This action is funded by the European Union

ANNEX I

of the Commission Implementing Decision on the financing of the annual action programme in favour of Sri Lanka for 2019

**Action Document for Support to Food Safety and Quality in Sri Lanka**

### ANNUAL PROGRAMME

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

| 1. Title/basic act/CRIS number | Support to Food Safety and Quality in Sri Lanka  
CRIS number: ACA/2019/041-731  
financed under the Development Cooperation Instrument |
|-------------------------------|---------------------------------------------------|
| 2. Zone benefiting from the action/location | Sri Lanka  
The action shall be carried out at the following location: nation-wide |
| 4. SDGs | **SDG 2** (Ending hunger, ensure food security and improved nutrition and promote sustainable agriculture);  
**SDG 3** (Ensure healthy lives and promote well-being for all at all ages);  
**SDG 5** (Ensure gender equality);  
**SDG 8** (Ensure decent work and promote development oriented policy strategies for economic growth);  
**SDG 9** (Promote inclusive and sustainable industries, infrastructure and innovation);  
**SDG 10** (Reduce inequalities through ensuring equal opportunities);  
**SDG 12** (Ensure sustainable consumption and production patterns);  
**SDG 13** (Promote and ensure resilience and adaptive capacity to climate related hazards and natural disasters) |
| 5. Sector of intervention/thematic area | Agriculture and rural development  
DEV. Assistance: YES |
| 6. Amounts concerned | Total estimated cost: EUR 11 000 000 |

Total amount of EU contribution EUR 10 000 000
This action is co-financed in joint co-financing by:
- BMZ for an indicative amount of EUR 1 000 000

This Action is linked and synchronised with blending operations financed under the Asia Investment Facility (Regional Indicative Programme envelope) for an indicative EU contribution of EUR 20 000 000

| 7. Aid modality(ies) and implementation modality(ies) | Project Modality
Indirect management with UNIDO/FAO and GIZ |
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<tr>
<td>8 a) DAC code(s)</td>
<td>33110 agricultural policy and administrative management, 33120 Trade facilitation</td>
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<td>b) Main Delivery Channel</td>
<td>41132 UNIDO, 41301 FAO, GIZ</td>
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<td>9. Markers (from CRIS DAC form)</td>
<td><strong>General policy objective</strong></td>
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<td>Participation development/good governance</td>
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<td>Aid to environment</td>
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<td>Trade Development</td>
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<td>Reproductive, Maternal, New born and child health</td>
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<td><strong>RIO Convention markers</strong></td>
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<td>Biological diversity</td>
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SUMMARY

Sri Lanka’s once highly dynamic and successful agriculture sector has, in recent years, failed to meet its potential. Consequences of climate change, increasing costs, low factor productivity, a predominant focus on paddy production and low value addition, shortages of labour, environmental degradation, lack of investment in research and development and a weak extension system, land fragmentation, low participation by the private sector, women and youth, outgoing-migration, poor attention to demand management, food safety and food quality and an overly-bloated public bureaucracy are issues holding back the modernisation of the country’s agriculture.

The ‘Support to food safety and quality in Sri Lanka’ programme’s (the Action) overall objective is to contribute to a more productive, sustainable, diversified, climate-resilient, market-oriented and inclusive agriculture sector in Sri Lanka. Its two interrelated specific objectives aim at 1) increasing food safety and quality compliance through the adoption of best practices by food producers and processors, and an updated risk-based and well-coordinated food control system; and at 2) increasing the organic market share through better standards, higher investments and increased consumer demand.

Activities contributing to objective 1 will be implemented through indirect management with the United Nations Industrial Development Organization (UNIDO) and the Food and Agriculture Organisation (FAO), and activities under objective 2 will be implemented through indirect management with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The indicative implementation period of the programme is 60 months.

The programme is intended to contribute to the following expected results of the Multiannual Indicative Programme (MIP) 2014-2020: i) livelihoods have sustainably expanded, diversified and improved through storage and processing facilities, post-harvest and post-catch technology and diversification of small scale primary production; ii) increased adaptation to climate change shocks in agriculture, reduced greenhouse gas emission and increased food production; iii) number of small scale enterprises sustainably increased and diversified, and faster job creation with respect to the national average; iv) existing enterprises enabled to expand sustainably and improve their business results while creating new jobs; v) improved administrative and legal environment for business development.

The Action is directly linked and synchronised with the upcoming blending operations to be funded under the Asia Investment Facility, with an indicative EU contribution of EUR 20 000 000, which will: establish a countrywide cold chain system and infrastructure incorporating energy–efficient technology; reduce post-harvest losses; increase shelf life of products, farmers’ income and employment through investments in rural areas; facilitate Public-Private Partnership (PPP) transactions; and mobilise private investments in the sector. The blending operations, expected to be approved first half of 2020, will have additional positive impact on production and on the environment, increasing the climate resilience of food management in the country, while improving smaller farmers’ capacity to better cope with the effects of extreme weather and climate variability. The blending operations and this action have been designed to mutually reinforce each other and use the same coordination structures.

The Action will follow a demand driven approach and place a special emphasis on female entrepreneurs.
Overall, the competitiveness of Sri Lankan export products will be strengthened and synergies with ongoing trade-related assistance as well as the special incentive arrangement for sustainable development and good governance (GSP+)² will be maximised.

1. CONTEXT ANALYSIS

1.1 Context Description

Sri Lanka is a multi-ethnic and multi-religious island nation with a population of 21 million spread over a land area of 65,610 km². In recent years Sri Lanka has been among the fastest growing countries in South Asia, a growth that led to graduate from low income to lower middle income country in 2010. Sri Lanka has also succeeded in achieving the goals of ending extreme poverty and most of the Millennium Development Goals (MDG) targets set for 2015. Nevertheless, Sri Lanka is highly vulnerable to the adverse impacts of climate change and adaptation strategies should be adopted to decouple environmental degradation and resources use from economic growth. Important challenges lie ahead as Sri Lanka aspires to become an upper middle-income country.

Since the late 1970s, Sri Lanka has shifted from a dominant agricultural economy to a country pursuing industrial and service sector development under global trade opportunities. However, although the relative share of the agricultural sector to Gross Domestic Product (GDP) has declined over the years from 28.44% in 1970-1974 to 11.31% in 2010-2014 and growth rates of the agricultural sector have been far below average GDP growth rates (e.g. for 2010-2014 3.72% agriculture growth vs. 7.44% GDP growth), the sector still generates an important income for parts of the around 75% of the population located in rural areas. There is low income paid labour and lack of access to protection by labour legislation in the sector. Agriculture accounts for a major, but decreasing, source of employment by contributing just below 27% of the employed labour force, and it provides a substantial amount of food for the entire nation³. A feature of the agriculture sector is its mainly dualistic nature that consists of plantation crops and food crop sub-sectors, and to a much lesser extent, livestock and inland fisheries. There has been significant progress in poverty alleviation and only 6.7% of the population lives below the national poverty line, however with strong regional disparities.

