated as *satisfactory* (5). The activities in the Gender Action Plan have commenced and some have been completed. About 90% of the mobilization and strengthening of MFGs, NPCGs and FCGs has taken place, with women comprising at least 70% of the membership. Taking the repeated count, 5016 plots have been cultivated under these crops and 2222 plots were managed by women in the NPCGs. The total savings among the women groups is estimated at Rs 781,650, and internal lending (mainly amongst women) is about Rs 459,650. With the business planning training, where women involvement is about 50%, it is expected that at least this 50% of women in the MFGs will prepare business plans and undertake off-farm business. The project has started supporting income generating activities and targeting about 96 families for IGA activities. Out of that target, 58 would be for women. Across the various trainings, total participation (with repeat attendance) has been 7,661 trainees, of which 4,236 are women.

51. The mission noted that the social position of women and their recognition by men, particularly the leaders of the FO etc. have improved. Their voice in general is heard in the family context and also in the social context. It is expected that this trend in terms of women empowerment will continue.

52. **Poverty Focus** is rated as *satisfactory* (5). There are about 7000 families in the project area and the reported poverty rate is 60%. About 85-90% of them cultivate paddy in 2 ha or less and fall into the poverty group. The irrigation benefits of the project are in general available for all the families under the irrigation system. Furthermore, the project is addressing water availability for the farmers who are at the tail end who receive less water during periods of water scarcity in comparison to others. The selection process of the beneficiaries for micro-finance and business plan preparation has also been focused on the relatively poor families.

53. **Effectiveness of Targeting Approach** is rated *satisfactory* (5). The 2014 and MTR mission recommended that two strategies be used to ensure poverty targeting, namely: (i) a gender based approach which allows differentiation of men from women on the basis of the socially accepted stereotypes; and (ii) the family status and income level approach that could be used as proxy indicator for socio-economic differentiation. Though the majority of the households who cultivate paddy in the command area belong to the small farmer category, differentiation on the basis of land holdings would still be used to target beneficiaries; the project has used a set of criteria for beneficiary selection. The specific targeting criteria of component 2 include beneficiary being a samurdhi recipient; women-headed households; presence of disabled family members in the households; size of the paddy lands (less than one hectare was the cut off line) and the unemployment situation of the family members. The mission noted that beneficiary selection based on these criteria, has been acceptable. In most cases poor families who deserve project support have been selected. The table below indicates current status of beneficiary selection taking into account the targeting strategy.

Target Group “category”	Total number of people to be reached by project-end (Appraisal Targets)	Number of people reached so far (cumulative)	
		Total number	Of which, women
Small rural farmers	90 % total target households of 7,000	6,300 - partial benefits	1750
Women heads of households	18.5% of total target households (1,295)*825	1,296 (100%)*174 (maize)	450
Women-lead microenterprises	150 small groups of 6-8 members each	100 trained Groups each having 7 members	492

54. **Innovation and Learning** is rated as *moderately unsatisfactory* (3). The main areas for potential innovation are: BWAS in the complex Iranamadu irrigation system; crop diversification with effective and dependable market linkages; and planting trees as natural boundaries of canals, to increase water absorption and retention, and for strengthening canal walls. The latter two items have already been established and the project can consolidate the experience and lessons learned.

55. The BWAS is not yet operational. The mission strongly recommends to pilot BWAS with one or two FOs during Maha, cultivation (taking the canal water as a virtual tank). The pilot should be used to capture experience and generate lessons. Crop diversification plots have been established with project assistance. These have been useful demonstrations in the Iranamadu system where paddy was the only crop that was systematically cultivated prior to the project; increasingly more farmers are demanding assistance for other field crops in the *yala* season. Today, tree planting has been limited to the initiative of the project with no replication by the community.

56. **Climate and environment focus** is considered as *moderately satisfactory* (4). The project has been categorized ‘B’ in the environmental assessment. Although the project does not have a specific focus on climate change mitigation or adaptation, the project takes implicit consideration of these issues. The rehabilitation of the irrigation infrastructure is especially geared towards more efficient and effective use and management of water resources, mitigating climate-related risks to the agricultural and livelihood activities of the target group. BWAS is specifically a demand-driven model, minimizing the ‘wastage’ associated with the previous traditional system’s release of water on a mostly rigid and pre-arranged schedule by the authorities. Water savings during the main Maha season, also contributes to a larger surface area that can be cultivated during the Yala season. Furthermore, the project has also adopted tree-planting activities along the main canal contour bunds.

57. **Partnerships** are rated as *moderately satisfactory* (4). BWAS roll-out and promotion of crop diversification requires critical partnerships amongst various ‘institutional’ partners, such as with the Departments of Agriculture and Irrigation Department, and with responsibilities reflected in the MoUs. Partnership has also been promoted with the private sector and financial institutions though are still relatively nascent. At present, the extent of the partnership with the private sector is limited to forward sales agreements; similarly, the project is only now starting to establish some linkages with the formal financial sector, though has been in discussion with the Agrarian Bank to identify possible solutions for farmer access to credit for diversification of their (agricultural) livelihood activities after project completion. The mission recommends that the project establish closer contact with the IFAD-supported NADeP programme, to learn from their experience in developing public-private-producer partnerships, and in mobilising the financial sector to invest and view farmers as bankable clients.

Agreed action	Responsibility	Agreed date
1. Strengthen the PMO financial team with full time accountant and recruit an accountant consultant	PD	15 May 16
2. Amend the NGO (NBA) contract agreement	PD/ PM	30 Apr 16
3. Request authorities for delegation to recruit consultants on assignment-basis	PD	30 Apr 16
4. Draft TORs and RFP for impact survey	PD	31 May 16

E. Fiduciary aspects

58. **Financial management** is rated *moderately satisfactory (4)*. The PMO has not implemented most of the recommendations of the MTR mission on fiduciary aspects. The Accounting Software could not be implemented and the Project Accountant was not made full time. The project continues with manual registers, processing and recording them in spreadsheets which is subject to human errors and increases the work load. As project activities will increase considerably during this last year, the accounts team needs to be strengthened.

59. Accounting and Financial Reporting: All basic books of accounts are maintained on cash basis, manually. Transactions are primarily recoded according to the Treasury chart of accounts and they are subsequently posted to spreadsheets. Various reports and financial statements are prepared through the spreadsheets. The mission noted that although classifications of categories were correctly recorded in the spreadsheets, the classification of components were not recorded properly. The mission reviewed bank reconciliation statements and found them in order.

60. The mission had a detailed meeting with the developer of the accounting software, which was planned to be ready for implementation by October 2015, and conducted the assessment of the software under development (see details at Annex B) and concluded that:

- The software, even when developed, would not fully meet all the requirements for project accounting and financial management. In particular, the software would not have the capability to manage AWPB, withdrawal application preparation, procurement & contract management and financial commitments;
- The software developer agreed that the development of accounting software could not be completed and agreed to cancel the contract and refund the advance.

61. The mission recommends that the contract with the accounting software developer be cancelled and the advance refunded; and classifications of components be correctly recorded in the spreadsheets.

62. The project has not yet implemented recommendations of the MTR mission on fiduciary aspects including transfer of the Accountant on full-time basis, implementation of Accounting Software, regular reporting by Internal Auditor and settling outstanding external audit issues.

63. Staffing. Finance and accounting duties are handled by a team of three staff: the Project Accountant (Part Time), the Project Secretary and the Management Associate, and a couple of trainees. It is expected that considering substantial increase in the engineering team and the expected substantial increase in the project activities, the workload of the accounting department is also going to increase substantially in the last year of the project. The mission recommends (i) the Project Accountant to be transferred immediately to the Project on a full time basis as a Finance Manager, (ii) promoting the Project Secretary as Project Accountant and the Management Associate as Project Secretary, (iii) Recruitment of an additional accountant and (iv) training of all accounts team on excel.

64. Internal controls. As noted during the MTR, the project has put in place key internal control procedures including proper segregation of duties, expenditure authorization processes, bank reconciliations, etc. However, the mission urges the PMU to:

- Full and proper utilisation of PIM;
- Ensure correct classification of Categories and Components in the Payment Vouchers;
- Prepare Contract Monitoring Forms for contracts other than construction contracts;
- Properly fill the Contract Monitoring Forms (i.e. Payment Schedule and Progress Certificate part) and use it for monitoring purposes (not just for recording payments);
- Implement an efficient and reliable budget monitoring system (see below).

65. The Internal auditor (IA) has been appointed on part time basis from the staff of the Northern Provincial Council and up to now, three audit reports covering administrative and financial management aspect of the Project have been submitted. PMO has responded to the observations

satisfactorily. The latest report was issued in April 2015 however since then the mission noted that no further report was issued. The mission recommends that the IA should follow “Guidelines for Internal Audit to Projects Funded by Foreign or Local Funds” issued by the General Treasury in future audits and also conduct audit inspection on quarterly basis.

66. Administrative management. The major issue in the area of Human Resources management is the excessive length of the recruitment process.

67. Controls over fixed assets, consumable stores and petty cash, monitoring of fuel consumption and travel claims appears to be satisfactory. Fixed assets are also subject to an Annual Board of Survey which found no discrepancies. The mission observed that: (i) project assets (except motorcycles) are not insured and (ii) regular and off-site backup of the accounting and other data is not maintained. Specific recommendations addressing these issues are included in Appendix 3 to the supervision report.

68. AWPB execution. The table below shows performance against annual budgets for 2015 and three months of 2016 (amounts in USD – using an average exchange rate of 133 LKR = 1 USD):

Table 2: Performance against Annual Budgets

	C1: Infrastructure	C2: Production & Marketing	C3: Project Management	TOTAL
2015				
Budget	6,469	591	461	7,521
Actual	3,755	201	177	4,133
% execution	58	34	38	55
2016				
Budget	8,109	934	355	9,398
Actual (3 months)	573	42	59	674
% execution	7	5	17	7

69. Execution rates are low both for 2015 and the first three months of 2016, however with the hiring of engineers and supporting teams, it is expected that during the remaining nine months of 2016 the execution rates would increase significantly.

70. Although actual expenditures are posted in Excel worksheets, the PMU does not have a reliable and efficient budget monitoring system. The mission recommends that the accounts department should develop a budget monitoring system in Excel to allow for budget-to-actual statements to be automatically generated. Monthly budget review meetings should be organized with finance and technical staff to analyse budget variances and inform management decision-making.

71. Treasury and funds flow. On the basis of withdrawal applications (WAs) submitted by the project, IFAD transfers funds in USD into the Special Account held at the Central Bank. Project Account is maintained in SLR where funds are transferred from the Special Account on need basis. The mission has reviewed cash movements since the MTR mission and found that WAs have been submitted regularly, and the project has not experienced any cash shortage.

72. At the request of the mission, the PMU has prepared a cash forecast for the period April 2016 to Sept 2017. Based on this forecast, the project is expecting disbursements of USD 1 - 1.3 M per month between the months June - November 2016. Considering the time needed for preparation of a WA, sending it to IFAD and getting replenishment in the Special Account (approx. one month), the Initial Advance of USD 2 M is considered to inadequate. The mission strongly recommends that the PMO requests IFAD to increase the Initial Advance to USD 3 M along with the Cash Flow Projections including the initial deposit recovery plan.

73. Implementing Partners (IP). The contract with NBA (the NGO) provided that the NBA would provide a monthly Statement of Expenditure (SOE) which would be reimbursed. Due to various issues face by NBA (financial constraints, staff turnover), the Implementation Support Mission in March 2016 recommended that the PMO provide an advance of 80% of three months training implementation schedule. The mission noted that advances were provided to NBA and were also adjusted upon

submission and verification of expense claims. The mission recommends that an independent external audit of the project funds provided to the NBA should be conducted by a reputable firm. The audit firm would be appointed by NBA upon NOL by the PMO of the auditor and its TORs.

74. **Disbursement** is rated as *moderately unsatisfactory* (3). Although there is an improvement in disbursements in the year 2015 and the first three months of 2016 in relation to previous year, the actual overall achievement up to 30 March 2016 is 41% including private sector and beneficiary contribution. IFAD made the highest contribution at 49% and the next highest 34.24% was made by the Government. (Appendix 5 – Table A). While the actual overall achievement by financier by component is 37%; the expenditure against Component 1, Infrastructure is the highest at 45% and second highest is the Component 3, Project Management at 35% and the Component 2, Production and Marketing, is the lowest at 7%. (Appendix 5 – Table B). Status of disbursement from the IFAD Loan as at 30 March 2016 is SDR 6.390 M, which is 55 % of the total loan financing of SDR 14.35 M, including pending disbursements. The following table shows disbursements from the IFAD loan as of 30 March 2016 (amounts in SDR '000):

Table 3: Disbursements from the IFAD Loan

Category	Category description	Original Allocation	Disbursement	WA Pending *	Balance	Per cent Disbursed
I	Civil Works	10,110	5,712	356	4,042	60
II	Vehicles, Equipment and Materials	310	30	5	275	11
III	Advisory Services and Studies	870	114	6	750	14
	Training groups in Operation and Management	660	9	3	648	2
V	Training, Inputs and Marketing	220	72	18	130	41
VI	Salaries and Allowances	415	226	29	160	61
	Unallocated	1,765	0	0	1,765	-
	Initial deposit		1,380	0	-1,380	-
	Total	14,350	7,543	417	6,390	55

75. Withdrawal applications. The project has submitted 6 WAs since August 2015 i.e. on average one WA per month, except for WA 29 which covered a three-month period. Generally, it has taken less than ten days for the project to prepare each WA and an average of twenty-five days between the date the WAs are sent and the date of receipt of funds in the designated account. From the review of the WAs, the mission observed that (i) the project started using the new IFAD 'smart' WA templates only from December 2015, and (ii) expenditure below the SOE threshold were also claimed under Form 101 instead of Form 102. It was also noted that the amounts claimed are not always in accordance with the IFAD categories in the financing agreement. Summary of the WA submitted since MTR is provided in the following table (USD '000):

Table 4: Withdrawal Applications since MTR

WA No	Date of Submission	Civil Works	Vehicles, Equip & Material	Advisory Service & Studies	Training Groups in O&M	Training Inputs & Marketing	Salaries & Allowances	Total
WA 22	6-Aug-15	317,433	-	14,205	-	154	16,994	348,786
WA 23	16-Sep-15	298,681	693	16,558	-	393	16,940	333,265
WA 24	5-Oct-15	372,732	798	1,405	-	-	13,562	388,497
WA 25	29-Oct-15	340,183	-	16,895	118	4,176	13,867	375,239
WA 26	1-Dec-15	333,800	-	8,963	-	13,099	13,777	369,639
WA 27	25-Jan-16	390,258	63	33,277	-	28,673	13,599	465,870
WA 29	30-Mar-16	502,081	7,451	8,407	4,497	24,706	40,727	587,869
	Total	2,555,168	9,005	99,710	4,615	71,201	129,466	2,869,165

76. The detailed review of the SOEs revealed the following matters:

- Copy of Cheque as an evidence of payment to the Payee is not maintained by the project.
- Proper payment voucher for Salary is not prepared.
- Incorrect Category noted on the payment voucher.