The Global Gender Gap Index (World Economic Forum, 2017) value is 0.669 which ranks Sri Lanka to the position 109th out of 144 countries. Women are poorer than men, and rural areas have higher numbers of female-headed households. The contribution by women to agriculture-related GDP is mostly invisible. Most of the food production done by women is done at the homestead for domestic consumption.

1.2 Policy Framework (Global, EU)

In line with the European Consensus on Development and the Agenda for Change, EU development assistance to rural development in Sri Lanka and the region, aims at helping to eradicate poverty by supporting broad-based inclusive and sustainable growth, promoting conditions conducive to trade and integration within the region, enhancing governance, and

² From 19 May 2017 Sri Lanka benefits enhanced market access to the EU under the Generalised System of Preferences Plus (GSP+). GSP+ supports Sri Lanka's economic development through trade with the EU, diversification of exports, and attracting investment. GSP+ is granted on the condition of Sri Lanka's commitment to ratify and effectively implement 27 international conventions on human rights, labour conditions, protection of the environment and good governance.
increasing political and social stability. Additionally, and in line with the principles of the Sustainable Development Goals, the Agenda for Change also promotes a focus on helping reduce developing countries' exposure to global shocks such as climate change, ecosystem and resource degradation and support capacity development and technology transfer, including climate adaptation and mitigation strategies.

Sri Lanka is a signatory to the Sustainable development Goals under the UN 2030 Agenda, and is making substantial progress towards meeting the 169 targets. EU assistance in the rural development sector will help the country move closer to achieving these goals.

The programme integrates the guidelines from EU Communications on resilience and on working with the private sector particularly in: a) facilitating the development of a competitive local private sector, b) building management capacity, c) promoting SMEs and the development of cooperatives, d) integrating youth in employment. It also complies with the ‘Criteria for the provision of direct support to private sector actors’. As such the investment component linked to the programme with the contribution from the Asia Investment Facility (AIF) might make use of existing EU investment instruments and facilities such as AgriFI to leverage private investment in the sector.

Furthermore, the programme will help to achieve the EU commitments on gender and climate change. The Action will contribute to thematic priority 'Economic, social empowerment of women' of the EU-Gender Action Plan (GAP) – II, with a focus on access to decent work, productive resources and entrepreneurship for women (Objectives 14 ‘Access to decent work for women of all ages’ and 15 ‘Equal access by women to financial services, productive resources including land, trade and entrepreneurship’ of the GAP II).

### 1.3 Public Policy Analysis of the partner country/region

The National policy and strategy of the state drives Sri Lanka’s sectoral policies, strategies and programmes. National goals for agriculture include facilitating efficiency in agricultural markets, the promotion of private sector participation, modernisation of the agriculture food crop and plantation sectors, assisting smallholder production in tea, rubber, coconut and sugar production, promoting investment in the livestock and fisheries sectors, the promotion of smallholder agri-business partnerships and to encourage nutritious farming.

Sri Lanka imports agricultural products worth of EUR 2 billion annually, about half of it as raw products and half of it as processed. The country exports agricultural products worth of EUR 2.8 billion (one third raw and two thirds processed). However, if rubber is taken out of the equation, agricultural exports exceed imports by only EUR 340 million. Nevertheless, the sector is a reliable contributor to the country's exports (22.7% in 1998 and 24.4% in 2017). The country is aiming at reducing its significant overall trade deficit by improving food production, however between 60% and 70% of the Ministry of Agriculture budget is spent on subsidies, mainly fertiliser subsidies and many human resources at the district level are used for their administration without providing any incentive to increase the productivity or the quality of the crops. On the other hand, the R&D system that would allow improving the quality and productivity in the sector is underfunded.

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6 Own calculations based on data of the Sri Lankan Export Development Board.
The Public Investment Programme (PIP) 2017-2020\(^7\) gives priority to the commercialisation of the agricultural sector with eco-friendly innovative technologies that will contribute to achieve inclusive and sustainable economic growth, ensuring food security and food sovereignty of the nation and to sustain the drivers for competitiveness of agriculture and agro-based products in the international markets. The government’s medium-term country development strategy ‘Vision 2025’ recognises that the agricultural sector suffers from low productivity, which leads to food insecurity and poverty\(^8\). It also presents an ambitious and bold vision of measures to be undertaken, including facilitation of efficiency in agricultural markets, private sector participation, value chain development, modernisation of the plantation sector, support to smallholder producers in the tea, rubber and non-traditional exports sectors, provision of credit facilities and the promotion of investments in the fisheries sector.

A new draft National Agricultural Policy (NAP) for food crops aims at harnessing the agricultural sector potential for: 1) assuring food security, 2) ensuring environment sustainability, and 3) developing economic opportunity\(^9\). This three-pronged approach is based upon the use of environmentally sound agricultural practices, safe food, fair distribution of benefits, sustainable production and consumption, ecosystem stability, use of traditional knowledge systems, effective governance. All these are in concert with this programme.

In 2018 the Ministry of Social welfare and primary industries, whose main focus is the support to the private sector, including small holders, and for private sector led development pathways, through value addition and exports of agricultural products, developed a new National policy for primary industries focusing on spices and value-addition of agricultural products, such as fruits and vegetables, thus products that are linked to this programme\(^{10}\).

Irrespective of the political party in power, government policy on export crops as drawn out in the ten-year Development policy framework has focused on increasing production, encouraging value addition, and branding.

All of the above mentioned policies provide valid frameworks for implementation of sector strategies, but often the implementation is problematic. Action plans are not linked to the budget (as mentioned above the distribution of the state budget to different policy measures is unbalanced with subsidies for fertiliser receiving most of the budget allocated) and monitoring and coordination frameworks are weak. The proposed programme will support implementation of the related above mentioned strategies.

As recognised by development partners, academia, civil society and parts of the government, there is the urgent need to develop an overarching sector strategy that goes beyond linking of different subsector strategies. The EU support in the framework of Annual action programme 2016 aims at supporting this process. Currently an overarching agriculture policy (OAP) is being developed with the support of the EU. This OAP will be a comprehensive document capturing all sectors dealing with agricultural development in Sri Lanka and consisting of a large number of existing subsector policies in Sri Lanka. Environment, climate change and gender (through FAOs GAPo tool\(^{11}\)) will be mainstreamed in this policy.

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\(^{10}\) SL (2018c). Development of a National Policy for Primary Industries for Sri Lanka - Ministry of Primary Industries.
\(^{11}\) Gender in Agricultural Policies Assessment Tool (GAPo).
Sri Lanka ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), adopted both the Vienna Declaration and the Beijing Platform for Actions and formulated the National Plan of Action on Women, which are major instruments ensuring commitment to women’s rights.

Sri Lanka has pledged to support global initiatives to combat climate change and actively adapt to its consequences. Having endorsed the Sustainable Development Agenda 2030, the government has included SDG-related commitments within its key economic strategy ‘Vision 2025’ and in turn in its Public investment programme. Furthermore, in January 2019, Sri Lanka published a report on ‘Sustainable Sri Lanka 2030 Vision and strategic path’ covering key sectors including energy, transport, water, agriculture and food industry. Sri Lanka has developed a National climate change adaptation plan (2016-2025) and is among the 178 countries which signed the Paris agreement in early 2016. Means of implementation of NDCs are also included within the NDC proposals submitted, specifying the unconditional actions which the country will carry out independently and the conditional actions which will depend on the availability and extent of external support in finance, technology transfer, and capacity building. However, the progress Sri Lanka has made in implementation of NDCs is minimal and needs to be strengthened.

1.4 Stakeholder analysis

The main direct stakeholders and beneficiaries of this action are food producers and processors, government agencies and private sector stakeholders supporting the country’s agricultural economy. The indirect beneficiaries are consumers.

Right-holders:

Private sector: Private sector food processing adds value to commodities through grading, sorting, transforming, storing and packaging. Sri Lanka’s food processors cover a wide range of products. The processed food and beverage sector includes more than 100 manufacturing and marketing companies. In 2016 the industry’s export value was close to US $ 400 million or 4% of total goods exports. About 40% of SMEs nationwide are involved in the sector and employ more than two million people. Investment in the sector has been mainly driven by local retailing companies for the domestic market and exported fresh food products are usually intended for the Maldives and the Gulf region in small quantity. The private sector can therefore through investment incentives enhance the quality and productivity in the sector.

The following organisations will also be important implementing partners in the programme: private and public technology service providers, financial service providers, business associations, local and international chambers of commerce, business incubators, community based organisations (or assimilated organisations such as cooperatives and professional associations.

Consumers: Consumer awareness on food safety and quality is relatively low in large parts of the society. There is limited knowledge and trust of consumers in certification processes, e.g. for organic and Good Agricultural Practices (GAP) products. This jeopardises their right

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12 such as fruits and vegetables, meat and poultry, dairy products, alcoholic and non-alcoholic drinks, bakery products, fish products, confectionery, chocolates and cocoa products, soya-based products and high protein foods.


14 Many of the TV cooking programmes are sponsored by major food processing companies.
‘to have access to safe and nutritious food, consistent with the right to adequate food and the fundamental right of everyone to be free from hunger’.\textsuperscript{15}

**Duty-bearers:**

**Government:** There are many public institutions related to the agriculture sector. Several central and nine devolved provincial ministries are directly involved with the overarching agricultural sector with additional central ministries and their associated agencies related to agriculture but playing relatively minor roles.

The new Ministry of Agriculture, rural economic affairs, livestock development, irrigation and fisheries & aquatic resources development is the primary body overseeing non-plantation agriculture, livestock and fisheries development and is responsible for agricultural and fisheries policy, food and nutrition security, ensuring stable prices for agricultural products, coordinating rice paddy purchasing and marketing, improving production and distributing donor funding to the various agricultural sub-sectors.\textsuperscript{16}

Other important government stakeholders are the Ministries of Health, Primary industries, Industry and Commerce (MOIC) and the Ministry of Science, technology and research (see specific objective 1).

In addition to the above mentioned, another stakeholder is the Ministry of Development Strategies and International Trade (MODSIT). Jointly with MOIC, it has the mandate and resources to design the institutional, legal and regulatory framework for SME promotion. In particular, the National Organic Control Unit (NOCU), which is part of the Export Development Board (EDB), promotes the organic sector. In addition, the Ministry of Environment, the Sri Lanka Standards Institute (SLSI), the Accreditation Board for Conformity Assessment (SLAB) and the National Trade Facilitation Committee (NTFC) will play key roles in the programme implementation.

The different and often diverging interests of many stakeholders have undermined consistent and coordinated strategic policy, programme design and implementation. This is because the government, politicians and private sector partners are promoting and pursuing particular and often diverging and changing interests. Such interests have also posed substantial implementation problems for ministries and agencies concerned with the sector, and undermined any lesson-learning opportunities for purposes of developing evidence-based policy.

The current incentives framework for agriculture has to be interpreted in the context of the government’s multiple longstanding policy objectives, which are 1) the generation of fiscal revenue from trade taxes and duties, 2) the promotion of a high degree of food self-sufficiency, 3) the reduction of poverty in rural areas, and 4) support to the political base within the farming community.\textsuperscript{17}

\textsuperscript{15} Rome Declaration on World Food Security in 1996.

\textsuperscript{16} WTO (2016). Sri Lanka Trade Policy Review, Report by the Secretariat. The agglomeration of functions took place after the political crisis and the re-establishment of the elected government in December 2018. The past fragmented decision-making in the sector by a vast number of different Ministries had been criticised by many stakeholders, including government, private sector and donor agencies and the concentration of many of the functions under one Ministry is seen as a positive step.

1.5 Problem analysis/priority areas for support

Sri Lankan agriculture has lost its competitive edge and has not delivered its potential in recent years for a variety of reasons. Food crop farmers face major constraints to improve farming. Production costs, especially energy and labour costs have escalated and the output of many crops has stagnated and even declined, exacerbated in no small part by out-migration of labour. Inadequate roads and markets pose major challenges, and a large number of farmers face acute difficulties with limited access to finance, land and other critical resources to help modernise their enterprises and improve productivity to land and labour and other factors of production. Size of land holding, land productivity and status of land tenure contribute to low incomes leading to persistent agrarian poverty. 1.5 million land holdings are less than 0.8 ha and cultivate 27% of total cultivated land, whereas 0.78 million land holdings have a size between 0.8 and 8 ha and crop 62.2% of the land (0.509 million: 0.8-1.6 ha, and 0.271 million: 1.6-8 ha). Population pressure has negatively impacted the size of agriculture holdings and increased land fragmentation, further exacerbated by inappropriate land legislation, which does not leave room for an open market for agricultural land in Sri Lanka. Sri Lanka is heavily affected by adverse climate patterns with alternation of floods and droughts with a direct negative impact on crop and livestock production through more and different diseases and crop failure.