- Incorrect classification in WA noted.
- Boarding pass not attached as evidence of international travel.
- Beneficiary list not attached with Vouchers.
- Multiple payments clubbed together in the WA. (35 different payments related to Salaries, Trainee Allowances, Fuel Charges, Advertisements, Meeting Expenses, Consultancy, Travel Claims)
- More than three months old expenses claimed.
- Taxes included in Insurance expenses charged to IFAD.

77. Designated account reconciliation. The reconciliation of the designated account prepared by the PMO as of 30 March 2016 is shown below (amounts in USD):

Initial deposit (A)	2,000,000
USD Designated Account Bank balance at 30 March 2016	1,235,679
SLR Project Account Bank balance at 30 March 2016	131,805
Advances	44,648
Current WA (#29)	587,868
Subtotal (B)	2,000,000
Difference (C) = (A) - (B)	-

78. **Counterpart funds** rated as *satisfactory* (5). There is smooth flow of counterpart funds to the Project on request. The GoSL has provided LKR 43 million for 2015 out of which the Project spent LKR 40.68 million and returned the balance. In the three months of 2016 the project has requested LKR 13 million and has received the same, out of which only LKR 5.1 million have been spent until 30 March 2016. The cumulative amount spent from GOSL is LKR 1,024 million (in the current year the Project has so far withdrawn LKR 25 M; out of LKR 25 million withdrawn, the Project has been able to spend only LKR 11.7 million). Cumulative expenditure up to the end of June 2015 is in the sum of LKR 136.3 million (USD 1.025 million).

Table 5: Government of Sri Lanka Contribution

Year	Allocation Approved by GOSL	Amount Requested by the Project	Amount Received by the Project	Amount Spend by the Project	Amount Returned by the Project
2012	125,000	3,000	3,000	2,965	35
2013	125,000	41,000	41,000	34,940	6,060
2014	90,000	57,000	57,000	52,660	4,340
2015	153,400	43,000	43,000	40,682	2,318
2016	125,000	13,000	13,000	5,097	-
Total	618,400	157,000	157,000	136,344	12,753
Total USD	4,649,624	1,180,451	1,180,451	1,025,141	95,888

79. **Compliance with loan covenants**. This is rated as moderately satisfactory (4). Most of the loan covenants are complied except the following:

- AWPB was submitted to the GOSL and to IFAD after the start of 2016 while it is required to be submitted to IFAD at least 60 days before the start of the year while it needs to be submitted to GOSL even before IFAD;
- Fixed Assets of the Project are not insured (except Motorcycles) where all goods and building of the Project should be insured;
- Health insurance is only available to national civil servants while all key personnel should be insured against health and accident risks;
- Terms of Reference of the Auditor General needs to be agreed after NOL from IFAD;
- The PSC and PMO needs to take up the matter of delayed audit reports with the Auditor General of Sri Lanka.

80. **Compliance with procurement** is rated as *moderately satisfactory (4)*. The project procurement is consistent with the approved procurement plan and no significant delays have been identified. The mission is satisfied that IIDP has ensured compliance with the National Procurement Guidelines and procurement is undertaken in accordance with the principles of procurement as envisaged by IFAD Procurement Guidelines and its Procurement Handbook in compliance with the laws and regulation governing public procurement in Sri Lanka. The Project has consistently ensured compliance with IFAD's prior review requirements in accordance with the provisions of the Letter to Borrower. However it seriously needs to improve its management of the ongoing civil work contracts. The risks attributable to weaknesses in the management of the civil works contracts has resulted in the significant under performance of these contracts which now needs to be strengthened as performance is key given the forthcoming seasonal monsoon rains and the project completion date. Appendix 8 elaborates the mission's review of procurement undertaken by the Project, identifying areas of improvement, risk and mitigation measures.

81. **Audit** is rated as *moderately unsatisfactory (3)*. Audited Financial statements along with Audit Opinion and Management Letter have been provided to IFAD substantially delayed and resulted in a legal notice by IFAD to GOSL. Below table compares the due date compared with the actual date of submission of Audited Financial Statements:

Table 6: Delayed Submission of Audited Financial Statements

Year	Due Date	Date Submitted	Delayed by
2012	30 June 2013	June 2014	12 Months
2013	30 June 2014	March 2015	9 Months
2014	30 June 2015	Nov 2015	5 Months

82. The due date for submission of audited financial statements of 2015 is 30 June 2016 while it was noted that the audit had not yet properly commenced and it was unlikely that the due date could be met this year also. It was further noted that there were 24 outstanding observations of the Auditor General related to previous years amounting to SLR 110.72 million (USD 763 k). We recommend that:

- The PSC and PMO should seriously take up with the Auditor General the matter of delayed submission of audited financial statements to IFAD;
- The PMO needs to discuss and resolve/settle the audit observations at department / secretary level meetings.
- Terms of Reference of the Auditor General need to be cleared by IFAD.

Agreed action	Responsibility	Agreed date
Key recommendations (see appendix for full list)		
1. Project Accountant to be transferred to the Project on a full time basis as a Finance Manager	PD	Immediate
2. Recruit additional full-time accountant (consultant)	PD	15 May 16
3. Request increase of the initial advance to USD 3 million	PD	Immediate
4. Request urgent commencement of audit work by the auditor general	PD	Immediate
Procurement and contract management		
5. Revision of the Procurement Plan	PMO	05 May 16
6. Procurement of all new contracts, including cattle/ livestock is subject to IFAD prior review and clearance	PMO	30 May 16
7. Detailed concept papers and MoUs for the procurement of agro-wells, drying yards and paddy stores is subject to IFAD prior review	PMO	30 Jun 16
8. Civil works contracts are managed following conditions outlined in this report and annex	PMO	Continuous

F. Sustainability

83. **Institutional Sustainability** is rated as *moderately unsatisfactory (3)*. It is critical that in the remainder of the implementation period, due attention is given to defining and consolidating the responsibilities of the public institutions (PID in particular) who in the medium-term must take greater lead in providing direction for management of the irrigation infrastructure, and for BWAS roll-out and

adoption. The role and responsibilities of the FOs and 'groups' within the system must also be defined and understood, which at present is not the case. In parallel, the BWAS implementation and operational plan must also be developed, providing the overall framework for the operation, management and maintenance of the system. It is as yet also uncertain whether the sheer number of NPCGs and MFGs formed, with training and capacity building to be provided in a relatively short period of time, will manage to develop once the project completes, especially as their access to financial services and inputs are not yet assured.

84. **Empowerment and Social Sustainability** is assessed as *moderately satisfactory (4)*. The formation of the groups has the positive consequence that social cohesion and community building is taking place. Under the crop diversification activities, members within the groups are volunteering with their labour in support of each other; as well, within these same groups, the savings and internal lending mechanisms are creating empowerment and social sustainability. Finally, FOs receive capacity building support, and have been awarded works contracts (up to USD 15,000) to manage.

85. **Quality of Beneficiary Participation** is assessed as *moderately satisfactory (4)*. An underlying principle behind BWAS and the rehabilitation of the irrigation scheme, is to implicate the local beneficiary community in the decision-making and management of the water resources. To this end, household members within the 21 FOs have, and will continue to benefit from capacity building interventions. It is reasonably expected that the PID will progressively roll-out management of the D-canals to the FOs and various groups. However, the BWAS project management committee needs to be urgently formed and the various management responsibilities clearly defined.