Government funding to the agricultural sector is decreasing overall and this trend will continue as contribution of agriculture to GDP decreases in favour of other sectors. However, a large proportion of the public allocation to the sector is tied up with the fertiliser subsidy scheme. This type of politically driven scheme has inhibited sector reforms and modernisation and prevented private sector investment in new production and processing technologies in order to enhance the quality and productivity. Moreover, the involvement of state owned enterprises in the sector has prevented access to market by the private sector. Unlocking new opportunities for private investment in the agribusiness and related infrastructure will improve the overall functioning of the food market and would de facto pilot reforms for the sector, possibly leading to further government led policy reforms. For instance, recently the government announced its intention to support the development of the cold storages across the country with the involvement of the private sector through PPP. This shows a positive trend in involving the private sector in key modernisation efforts from the government.

The current food safety control system is not fit for purpose and in need of institutional reform, as has been highlighted by several DG SANCO/FVO audit reports and a recent system review by FAO. Implementation of standards and quality assurance mechanisms is not systematic. This is to a large extent the result of the non-transparent and complex institutional structure of the quality assurance and control system. Large numbers of institutions are involved and communication between these institutions is limited.

The magnitude of food safety problems for the domestic consumers is unknown, as the food borne disease surveillance system in Sri Lanka is underdeveloped. There are no national

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systems that would collate and analyse national data on clinical diagnoses and causes, laboratory testing for chemical and microbiological contaminants in foods on the market, import screening outcomes and related laboratory data, export screening and related laboratory data, inspection outcomes and surveillance of food on the market. While data are available, these are neither reported centrally by all responsible agencies nor analysed. For exported products, there have been more than 300 EU Rapid Alert System for Food and Feed (RASFF) notifications for products coming from Sri Lanka between 1986 and now. Over the last three years more than 60 notifications have been registered, but the number of rejections has decreased, as important SANCO/FVO recommendations have been implemented.22 This trend can be continued, if systems are further strengthened.

Only few Sri Lankan companies producing perishable commodities have been obtaining Global good Agricultural Practice (GAP) certification so far, but the demand for GAP products is increasing. At the post-harvest level, the number of Sri Lankan companies in perishable commodities having a HACCP system and/or ISO certification is also small. Moreover, a significant number of Sri Lankan perishable commodities do not contain any barcoding, which would be necessary for traceability of the product along the value chain.

In order to modernise further the quality and safety system, the development of a traceability system with a digitalised supply chain would lead to more transparency and predictability for farmers, retailers and consumers.

Although global demand for some high valued commodities contributes to improved international prices, which offer higher potential returns for Sri Lankan farmers and the food industry, government's trade and agricultural policies are deterring private investment, both domestic and international, thus reducing possibilities of attracting both technical and market expertise.

Therefore, the need to work strategically at policy level with the government as well as at technical level with farmers and food industry in increasing the quality of the highly demanded and valued agricultural produce, consumed both domestically and internationally, is essential to attract larger foreign and domestic investment.

Agricultural value-chains, linking small farmers to markets directly or indirectly, face a multitude of problems such as uncertainties about policy, insufficient access to finance, poor governance, contract enforcement and market information asymmetries. For instance, small farmers usually have to go through multiple middlemen and can barely rely on food processing industry as it is underdeveloped and concentrated in a few enterprises. There are also gender disparities in access to and control over resources (e.g. land, water), access to markets, finance and skills training protracing structural issues which act as barriers to women's participation in economic activities critical for agriculture production and effective value chain development. The overall investment in farming and food processing is still insufficient to create a more efficient market place and increase the overall value in the sector. Moreover, transport infrastructure throughout the island has become extremely congested, in both urban and rural settings. Transaction costs of traffic congestion to the rural and urban

economies are huge in terms of time and spoiled fresh produce and lost markets, with over 35% of such produce going to waste\textsuperscript{23}. In 2017, the total value of fresh vegetable exports of Sri Lanka was US$ 38.6 million and for fresh fruits about US$ 41.9 million\textsuperscript{24}. Using the information of a study done by HARTI\textsuperscript{25} as a proxy for the distribution of the margins in the export sector, the farmers’ turnover in 2017 was about US$ 20.1 million from fresh vegetable and fruits exports of Sri Lanka while the trading sector’s turnover was about US$ 44.2 million leaving about US$ 16.1 million turnover for the logistics & storage sector.

Three value chain studies following the EU Value Chain Analysis for Development (VCA4D) methodology have been carried out in preparation for this programme: for vegetables (bell pepper and onions), fruits (mangoes and pineapple) and aquaculture products (shrimps and guppies). The selection was based on representativeness of the products selected, on their competitive market potential, link to the cold chain investment component and impact on household incomes. The findings suggest that for all products there is some potential to enhance production to cater for domestic (supermarkets, hospitality industry) and export markets, particularly to the Middle East. For some of these products, establishing and maintaining a cold chain will support product quality and safety. Environmental and social aspects of each value chain have been analysed as well as part of the methodology to ensure sustainability.

The EU Technical Assistance to the Modernisation of Agriculture Programme (TAMAP) project will continue to carry out gender sensitive value chain analyses for other products until inception of this programme.

**Organic** agricultural products and more specifically ‘superfood’ vegetables and fruits are considered as having a high potential for the country. Modern organic farming started in Sri Lanka in the early 1980s by some NGOs such as the Lanka Organic Agriculture Movement (LGAM). LGAM’s main objective was to promote and create awareness about organic agriculture practice and to establish standards and norms for such products. According to the latest LGAM survey in 2015 Sri Lanka had 78,502 hectares under organic production of which 62,560 hectares were certified for organic production. There were 1230 organic farms and 223 exporters with a total value of $228 million in exports. The globally growing interest in new innovative products and potentials for product diversification in Sri Lanka offer the best incentive to attract European private investment in the organic food sector. Several small European investors have already touched base in Sri Lanka and have established partnerships with local farmers. Further financial and technical support to attract private investment to develop those specific high valued products will be envisaged under this project.

Improving food safety and quality and the better functioning of value-chains including for organic products necessitates better food processing and **cold chain** facilities. Sri Lanka’s agricultural and fishery products sold domestically are severely affected by the lack of a functioning cold chain. This is even more problematic for exports of high-quality products. There are very limited services offered for collection of such products in providing cold


\textsuperscript{24} UN Comtrade Database.

storage facilities throughout the country and cold storage and handling at ports and airports are almost nonexistent. The loss of quality of produce due to the lack of cold storage is tremendous. When a horticulture exporter wants to send his/her produce outside the country, it has to wait at the airport in ambient high humidity conditions. Moreover, checking of the export produce by authorities is done under such conditions, further damaging the crop. **Post-harvest losses** in horticulutes in Sri Lanka are extremely high. According to statistics, annually about 270,000 tons of fruits are lost in the post-harvest part of the value chain in Sri Lanka. In products such as avocado, papaya and mango the post-harvest losses amount to 40% of commercial production. Cold storages may considerably contribute to reducing post-harvest losses by extending the shelf life of the product and by maintaining its quality. This ought to lead to better product prices and better opportunities for farmers to get a higher price for their output as exporters will be able to deal directly with farmers, thus avoiding agents and middlemen. International research shows that cold stored fruit and vegetable prices on average are considerably (60%) higher than non-cold store fruit prices. Therefore, the cost of cold storage would be incorporated in final higher retail prices due to the higher product quality without impacting negatively farmer revenues. According to the pre-feasibility study conducted, the investment needs to improve the cold chain for fresh produce are around EUR 125 million until 2030. The study identifies economically viable investments on the levels of the farms, collection centres, wholesale markets and for exports.

Some identified private sector operators have already invested in some cold storage facilities or intend to do so but cannot necessarily access affordable financing, are wary about the financial risks involved and are unfamiliar with the technologies available. This reinforces the assumption that there is an interest from the private sector to invest in this type of infrastructure. This was further assessed in the pre-feasibility study, where different stakeholders showed a clear interest and intention to invest in cold storage solutions in the years to come.

**Gender:** The labour force participation of women is low, only 36.4% of total female population over 15 years are engaged in paid labour and out of the total women employed in the country (overall 52.2%), 29.7% are working in the agriculture sector (total share of the workforce not gender-disaggregated working in agriculture: 28.7%). Closing the gender gap in labour force participation would buffer the impact coming through the reduction in the total number of workers in an ageing society and could thereby mitigate the impact of demographics on growth. Policies that foster women’s entry to labour market are important, as they would help to close the gender gap and buffer the impact of an ageing labour force according to a recent World Bank (WB) study\(^{26}\). The estimated earned income female/male ratio in agriculture is only 0.31 and just 16% of all privately owned land in the country belongs to women (the remaining 84% to men). There is also a significant knowledge gap between men and women on agricultural technology, contributing to low female productivity and wage gap.

In agricultural value chains **women** work at the production stages of the value chain largely because this work can be done close to home, and this gives women the flexibility they need to carry out household chores. Most women have very limited or no experience at all selling their farm products, especially if this involves traveling from their home. Women’s mobility is severely hindered by a number of factors (e.g. familial responsibilities, safety issues, lack of

\(^{26}\) [https://openknowledge.worldbank.org/handle/10986/31261](https://openknowledge.worldbank.org/handle/10986/31261)
driving skills and access to vehicles other than bicycles). Reasons for limited engagement of women in the downstream stages of agricultural value chains are: their household responsibilities including child care, lack of mobility, lack of skills in negotiation and lack of enthusiasm. If women are to increase their engagement in the later stages of the agricultural value chain and increase their earnings, these types of barriers need to be overcome. Access to market information, networking systems and training, are also much more limited for women, and this too restricts their ability to participate in the downstream stages of the value chains and develop their own small or medium enterprises that can generate income by adding value to production. In some cases, inherent legalities in accessing land and credit, also limit women’s ability to expand their engagement in agricultural value chains. In addition, there is a general norm and a common understanding among men and women that women are supposed to be ‘looked after’ by men, and as a result women themselves are often unaware of their own disadvantaged situation.

Youth: 70.4% of employed youth are involved in agriculture in different ways (full-time farmers, part-time farmers and non-wage family labourers), but only 27.8% of them are involved in full-time farming. Many young people are leaving the sector for the following reasons: low levels of social protection, social recognition, returns/income/wage, overall sustainability in the industry, accessibility and availability of market facilities. Furthermore there are issues in marketing, pricing, lack of technology and innovation, lack of resources such as land, irrigation water and problems in education, training and extension services. The future reduction in the agricultural work force will necessitate technological change and a land reform to increase the size of plots.

Given the current political context and problem analysis described above, this action will support two key areas to improve key functions and infrastructures of the agricultural value chain: 1) Increasing food safety and quality compliance, through the adoption of better agricultural and hygienic practices by food producers and processors and an updated risk-based and well-coordinated food control system. The specific objective will follow a consumer demand driven approach and will put special emphasis on female entrepreneurs. The competitiveness of Sri Lankan export products will be strengthened and synergies with ongoing trade-related assistance as well as GSP+ will be maximised. 2) Increase the share of the Sri Lankan national organic market share through better standards, higher investments and increased consumer demand.

Both specific objectives of the Action are also directly linked and synchronised with the upcoming investment component that aims at among other investment in supporting the development of cold chain infrastructure and management system to improve the quality and safety of agricultural and fishery products for domestic and international markets. In partnership with the government and private sector, it targets unlocking private investment opportunities through financial blending and technical assistance to cover advisory and consultancy activities for the government, PPP transaction development as well as to support

investment mobilisation from private sector; this component will be implemented as a blending (type) operation.

2. **RISKS AND ASSUMPTIONS**

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>The intervention is hampered by the complexity of the institutional/administrative system.</td>
<td>H</td>
<td>Each administrative/institutional level will have well-defined responsibilities for the specific objectives of the programme. The government will be supported by project staff for all procurement, and financial issues related to the implementation of the activities. Regular coordination meetings will be held. The design of the programme is sufficiently flexible so that it can be adjusted.</td>
</tr>
<tr>
<td>There is insufficient government ownership in the programme</td>
<td>M</td>
<td>Involve the government in all stages of the programme through regular stakeholder consultation and involve in decision-making processes and in steering committee meetings.</td>
</tr>
<tr>
<td>Government will stop pursuing elements of an export-oriented agricultural policy</td>
<td>M</td>
<td>Policy dialogue in the framework of steering committee meetings and in the framework of the joint commission. Lobbying of the export-oriented private sector including EU companies.</td>
</tr>
<tr>
<td>Demand for cold chain is lower than expected and/or private investment not commercially viable.</td>
<td>M</td>
<td>Pre-feasibility and value-chain studies have been conducted and further feasibility studies will be conducted. Other post-harvest processing investment options will be scoped.</td>
</tr>
<tr>
<td>Climate change will strongly impact food production</td>
<td>H</td>
<td>The blending component will contribute to more investments into necessary infrastructure that will partly help to alleviate climate change effects.</td>
</tr>
<tr>
<td>There will be insufficient labour for the agricultural sector</td>
<td>M</td>
<td>Discuss with the government the need to make the labour market more attractive. Encourage farmers to use more machinery. Consider emigration policies for agricultural labour (at least seasonally).</td>
</tr>
</tbody>
</table>

**Assumptions**

1. The government continues to pursue the modernisation of the agriculture sector including a private sector driven approach with the aim to contribute to more prosperous, sustainable, inclusive, and peaceful rural areas;
2. The budget allocations to the sector are sufficient to continue the key reforms;
3. The government is open for broader consultation and coordination with international partners; which helps to establish favourable conditions for well-structured policy dialogue.