86. **Responsiveness of service providers** is rated *moderately satisfactory (4)*. The service providers of the project include contractors, Departments of Irrigation, Agriculture and Animal Production and Health, and the FOs. Contractor responsiveness is continuously monitored, and at present showcases the need for drastic improvement to achieve the civil works targets. The initial interest expressed by the Departments in 2014 and 2015, has not been uniformly maintained in 2015 and 2016. The mission recommends that the project should insist that the NGO collaborate closely in getting the technical assistance from these institutions to deliver training and skills development etc., as well ensuring sustainability of the assistance that is provided by the project. The keen interest of the private sector that was already expressed was captured to some extent but there is potential to up-scale it. The NGO contract has been revised to facilitate faster delivery of their work. The project should closely monitor the quality of their training delivery and facilitate their intervention to the extent possible.

87. **Exit strategy** (readiness and quality) is rated *moderately unsatisfactory (3)*. The project has recently developed a draft exit strategy, which in approach, is feasible. As discussed however, the delays in engaging the NGO had consequence that the various groups in the project are only relatively newly formed and nascent, and will have had limited exposure to training and capacity building by the time the project completes. Thus, their sustainability is un-tested, and it is clear they require further capacity building in the medium-term. In the meantime, groups will likely require continued support from public institutions and financial institutions. With regards to BWAS, there is need for stronger leadership to ensure roll-out, operationalization and scaling-up of the system.

88. **Potential for scaling up and replication** is rated *moderately unsatisfactory (3)*. The main potential for scaling up lies primarily with BWAS, if the pilot proves feasible in the Iranamadu scheme. Unfortunately, BWAS is not yet operational, and the 'master plan' is not fully developed. A second intervention with potential, is the inclusion of community labourers in carrying-out infrastructure works (via the contractor); today, only a few contractors are utilizing the local unskilled labour, though with some capacity building, this model could be expanded, creating some job opportunities.

G. Other

89. **Physical/financial assets** is rated as *moderately satisfactory (4)*. The assets that IIDP has established are still limited to canal structures, road crossings and drainage crossings of Left Bank Main Canal, Paranthan Main Canal, Right Bank Main Canal, and the rehabilitated PMO and Project

Management Committee buildings. The project is planning to establish paddy stores, drying floors, wells and roads in 2016 and such items would be the additional assets once they are established.

90. **Food security** is rated as *moderately unsatisfactory* (3). Increased food security can be expected through three main interventions of IIDP: (i) increased and sustainable paddy production attributable to combined effect of irrigation infrastructure development and associated water management improvement; (ii) production of non-paddy crops under various crop diversification activities and marketing; and (iii) additional income generated through agricultural and non-agricultural income generation activities under the matching grant facility and micro-financing facility. The increased paddy production has still not been realised; crop diversification activities are producing new crops but only to a limited level; and the additional income generation would be started only in the latter part of 2016. As such a notable food security improvement cannot be observed. Further, the paddy production is in halt during the current *yala* season due to the dam construction of Iranamadu tank with the assistance of Asian Development Bank (ADB). This situation is encouraged further by IIDP to facilitate irrigation rehabilitation. This has a negative impact on food security. Neither ADB project, nor IIDP has provided measures to minimise the negative effect on the food security.

91. **Quality of natural asset improvement and climate resilience** is rated *moderately satisfactory* (4). The rehabilitation of priority sections and structures in the long-existing irrigation scheme is expected to improve the efficiency and effectiveness of water distribution; with the introduction of BWAS, water management is also expected to be further enhanced. Through the improved infrastructure and the demand-driven BWAS model, water savings during the Maha season can be allocated for use during Yala season, which will allow for a larger surface area to be cultivated. Furthermore, water savings are serving to augment farmers' resilience to unpredictable climate.

H. Conclusion

92. The USD 29 million Iranamadu Irrigation Development Project (IIDP) will reach completion in less than one year (31 March 2017), which means that all contracts will have to be finalized and paid before this date.

93. Today, the overall IIDP disbursement rate on IFAD financing is 55% with approximately USD 14 million remaining to be disbursed. Per new IFAD operational direction, no extension of the project completion date will be provided.

94. The main priorities for IIDP are the following:

- To finalize the entire irrigation infrastructure works before 31 August 2016 in order to make irrigable the 8455 ha in the Iranamadu command area. Four months prior to this date, 81% of the total contracts awards through NCB and 67% of the total contracts award through CBO still need to be achieved or awarded. The project needs to be more proactive, closely monitoring all contractors in the field and ensuring weekly payment/ reporting; penalties will be applied where delays are experienced. Therefore, the coming two months are crucial. The remaining contracts should firstly be focused on the field canals through results-based contracts with CBOs in order to increase the irrigable surface rehabilitated and functional (today, 1/3 of the 8455 ha is estimated to be effectively functional). Other infrastructures are not the priority, and shouldn't prevent the achievement of this project development objective. This situation is challenging, though feasible if the required technical and financial staff are mobilized.
- To operationalize the water management and maintenance system of this rehabilitated irrigation scheme with an operational manual, understood and negotiated, and that will have to be implemented by the 21 Farmer Organizations. The proposed BWAS still requires discussion and has to be translated into an operational model. The documentation needs to be ready for August 2016 in order to initiate a pilot before potentially implementing model to the entire Iranamadu Irrigation scheme. This second priority is important in order to ensure the sustainability of the GoSL investments.

- To operationalize by July 2016, the matching grant strategy that will support the development of sustainable additional incomes to 7000 households (approximately 22,000 individuals). The matching grant targeting approach needs to be clearly defined, as well as the financing modalities and the exit strategy for each activity proposed. A stronger partnership should be developed with the IFAD-funded NADEP project which focuses on value chain development and contract farming with private companies. This third priority is important in order to reach the development objective of this financing.

95. In 2015, the execution rate of the IIDP AWPB was only 55%. In 2016, the first three-month execution rate is only 7%. Every effort should be made to increase the rate to 80% by end August 2016.

96. A special commitment from the Lead Project Agency, the Ministry of Provincial Councils and Local Government (MoPCLG), is needed to provide the support to the IIDP team, in order that: (i) the excessive procedures for short term consultants (more than 3 months currently) are avoided; (ii) the IIDP Financial unit is reinforced and immediately functional on a full-time basis; (iii) the special account will be increased up to USD 3 million so as to be in line with the treasury forecast; and (iv) the IIDP 2015 audit will be submitted to IFAD by June 2016, thereby avoiding the risk of suspension on any payments.

97. The IFAD team would like to extend again, its thanks to the Government of Sri Lanka, the PMO and project beneficiaries for their warm welcome, cooperation and support during the mission. IFAD and the Government of Sri Lanka endorse the findings of the supervision mission.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Sri Lanka		Project ID	1600	Loan/DSF Grant No.	857
Project	Iranamadu Irrigation Development Project				Top-up Loan/DSF Grant	
Date of Update	25-Apr-2016					
Supervising Inst.	IFAD/IFAD					
No. of Supervisions	3	No. of Implementation Support/Follow-up missions	6			
Last Supervision	April 2016	Last Implementation Support/Follow-up mission	Mar 2016			

USD million Disb. rate %

Approval	13-Dec-2011			Total financing	29.33	
Agreement	30-Jan-2012	Effectiveness lag		IFAD Total	22.23	49
Entry into force	30-Jan-2012	PAR value		IFAD loan	22.23	49
First disbursement	April 2013			DSF grant		
MTR		Last amendment		IFAD grant		
Original completion	31-Mar-2017	Last audit		Domestic Total	7.09	-
Current completion	31-Mar-2017			Beneficiaries	2.71	5
Original closing	30-Sep-2017			Government (National)	3.16	34
Current closing	30-Sep-2017			Private Sector	1.23	.3
No. of extensions	0					