The risk analysis has considered, but did not find any major possible unintended consequences that would perpetuate gender inequalities.
3. Lessons learnt and complementarity

3.1 Lessons learnt

The Ministry of Agriculture component of the EU-supported WB Agricultural Sector Modernisation Programme (ASMP) has been extremely slow in implementation and there are rather limited lessons learnt from project implementation apart from i) the project is based on a wrong assumption that there are functioning farmer organisations on the ground that may be easily linked to the envisaged agricultural technology parks; ii) the Ministry of Agriculture is not one of the most reform-minded ministries and that there are other ministries in the sector that are more inclined to support reforms. However, absorption capacity in general in Sri Lanka is below comparable lower-middle income countries and reform objectives are often too ambitiously formulated only to be downscaled afterwards.

A recently finalised evaluation of the past EUR 60 million EU Support to District Development (SDDP), implemented by UN Agencies, highlighted some success stories and lessons learnt including from the FAO component that will continue to be supported by ASMP and should be taken into account by our future programme, e.g.: i) ‘value chain approach (VCA) has produced significant added value, because of the linkages established with the market. The model should be reinforced with systematic inclusion of value chain mapping that should illustrate stakeholders, timeliness, risks and costs,’ ii) ‘Joint ventures with the private sector and farmer societies should be encouraged in the future, not only for export purpose but to foster agro-processing and local markets.’

The ongoing EU project ‘Trade related assistance in Sri Lanka: Increasing SMEs trade competitiveness in regional and EU markets’ provides the following lessons learnt for this programme: i) the project supports the government with capacity building on food quality standards as well as limited related equipment supplies. It has been voiced at several occasions that without these supplies, stakeholder motivation to participate in the capacity building activities would be lower; ii) institutional fragmentation and overlap of responsibilities with regard to food testing leads to confusion among the food processing SMEs and needs to be addressed by institutional reform and a clear definition of the mandates of the various institutions involved in testing.

The EU-funded programme ‘Support to integrated rural development in the most vulnerable districts of the Central and Uva provinces of Sri Lanka’ is focusing support on an area where mostly tea, spices, vegetables, fruits and dairy are being produced. The issues producers are facing are lack of extension for new, promising varieties of fruits and vegetables, lack of marketing, storage, processing and packing facilities, partly related to the relative remoteness of many of the villages leading to long transport times.

Donors supporting women in the agricultural and fisheries sectors tend to focus on productivity, often contributing to increasing their task burdens and failing to address the root causes of the exclusion of women from key economic institutions, such as fishing and farming federations, markets etc. Innovative approaches are encouraged that do not only target women but which specifically address the multiple factors and structural barriers which affects women's economic empowerment.

3.2 Complementarity, synergy and donor coordination

Sri Lanka's graduation to a Middle-income country has led to change the composition and form of external development financing, ultimately resulting in a drop in investments by development partners. Key development partners in the country include Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), World Bank (WB) and Agence Française de Développement (AFD) as development financing institutions (DFIs) and
Australia, Canada, Germany, the EU, China, India and the US as bilateral partners. DFIs focus mainly on infrastructure projects with emphasis on energy, transportation and water. Australia, Germany, and the US have bilateral country allocations, with grant projects focusing on Governance and Reconciliation and economic development and growth, China and India are providing investment loans.

The EU Technical Assistance to the Modernisation of Agriculture Programme (TAMAP) has been supporting formulation of the present programme. TAMAP has carried out value-chain analyses for potentially competitive agricultural products that could be supported under this programme, as well as a pre-feasibility study for the proposed cold-chain component. In parallel to this action, a sector policy support programme will be developed under the Annual Action Programme (AAP) 2020 by the EU, possibly implemented through budget support.

The sector policy support programme will follow up directly on the Modernisation of agriculture programme (AAP 2016) and will be complementary to the Public Finance Management (PFM) programme (AAP 2017). Additionally, it will address the key issue of better policy implementation by linking the currently developed agricultural policy/strategy to the state budget and further support some of the objectives directly linked to this action programme.

The WB is currently implementing the Agricultural sector modernisation project with co-funding from the European Union, and is planning a new project on climate-smart agriculture.

The AFD (‘Alliance Française de Developpement’) is currently implementing a large-scale irrigation programme (loan of 150 million EUR) on the Mundeni Aru river watershed. This loan is blended with a EUR 12 million grant from the European Union focusing on technical assistance support.

The government is using a grant provided by the Indian government to finance a cold storage facility at the main wholesale market for fruits and vegetables in Dambulla. However, this is a stand-alone facility not linked to any cold chain management system but would already pave the way to develop the rest of the needed infrastructure. The government subsequently announced its intention to tender the rest of the infrastructure through PPP.

The International Finance Corporation (IFC) has been instrumental in the country in promoting reforms involving the private sector in the implementation of the government agenda. IFC has not only invested directly in companies having a socio-economic and environmental transformative agenda, but also helped the government in attracting private investment in public services through the strengthening of the PPP regulatory framework. In the agricultural sector, IFC has helped to increase access to finance for MSMEs and helped financing logistics and infrastructure to facilitate the movement of goods.

Within the framework of the EU Trade Related Assistance (TRA) implemented by ITC and UNIDO, spice and processed food and beverage products have been identified as having high potential for export. UNIDO has been working on improving the quality and safety standards for those products working directly with private and public laboratories to prepare them for certification. TRA is coming to an end when this action is planned to start. Therefore, this action intends to build on the results of TRA and link up with the specific objectives under this action.

FAO, a leading technical partner in the country, has facilitated regulatory and policy reforms in the agricultural sector and has implemented in the past EU funded programmes such as
ACAP, SEM, FIRST and SDDP. Jointly with UNIDO, FAO will implement activities related to food safety regulatory and institutional reforms.

Within its SME Sector Development Programme, GIZ is completing a first set of support to agricultural SMEs and is about to start a second phase with a focus on organic products. Some components of the programme, such as digitalisation of the supply chain and product traceability, are highly relevant and complementary to this action. Therefore, the action intends to support some of the activities under the second phase in the form of a pilot focusing on the development of those new technologies that will improve the competitiveness of the organic food market.

With a possible intervention of the Asia Investment Facility (AIF), AFD is currently preparing a project with the Government to modernise a few selected fishery harbours covering only publicly owned infrastructure. The project would include only cool fish landing facilities at fishery harbours but would not cover the rest of the cold chain system. AFD has asked PROPARCO to look into the rest of the logistics and commercial side of the supply chain. The action could envisage connecting the selected harbours to the cold chain to be developed under this action.

The International Fund for Agriculture Development (IFAD) implemented until 2017 the National Agribusiness Development Programme (NADP) and is currently implementing two new programmes in the sector, namely the Smallholder Agribusiness Partnership Programme (SAPP) and a Smallholder tea and rubber revitalisation project.

Millennium Challenge Corporation (MCC) is planning to work on road construction and traffic signalling technologies in the Colombo metropolitan region and in the central regions, which will improve logistics for agricultural products as well.

Donor coordination in the sector is done through a subgroup of the Development Partners' Forum (DPF), which meets regularly to share information on strategies and programmes related to the sector. All organisations active or interested in the sector (WB, ADB, JICA, USAID, FAO, etc.) are participating and the EU is one of the most active members of this subgroup.

4. DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

The overall objective is to contribute to a more productive, sustainable, diversified, climate-resilient, market-oriented and inclusive agriculture in Sri Lanka.

The specific objectives are:

SO 1: Increase food safety and quality compliance, through the adoption of good agriculture and hygienic practices by food producers and processors and an updated risk-based and well-coordinated food control system.

This specific objective will follow a consumer demand driven approach and will put special emphasis on female entrepreneurs. The competitiveness of Sri Lankan export products will be

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30 Assistance to Conflict Affected People (ACAP), Socio Economic Measures (SEM), Food and Nutrition Security Impact, Resilience, Sustainability and Transformation (FIRST) and Support to District Development Programme (SDDP).

31 https://www.mcc.gov/where-we-work/program/sri-lanka-compact
strengthened and synergies with ongoing trade-related assistance as well as GSP+ will be maximised.

SO 2: Increase the share of the Sri Lankan national organic market through better standards, higher investments and increased consumer demand.

The main expected results are:

ER 1.1: The food safety and quality control system at the regulatory and institutional levels is robust and operates in line with international best practices to ensure safe food for consumers. 
ER 1.2: Quality infrastructure and service providers respond better to the needs of the public and private sectors for food safety and quality, through strengthened institutional capacity.
ER 1.3: Producers and enterprises comply better with food safety and quality standards through strengthened compliance capacity, and are more competitive.
ER 1.4: Consumers, enterprises, institutions and other stakeholders are better informed and display practices driven by demand for safe and quality food.

ER 2.1: An enabling regulatory and policy framework for the domestic organic food sector is established by relevant government authorities in line with international best practices.
ER 2.2: National organic standards are introduced and meeting consumer demands.
ER 2.3: European and Sri Lankan private investment in the organic food sector is mobilised in the domestic organic food sector in line with EU environmental and sustainable principles.
ER 2.4: Digital solutions ensure value chain transparency and contribute to farmers’ market access and increase in income.

The Action is also directly linked and synchronised with the upcoming blending operations planned to be funded under the Asia investment facility with an indicative EU contribution of EUR 20 million that will among other things establish a countrywide cold chain system and infrastructure incorporating energy-efficient technology, reduce post-harvest losses and increase shelf life of products, increase farmers’ income and employment through investments in rural areas, facilitate PPP transactions, and mobilise private investments in the sector. The blending operation, expected to be approved first half of 2020, will have additional positive impacts on production and on the environment, and increase the climate resilience of food management in the country while improving the coping capacities of smaller farmers to deal better with the effects of weather extremes and climate variability. The blending operation and this action have been designed to be mutually reinforcing while both using the same coordination structures.

The indicative main activities are as follows, but not limited to:

ER 1.1
- Develop a roadmap for institutional reform of the food safety and quality system through intensive stakeholder consultations, based on the recommendations of the food control assessments conducted by FAO and UNIDO.
- Implement the road map with the assignment of specific roles and responsibilities, including capacity building for government and private sector stakeholders, in line with their new functions.
- Facilitate agreements or Memorandums of Understanding on the delivery of risk-based inspection, surveillance, monitoring, laboratory analysis and enforcement services.
- Develop clear processes for enforcement of mandatory standards and adoption of voluntary standards, including Codex
• Support development of national capabilities for legal analysis and drafting and participatory processes to upgrade regulations based on risk
• Support the development of food regulations based on scientific evidence and the principle of risk analysis, and clear processes to comply with standards (including Codex) and technical regulations.
• Strengthen data collection capacities and systems for food-borne illness surveillance, contaminant and residue monitoring, and ensure preparedness and response to food safety emergencies.

ER 1.2
• Create awareness, among National Quality Infrastructure (NQI) stakeholders, on the differences between the mandatory regulation-based schemes and the voluntary quality compliance-based scheme.
• Elaborate a road map to improve the effectiveness of the NQI institutions.
• Strengthen national capabilities for development of standards and technical regulations, in line with international best practices.
• Promote the adoption, revision and creation of technical standards, specifications, procedures and guidelines to implement voluntary certification schemes (link with SO2).
• Support the sustainable participation of Sri Lankan delegations to international standardisation committees (and other international quality infrastructure related fora), and the implementation of mirror committees in the country.
• Propose and support initiatives in the NQI to strengthen the value of voluntary marks and conformity assessment schemes.
• Support international recognition protocols, in order to get mutual and international acceptance of conformity assessment services and privately-owned certification schemes.
• Increase the technical competence of assessors, trainers, consultants, and public officers on internationally recognised schemes for certification, as well as privately-owned certification schemes.
• Strengthen the capacity to demonstrate measurement traceability and to carry-out internationally recognised calibration.
• Strengthen the capacity of conformity assessment services related to food quality and food safety.
• Build technical competence in selected testing laboratories to assess technical requirements related to inspection, certification and market requirements.
• Recommend and guide the governmental authorities to better use the NQI related services (particularly in relation with ER 1.1).

ER 1.3
• Identify and analyse the market requirements on food safety and food quality for at least three food sub-sectors,[32] in domestic market and main current or potential destination markets for Sri Lankan exports.
• Elaborate and implement a strategic plan to increase: i) the demand for products with higher food safety and food quality, ii) the supply for such products in compliance with the market requirements (in coordination with the blending component and SO2 of the overall programme, and with ER 1.4).

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[32] E.g. processing and preserving of fruit and vegetables, processing and preserving of aquaculture products, manufacturing of edible oils and fats.
• Support SMEs to invest in equipment and infrastructure needed to meet requirements related to food safety and food quality (in coordination with the blending component).