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	4	4
2. Acceptable disbursement rate	3	3	2. Performance of M&E	5	4
3. Counterpart funds	5	5	3. Coherence between AWPB & implementation	4	3
4. Compliance with financing covenants	4	4	4. Gender focus	3	5
5. Compliance with procurement	5	4	5. Poverty focus	4	5
6. Quality and timeliness of audits	3	3	6. Effectiveness of targeting approach	4	5
			7. Innovation and learning	4	3
			8. Climate and environment focus	4	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Infrastructure Development	4	4	1. Institution building (organizations, etc.)	3	3
2. Production and Marketing	3	4	2. Empowerment	3	4
			3. Quality of beneficiary participation	4	4
			4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)	3	3
			6. Potential for scaling up and replication	3	3

B.5 Justification of ratings

Since the previous year's MTR, and with the engagement of the NGO, the project has made some further progress notably in the production and marketing component with mobilisation and building capacity of the Iranamadu catchment area farmers and their organizations. Farmers have been grouped and have received initial training, though every effort should now be made to accelerate implementation of the full capacity building programme so as to improve institutional sustainability. Group formation, training and provision of livelihood support (with inputs) has considered gender and targeting principles (about 90% of the mobilization and strengthening of MFGs, NPCGs and FCGs has taken place, with women comprising at least 70%

of the membership), and has also served to put in place a basic foundation for improved community building (with savings mechanisms) and empowerment through more active decision making. However, as the groups are relatively nascent, they are untested and their sustainability and ability for further development in the post-project period is not yet assured. In terms of infrastructure development, whilst infrastructure works have been well planned, continuous delays and some inefficiencies in contract management serve to detract from the overall implementation progress of the component, and subsequently disbursement (payment for works) as planned under the AWPB. It is extremely urgent that *all* works are completed on schedule, in order to make the irrigation scheme functional and in order to pilot the BWAS.

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	4	4
C.2 Food security	3	3
C.3 Quality of natural asset improvement and climate resilience	4	4
C.4 Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating

The project is now at a critical juncture, with the overall performance on a tipping scale; on the one hand, if the planning, preparatory activities and commitments are followed-through in an accelerated and timely fashion with attention to quality, there is good reason to expect that the moderately satisfactory rating could be improved within a six month period; however, if the current rate of progress remains and the underlying issues as identified by the mission are not addressed within the next three months, the overall project performance will deteriorate quickly. The infrastructure has to be urgently completed, with efficient payment.

C.5 Likelihood of achieving the development objectives (section B3 and B4)	4	4
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Rationale for development objectives rating

Whilst challenging, the physical completion of infrastructure works by end August is feasible, and is a necessary precondition for a more efficient and effective irrigation system that allows for the improved management of the water resources and piloting of the BWAS. In complement, the formation of the various farmer groups, especially the field canal groups (FCGs), and their training/ capacity building will provide the institutional foundation to implement and manage BWAS in the long-term. However, the system itself must now be fully developed and well understood by all stakeholders, which should be reflected in an implementation and operational manual (to date, still pending). The pilot of the BWAS itself, with field training, should now urgently also take place. If early teething challenges and lessons can be extracted, then the BWAS as an innovative system to be up-scaled has potential.

C.6 Risks

Fiduciary aspects	The expected completion of infrastructure works in a short period of time, and timely payment for these works necessitates a strengthened financial team. Given as well the need to disburse a significant amount of funds in a very short period, the initial allocation needs to be increased to USD 3 million to avoid treasury problems. Finally, the history of delayed submission of audit reports has to be avoided for the 2015 audit, and this needs to be taken up with the Auditor General immediately.
Project implementation progress	Risks to project implementation progress lie with delays in completion of works, and payment for works, in order to be able to disburse the funds as outlined in the AWPB. Strong contract management is required in the remaining period.
Outputs and outcomes	Preparations for piloting the BWAS have to be finalized; at the minimum, there is need to draft the BWAS implementation and operational manual. All works should be completed by end-August, due to the coming rains; works postponed past the project completion date will not be financed with IFAD financing.
Sustainability	The various groups, and the BWAS management groups in particular, need to complete the envisaged capacity building programme, in order to be able to roll out and manage the infrastructure (O&M) and the system itself over the long-term.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Timely submission of 2015 Audit Report	The PSC and PMO should raise the issue of the delays in undertaking the audit, with the Auditor General.	Immediate	Ongoing
Strengthen financial team	Recruit additional full time accountant (consultant)	15 May 2016	Ongoing
Increase of the initial advance	Submit WA for increase of the initial advance to USD 3 million	Immediate	Completed
Preparation for completion	Undertake preparations to conduct the impact survey	31 May 2016	Pending

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Results hierarchy	Indicators	Means of Verification	Assumptions
Goal			
Contribution to overall poverty reduction, increases in household incomes	Increased hhs assets	Provincial statistics	
	Increased hhs incomes	Household surveys	
	Reduced malnutrition of children below 5 years – weight & height	RIMS survey	
Development objective			
The irrigation infrastructure of the Iranamadu scheme has been rehabilitated, farm productivity improved and women’s participation in water and land management and marketing enhanced	HHs secured access to water	Household survey	Individual and group incentives as well as farmer institutional development will sustain infrastructure, cropping, marketing arrangements, and women participation in the medium term
	Reaching an average paddy productivity over an above national level	yield survey	
	% of yala land extent diversified	Crop survey	
	FOs are empowered in management of irrigation under the supervision of line agencies	FOs empowerment survey	
Outcomes			
Component 1: Infrastructure Development			
1a. Irrigation rehabilitation			
a. Irrigation infrastructure is rehabilitated, water is distributed and field canals is farmer managed, extent of under-utilized land is reduced with irrigation and women effectively participate in water and land management.	% increase in paddy production per unit volume of water in maha/yala seasons (water productivity)	Reports of the Prov. Irrigation Department (PID)/Agriculture extension/Dept of agrarian services/FOs	Severe weather events do not substantially damage rehabilitated infrastructure
	% Reduction in irrigation water requirement per Ha (average duty)	PID- water duty report	Continued policy support for irrigation development
	Increase in overall irrigation intensity (cultivated extent out of total command area per year)	PID -cultivation report	
	% of land extent having cultivation practices conformity with the cropping calendar prepared in response to BWS	FOs –Cultivation reports cross checked by SMs	
	Proportion women office bearers in FOs	SMSp-report through SMs- staff report	
	Length (KM) of D&F canals effectively maintained by FOs	PID -canal maintenance report	
	Extent of under- utilized land under cultivation	PID report	
	Nb saved man days of Technical personnel who are deployed beyond D canal level (due to BWS)	PID- Cultivation report	
	Nb increased man days of Technical personnel who are deployed main canal and head works (due to BWS)	PID -Tech staff deployment report	
	Nb farmers facing crop losses by season (yield thresh hold level is 50% from expected harvest)	PDOA-AI - crop losses report	
	Nb. FOs saved water out of what is allocated	PID- Water saving report	
	Reduction of cost of transport	SMs-Sample survey report	

1b. Other infrastructure development			
Access to drinking water and water for non-paddy crops in water scares areas increased and marketability is enhanced	Reduced time spent on collecting drinking water	HH survey/interview	Continued policy support for drinking water and introduced a policy for non-paddy crops
	Reduced incidence of water borne diseases	Health officer reports	
	% of increased farm gate prices	Market survey/farmer interview	
	Incremental dug well land cultivation extent	Cultivation survey report	
	Increased farm gate price using drying floor	Farmers interview report	
	Reduction of labour cost due to the drying floor	Farmers interview report	
	Increasing farm gate prices with paddy stores	Farmers interview report	
Component 2: Production and Marketing			
2.1. Social mobilization and training			
Women and youth groups (existing and/ or new), FOs strengthen and sustained through social mobilization and training. Sustainable FOs delivering irrigation services to farmers.	Nb. of trained women and youth (in group)/individuals involving crop diversification	SMGTSP report through SMs	Heterogeneity of land sizes and different water volume requirement could be a limitation for smooth operations.
	Nb. of trained women and youth with forward sales agreements	SMGTSP report through SMs	
	FOs performance measured by financial & management audit (>50% pass after 2 yrs & >75% after 4 yrs)	Annual outcome studies, ASD reports	
2.1a- Gender equity and women empowerment			
Empowerment of gender equity and decision making power for BWM, Crop production, marketing and MF of women in FOs	Nb. women in leadership position in FOs and other groups	SMGTSP report through SMs	
	Nb. Women involved by type of irrigation infrastructure management and improvement of crop production, marketing and MEs	SMGTSP report through SMs	
	% of NPCGs and MFGs income	SMGTSP report through SMs	
2.2 Production, extension and marketing			
Sustainable agricultural productivity through diversified crops is enhanced and strong linkages with private cooperate buyers ensuring remunerative markets are established.	Increased productivity of diversified crops . (yield per Ha by crops)	Reports of the Prov. Agriculture Department	Severe weather events do not substantially damage crops
	Proportion of total land cultivated under 3 most popular other field crops	AI reports, SMs reports	Climate change effects are mitigated
	Volume of different crops marketed	Private sector reports, SMs reports	Farmer/private sector marketing linkages sustainably established
	Volume of different crop products increased through FSCs	Private sector reports, SMs reports	
	% increase of the marketing margin	Private sector reports, SMs reports	
	Volume of process or value added products sold by producers	IGA survey report	
	% increase in return to labour (female and male)	Farm HHs survey	
	Volume sold under FSCs by crops	Private sector reports, SMs reports	

2.3. Other agricultural and off farm development			
Opportunities for creating sustainable off farm income avenues are ensured	Additional income through MEs (%)	NGO reports	Continued policy support for MEs development
	Nb employment created by Mes	NGO reports	
Outputs			
Component 1: Infrastructure Development			
1.1. Irrigation development			
	Length of canals rehabilitated (km, by type)	PID canal rehb. report	System H experience in demand led water management successfully transferred to project farmers
	a. Length of main canals rehabilitated (km)	PID canal rehb. report	
	b. Length of D canals rehabilitated (km)	PID canal rehb. report	
	c. Length of F canals rehabilitated (km)	PID canal rehb. report	
	d. Length of drainage canals rehabilitated (km)	PID canal rehb. report	
	Nb.of structures (control, conveyance, diversions, stability) repaired or rebuilt (by type)	PID canal rehb. report	
	Nb of signed MOUs between FOS and PID to facilitate bulk water supply	PID report	
	Nb of water high rulers installed by type of canal	PID -water measurement installation report	
	Nb of farmers trained in calculating volume of water by gender	PID - Training report	
	Nb of trained volunteer jalapalakas by gender	PID - Training report	
	Nb of farm roads rehabilitated (KM)	PID- road rehab. Report	
	Nb of canal bund strengthening with forest trees	PID- Reverine plantation report	
1.2. Other infrastructure Development			
	Nb Dug well & tube wells constructed	PID- report	
	Nb buildings rehabilitated	PID- report	
	Nb Drying flour constructed	PID- report	
	Nb paddy stores constructed	PID- report	

Component 2: Production and Marketing			
2.1 Social Mobilization and Training			
	Nb Women and youth group formed	SMTp,SMs reports	
	Nb women and youth groups/members trained	SMTp,SMs reports	
	Nb Existing Fos trained	SMTp,SMs reports	
2.2.Production, Extension and Marketing			
	Extent irrigated by crop per season (ha, by type -including fruits)	PDOA -cullt. Report	Agricultural and other agencies supporting adoption of sustainable cropping techniques.
	Volumes and proportion of crops sold under forward sales agreements (FSA)	Privet sector- FSA report	
	Nb of women groups involved in fruits, vegetables and other crops	PDOA -cullt. Report	
	Nb of hhs covered by extension and marketing services provided by the private and public sectors	Corporate Buyer -report	
	Nb Individual credit links initiated with Commercial banks	Bank reports,	
	Nb Extensions officers trained by private sector	Training report by private sector	
	Amount of loans taken for cultivation of OFC from the banks	Bank reports,	
	Value of on farm investment in working capital from private sector to cultivation of OFC	AI/Fos/Company reports	
	Extent cultivated with on farm investment in working capital from private sector to cultivation of OFC	Company/FOs reports	
	Nb Demonstration plots established by crops	Agric, dept-AI/FOs reports	
	Nb Extension office established	Agric, dept-AI/FOs reports	
	Nb Farmers trained under contract farming on GAP	Agric, dept-AI/FOs reports	
	Nb Farmers trained under non contract farming on GAP	Agric, dept-AI/FOs reports	

2.3. Other agricultural and off farm development			
	Extent covered by soil suitability study	RARDC -soil study reports	Agricultural and other agencies supporting adoption of sustainable off farm development.
	Nb varietal adaptability trails conducted throughout the seasons	RARDC - VAT reports	
	Nb community Professional trained by gender	SMTSp,SMs	
	Nb persons trained on pre-primary processing by gender	SMTSp,SMs	
	Nb women groups received processing equipment	SMTSp,SMs	
	Nb planting material produced from the nurseries by type	Dept of seeds- plant issuing report	
	Nb groups/women trained for micro enterprises	Project progress reports	
	Nb microfinance linkages established	SMTSp,SMs	
3.Project management			
	PMO staff appointments	IIDP staff records	Timely appointment of key project staff
	AWPB approvals	NSC,IFAD NOL	Government and project incentives sufficient to keep qualified staff in place
	Tender procedures and procurement	Mid-Term Review Report	Fiduciary procedures well understood by all involved, no major delays in fund flows
	Flow of funds	Acc,div-flow fund report	Transparent procurement
	M&E reporting	Annual reports	
	KM activities	KM report	
	Implementation Gender Action Plan	NGO reports	

**** Project plans to conduct a HHs sample survey for data verification**

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Whom	Date	Progress
Project Implementation	1. Strengthen the PMO financial team with full time accountant and recruit an accountant consultant	PD	15 May 16	
	2. Amend the NGO (NBA) contract agreement	PD/ PM	30 Apr 16	
	3. Request authorities for delegation to recruit consultants on assignment-basis	PD	30 Apr 16	
	4. Draft TORs and RFP for impact survey	PD	31 May 16	
Outputs	<i>Component 1: Infrastructure Development</i>			
	1. All 2014-2015 contracts completed by end June (except 2 contractors)	PD	30 Jun 16	
	2. All 2016 already awarded contracts completed by end August	PD	31 Aug 16	
	3. All ongoing CBO contracts completed and paid by end May	PD	31 May 16	
	4. Penalties will be applied for all contracts with time over-runs	PD	Continuous	
	5. Monthly physical and financial progress reporting to Irrigation Department, Lead Agency and IFAD (as well, provide cash forecast/ disbursement plan (by category), to be monitored by the NSC); all additional award of new contracts and other procurement are based on IFAD No Objection; priority is for D-canals with CBOs on monthly result based contracts or NCB.	PD	Monthly, continuous	
	6. Establish Action Plan for all contracts at-risk	PMO	05 May 16	
	7. Mapping by Google earth of the operational area of the irrigation scheme at 15 April and updating every 2 weeks with the physical progress report. GPS report mapping of status/ progress of rehabilitated scheme works – location of all sites rehabilitated, all infrastructures	PMO	15 Sept 16	
	8. Support FOs to communicate any concerns over headworks to ADB	PD	As needed	
	9. Submit concept notes and rationale for the 'other-infrastructure' proposals with detailed exit strategy demonstrating the sustainability of the proposed investments	PD	15 May 16	
	<i>Water management and BWAS</i>			
	10. Develop the BWAS Implementation And Operational Manual	PD	01 Jul 16	
	11. Implement new BWAS training schedule; FOs to organize themselves to adopt a plan to operationalize, manage and maintain the D-canals	NBA	Immediate, continuous	
	12. Formation and training of the D-canal and main canal groups; establishment of the Project Management Committee	NBA	31 Aug 16	
	13. Establish strategy for BWAS piloting	PD	15 Jul 16	

<i>Component 2: Production and Marketing</i>			
1. Complete training of para-professionals	NGO	Continuous	
2. Complete 21 FO profiles	NGO	October 2016	
3. Undertake FO assessment/ stock-taking exercise	NGO	Immediate	
4. Stock-taking and impact evaluation of FSAs and market linkages; identify best options for farmer profitability	PM and NGO	29 February 2016	
5. Ensure all MFGs open group bank accounts	PM and NGO	29 February 2016	
6. Prepare IIDP-NADeP collaboration and activity plan for N-O	PM	12 February 2016	
7. Undertake workshop on BP models and financial access (for microenterprise and agricultural development) with NADeP, FOs and FIs	PM	Immediate	
8. Develop strategy on matching grants for N-O which will condition all future investments in matching grants; in the meantime, the matching grants are on hold	PM	Prior to NSC meeting	
Fiduciary Aspects			
1. Project Accountant to be transferred to the Project on a full time basis as a Finance Manager	PD	Immediate	
2. Recruit additional full-time accountant (consultant)	PD	15 May 16	
3. Request increase of the initial advance to USD 3 million	PD	Immediate	
4. Request urgent commencement of audit work by the auditor general	PD	Immediate	
<i>Procurement and contract management</i>			
5. Revision of the Procurement Plan	PMO	05 May 16	
6. Procurement of all new contracts, including cattle/ livestock is subject to IFAD prior review and clearance	PMO	30 May 16	
7. Detailed concept papers and MoUs for the procurement of agro-wells, drying yards and paddy stores is subject to IFAD prior review	PMO	30 Jun 16	
8. Civil works contracts are managed following conditions outlined in this report and annex	PMO	Continuous	

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

				2015			Up to December 2015		
Component/							Cumulative	Appraisal	
Sub-component or Output		Indicator	Unit	AWP&B	Actual	%	Actual	Target	%
Component 1-Infrastructure Development									
Sub-component- 1.1- Irrigation development	Length of main cannel rehabilitation		Km				26.24	26.24	100
	Length of branch cannel rehabilitation		Km	23.62	23.62	100	39.00	39.00	100
	Length of distributor cannel rehabilitation		Km	35.00	33.87	79	51.50	73.00	71
	Length of main drainage channel rehabilitation		Km	33.50	33.50	91	70.00	70.00	100
	Length of field drainage channel rehabilitation		Km	14.00	14.00	100	100	100	100
	People trained in infrastructure management (1.1.1)		No	1170	1354	116	2750	2513	109
	Groups managing infrastructure formed and/or strengthened (1.1.2.)		Group	605	605	100	698	698	100
	People in groups managing infrastructure (1.1.3.)		No	3188	1580	50	2158	4188	52
	Groups managing infrastructure with women in leadership positions (1.1.4.)		Group	170	152	89	209	322	65
	Land under irrigation schemes constructed or rehabilitated (1.1.5)		Ha	3500	3100	89	8455	6575	78
	Sub-component-1.2- Other infrastructure development	No of office building repaired		No	1	1	100	2	2
Component 2- Production and marketing									
Sub-component-2.1- Social mobilization and training	No. of groups for Mobilization of women and youth non paddy crop groups for OFC/vegetable production		Groups	330	330	100	423	423	100
	No. of Social mobilizers appointed		No	12	12	100	12	21	57
	No. of GAPs prepared		Plan	1	1	100	1	1	100

Sub-component-2.2- Production and marketing	No. of NPC demonstration plots establishment	Plots	170	100	59	1114	1672	67
	No. of VAT demonstration established	Demo	10	10	100	10	30	33
	No. of Good agricultural practices plots established for Maize	Plots	572	572	100	572	500	114
	People trained in post-production, processing and marketing (1.4.1)	No	3080	1980	64	1980	3080	64
	People trained in crop production practices and technologies 1.2.2	No	1135	1144	52	1144	2800	41

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier (USD '000) as at 31 March 2016

Financier	Appraisal	Disbursements *	Per cent disbursed
IFAD loan	22,231	11,024	49
Government	3,158	1,084	34
Private Sector	1,231	4	0.3
Beneficiary	2,706	129	5
Total	29,326	12,182	41

* Average Exchange Rate since the start of the project of USD 1 = LKR 133 is used for converting Government, Private Sector and Beneficiary contributions.

Table 5B: Financial performance by financiers by component (USD '000) as at 31 March 2016**

Component	IFAD loan			Government			Private Sector			Beneficiaries			Total		
	Approved	Actual	%	Approved	Actual	%	Approved	Actual	%	Approved	Actual	%	Approved	Actual	%
Infrastructure	18,487	8,875	48	2,882	913	32	-	-	-	234	34	14	21,602	9,822	45
Production and Marketing	2,453	315	13	21	-	-	1,231	4	0.3	2,472	95	4	6,177	414	7
Programme Management	1,291	422	33	255	112	44	-	-	-	-	0	-	1,546	534	35
Total	22,231	9,612	43	3,158	1,025	32	1,231	4	0.3	2,706	129	5	29,325	10,770	37

** Average Exchange Rate since the start of the project of USD 1 = LKR 133 is used for converting Government, Private Sector and Beneficiary contributions.

Table 5C: IFAD loan disbursements (SDR 000', as at 31 March 2016)

Category	Category description	Original Allocation	Disbursement	WA Pending *	Balance	Per cent Disbursed
I	Civil Works	10,110	5,712	356	4,042	60
II	Vehicles, Equipment and Materials	310	30	5	275	11
III	Advisory Services and Studies	870	114	6	750	14
IV	Training groups in Operation and Management	660	9	3	648	2
V	Training, Inputs and Marketing	220	72	18	130	41
VI	Salaries and Allowances	415	226	29	160	61
	Unallocated	1,765	0	0	1,765	-
	Initial deposit		1,380	0	-1,380	-
	Total	14,350	7,543	417	6,390	55

* WA 29 (Pending) has been converted into SDR by using exchange rate of USD 1 = LKR 144 and SDR 1 = USD 1.41.

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target / Action Due Date	Compliance Status / Date	Remarks
4.01	<i>Loan Account and withdrawal.</i> The Fund shall open a Loan Account in the name of the Borrower and credit the principal amount of the Loan thereto.		Complied	
4.02	(a) Between the date of entry into force of a Financing Agreement, and the financing closing date, the Borrower may request withdrawals from the Loan Account of amounts paid or to be paid for eligible expenditures. The Fund shall notify the borrower of the minimum amount for withdrawals.		Not utilised	
7.01	<i>Project Implementation.</i> (b) (ii) Before each project year, the Lead project agency shall, if required, submit the draft project AWPB to the oversight body designated by the borrower for its review.		18 Jan 2016	Project is recommended to submit AWPB to the Project Steering Committee (PSC) substantially earlier than the last date of submission to IFAD.
	When so reviewed, the Lead Project Agency shall submit the draft project AWPB to the fund for comments no later than sixty (60) days before the beginning of the relevant project year. If the Fund does not comment on the draft project AWPB within thirty (30) days of receipt, the AWPB shall be deemed acceptable to the Fund.	30 October 2015	31 Jan 2016	Project is recommended to submit AWPB to IFAD 60 days before the start of the year
7.06	<i>Use of goods and services</i> All goods, services and buildings financed by the Financing shall be used exclusively for the purposes of the Project.		Complied	
7.08	<i>Insurance</i> (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		Insurance of Motorcycles obtained	All fixed assets of the Project should be insured.

	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.			
7.11	<p><i>Key Project personnel</i></p> <p>The Borrower/Recipient or the Lead Project Agency shall appoint the Project Director and all other key Project personnel in the manner specified in the Agreement or otherwise approved by the Fund. All key Project personnel shall have qualifications and experience specified in the Agreement or otherwise approved by the Fund. The Borrower/Recipient shall exercise best efforts to ensure continuity in key Project personnel throughout the Project Implementation Period.</p>	Being complied		
	The Borrower/ Recipient or the Lead Project Agency shall insure key Project personnel against health and accident risks to the extent consistent with sound commercial practice or its customary practice in respect of its national civil service, whichever is appropriate	Health Insurance is provided to national civil servants deputed to the project but not to the Project Staff		The project is recommended to obtain insurance also for project staff who are not from the national civil service.
9.01	<p><i>Financial Records</i></p> <p>The Project Parties shall maintain separate accounts and records in accordance with consistently maintained appropriate accounting practices adequate to reflect the operations, resources and expenditures related to the Project until the Financing Closing Date, and shall retain such accounts and records for at least ten (10) years thereafter</p>	Being complied		
9.02	<p><i>Financial statements</i></p> <p>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.</p>	30 April 2016	12 April 2016	
9.03	<p><i>Audit of Accounts</i></p> <p>The Borrower/Recipient shall:</p> <p>(a) each Fiscal Year, have the accounts relating to the Project audited in accordance with auditing standards acceptable to</p>	FS are audited by Auditor		The project is

	the Fund and the Fund's <i>Guidelines on Project Audits (for Borrowers' Use)</i> by independent auditors acceptable to the Fund;		General of Sri Lanka. However, the project does not agree on the TORs with the Auditor.	recommended to agree TORs with the Auditor General of Sri Lanka after NOC from IFAD.
	(b) 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;	2012 - 30 Jun 2013 2013 - 30 Jun 2014 2014 - 30 Jun 2015 2015 - 30 Jun 2016	2012 - Jun 2014 2013 - Mar 2015 2014 - Nov 2015	The PSC and Project is strongly recommended to take up the matter of delayed audit reports with the Auditor General of Sri Lanka.
Section B para 6	There shall be a Project Account managed by the Project Management Office ("PMO") in a commercial bank acceptable to the Fund.		Complied	
Para 7	There shall be an account designated to receive funds in advance ("Designated Account") in USD for the exclusive use of the Project in the Central Bank of Sri Lanka.		Complied	
Para 8	The Borrower shall provide counterpart financing for the Project in the amount of USD 3,158,000 to finance part of the civil works, salaries and operating costs and all taxes and duties.		Ongoing	
Section E	1 (a) The Project Coordinator and Project Manager have been appointed.		Complied	
Section E	1 (b) A Project Implementation Manual ("PIM"), acceptable to the Fund and Borrower, has been finalized.		Complied	
Schedule 1 section II	A National Steering Committee ("NSC") shall be established for the Project under the chairmanship of the Secretary of the MLGPC.		Complied	
	Provincial Steering Committee ("PSC") shall be established for the Project under the chairmanship of Chief Secretary, Northern Provincial Council and responsible for provincial level coordination and Project implementation oversight over performance of functions.		Complied	
	A District Coordinating Committee ("DCC") and District Agriculture Committee ("DAC") shall facilitate the Project coordination at the district level.		Complied	

	A Project Management Office (“PMO”) shall be established in the Office of Deputy Director of Irrigation at Kilinochchi.	Complied	
	The Project Coordinator shall be appointed from among high level qualified permanent government officials, on a secondment basis and on a part-time basis. The appointment shall be acceptable to IFAD.	Complied	
	A Project Manager shall be recruited from the open market with qualifications and experience acceptable to the Borrower and to IFAD, and shall be in charge of daily management of the Project	Complied	
LTB para			
6	The proceeds of the financing may not be used to pay taxes	Complied	
7	PMO to open and maintain an Account designated to receive loan resources in advance at the Central Bank of Sri Lanka (in US\$); to make an initial deposit equivalent to USD 1 Million	Complied	
10 (a)	Project Coordinator and Project Manager have been appointed	Complied.	
10 (b)	A Project Implementation Manual (PIM) , acceptable to the Fund and Borrower , has been finalized	PIM has been finalised	
13	SOE threshold : USD 50,000 equivalent for expenditures under all categories	Mostly complied however in some cases below USD 50,000 equivalent of expenditure has been claimed through the above SOE threshold forms.	The Project is recommended to claim all expenditure under USD 50,000 in the SOE forms.
19	International competitive Bidding (ICB) shall be the mandatory method of procurement for contracts above the following values: (i) Goods: above USD 200,000 equivalent ; (ii) Civil works : above USD 1,000,000 equivalent; and (iii) Services: above USD 100,000 equivalent.	Complied	
20	Award of any contract for Goods, Consultancy Services and other services estimated to cost above USD 100,000 equivalent and Civil works estimated to cost above USD 500,000 equivalent shall be subject prior Review by IFAD.	Being complied	

22	All contracts with or without prior approval, should be listed in the Register of Contracts with the dates of approval and submitted to the IFAD Country Programme Manager on a monthly basis.	Every Month	Register of Contracts (C-10) maintained. Register of Contracts not submitted to IFAD Country Programme Manager on Monthly basis.	The Project is recommended to submit the Register of Contracts to IFAD Country Programme Manager on a monthly basis.
25	The Financial Statements relating to the Project will be audited by the auditor General of Sri Lanka		Being complied	
26	Log of Audit Observations (Audit Log) should be maintained and updated regularly.		Complied	

Appendix 7: Knowledge management: Learning and Innovation

Learning

The project initiatives which will help KM include: a) GIS maps showing the rehabilitated canal system; (b) depicting before and after project situation through a photo and video gallery; (c) use of effective communication tools such as power point and concise progress reports to disseminate and share the information; (d) development of several success stories and case studies – women empowerment, crop diversification with market linkages and matching grant interventions; and (e) outcome measurement of some of the project interventions. In addition, an effective process documentation of the Bulk Water Management System needs to be developed.

Innovation

The project has initiated coordinating with the National Agribusiness Development Project to make micro-financing facility available for IIDP beneficiaries through the Banks in Kilinochchi. The loan delivery has to commence. This is an innovative step to establish mutual support to two IFAD projects. IIDP had the opportunity and also the potential to demonstrate effective means of rehabilitating canal structures in larger command areas without significantly disturbing the livelihood patterns of farmers who are living in the areas. The labour contribution of the farmers through farmer organization could also be demonstrated. Also it could have demonstrated effective crop diversification to meet market demands, which was commenced but not scaled-up substantially.

Furthermore the core concept of bulk water management is a practice that could be both horizontally and vertically scaled up. While the Project has potential for this, at present the practice is immature in terms of both irrigation structural requirement and the farmers' capacity. The Project now has the opportunity to use the NGO to support to implement both requirements.