• Support capacity building at the enterprise level\textsuperscript{33} in applying Good Agricultural Practices (GAP), Good Manufacturing Practices (GMP), Hazard analysis and critical control points (HACCP) and International Organisation for Standardization (ISO) 22 000 or other certification schemes (in coordination with the blending component and SO2).

• Train producers, enterprises, food sector organisations and other actors along the value chains on the use and potential of internationally accepted conformity assessment services, privately-owned certification schemes to meet target market requirements, and the use of better practices.

• Establish a sustainable mechanism, based on IT tools, to ensure traceability, food safety, quality compliance to selected products (in coordination with the blending component and SO2).

• Support the introduction of best practices by enterprises and other actors along the value chains, to enhance productivity and overall performance.

• Conduct Value Chain (VC) development analysis from a gender perspective (economic empowerment of women does not only constitute an improvement of their actual working conditions, it also focuses on an improvement of their position within the value chain (related to their access and control over VC activities/market segments).

• Promote market linkages and clusters along the selected value chains, including buyer-supplier platforms.

**ER 1.4**

• Conduct formative research to collect evidence to underpin development of relevant food safety education messages and behaviour change communications interventions, addressed to consumers.

• Support the development of relevant food safety messages for social behaviour change communication (SBBC) campaigns (TV/radio/social media/print media) to reach a wide consumer audience, specifically prioritised target groups\textsuperscript{34}.

• Implement targeted SBBC campaigns on TV/radio/social media/print media.

• Work with civil society organisations (CSO), consumer associations (CA) and trade associations (TA) to build capacities for advocacy on food safety.

• Build partnerships to incorporate food safety messaging into government health and nutrition programs.

• Formulate a communication strategy to raise quality awareness for public institutions, food producers’ associations, processors and other stakeholders along the value chains\textsuperscript{35}, including the main relevant messages for each target group (market and business benefits derived from delivering higher food safety and quality will be highlighted).

• Design and conduct a marketing and business development campaign to promote product certification (in coordination with SO2).

\textsuperscript{33} Cold chain operators and suppliers will be included.

\textsuperscript{34} Such as women, adolescents, school children and the actors in the food services sector.

\textsuperscript{35} Other than consumers (they will be addressed through ER4a). Exporters, tourism sector enterprises and supermarket chain/retailers will be included as specific target groups.
• Elaborate promotional material and publications to raise quality awareness and disseminate them through the most appropriate means, considering multi-channels.
• Carry out awareness activities according to the overall communication plan.

ER 2.1
• Carrying out trainings for the National Organic Control Union (NOCU) and advising the Export Development Board (EDB) on eco-standards and control mechanisms.

ER 2.2
• Conduct consumer awareness events to inform on different forms of organic certifications.

ER 2.3
• Development of an innovative cooperation and investment platform for long-term cooperation with the national and international private sector and for the development of suitable, modern business ideas in organic agriculture.
• Cooperation with European chambers of commerce in the development of a sustainable mechanism for the procurement of PPPs in the field of organic agriculture
• Study tours and trade fair visits in the field of organic agriculture in cooperation with the EDB.

ER 2.4
• Implementation of a financial technology solution (application) for direct transfers from consumers to the producers.
• Development of a digital beta traceability tool for at least one selected organic commodity.

All activities will be done from a rights-based and gender approach, meaning that where appropriate women and men, civil society organisations and representatives from the gender machinery and HR institutions are involved in the analysis and planning and decision-making processes.

4.2 Intervention Logic

The action is fully in line with EU’s overarching aid policies and objectives and the goals formulated under the revised Multiannual Indicative Programme\(^\text{36}\). Its goal of improving the quality of agricultural products for export and for the domestic market along the entire value chain and to align the national food safety and quality system with international standards are consistent with the guidelines from EU Communications on resilience and on working with the private sector.

The proposed approach is to support the private sector to modernise progressively a public-dominated sector and trigger further major public structural reforms - notably institutional coordination, reducing duplication, and improve efficiency and effectiveness of public expenditure. Involving the business community in the implementation of government led policies in the agricultural sector, will bring innovation and private sector efficiency to a sector that has been lagging behind for quite some time.

The approach also entails a review of public sector support to agriculture in general and food safety and quality in particular and an assessment of the mandates and associated regulatory and legislative framework of all public ministries and agencies supporting the agricultural economy in general and the food safety and quality system in particular.37

Most activities will have a specific focus on agricultural and fishery products, in particular fruits and vegetables and aquaculture products) that have the highest potential for the domestic and international markets. Strengthening food safety through better control of pesticide residues and supporting organic production will in addition contribute significantly to environmental sustainability.

Any future government is likely to support the objectives of improving food safety, increasing export competitiveness and supporting the agricultural sector. This action is also expected to indirectly benefit European businesses that are already active or are considering investing in Sri Lanka.

The project will unlock new markets for Sri Lankan food producers and private investment through financial operations under an investment fund to be set up by GIZ. Through private investments with partners from the European and international organic industry the purchase of organic products from SMEs can be secured. Such purchase guarantees reduce the vulnerability of Sri Lankan SMEs during the initial period when they enter the market. For Sri Lankan organic companies in their early stages, such partnerships can reduce risk and at the same time provide incentives for conversion (from conventional to organic agriculture). The private investments will integrate SMEs on the national and international market and secure their access to new markets. In addition to the effect on the income of SMEs, the measure will also foster awareness for resource-saving and environmental consciousness among wider segments of the population. Within the proposed measure, GIZ will facilitate the establishment of a pipeline for private investments. Part of the co-financing will be allocated to a specific fund (800,000 EUR) to initiate private investments with international and local private sector partners. Approximately, four medium scale private investments can be financed through this fund. This however, will let projects mature and open them up for more funding, including through BMZ’ DeveloPPP programme.

The investment component supported under the AIF linked to the Action will leverage European and local private investment, and SMEs will be networked at national and international level. Unlocking private investment opportunities through financial blending and technical assistance to cover advisory and consultancy activities for the government's PPP transaction development and to support investment mobilisation from private sector. Investment operations that target more directly smaller investments and economic operators with more limited access to finance will be potentially conducted through AgriFI, which will invest directly (in equity or lend in local currency) in companies and/or through financial institutions (microfinance or impact funds) working with smallholder farmers on financially, environmentally and socially sustainable projects with potential to scale up. Other larger investment requiring also public investment from state authorities and structured in the form of PPP will be financed through other International Financial Institutions (IFIs).

The result of the Action supplemented by the AIF investment component, will promote knowledge transfer through peer learning, which further strengthens the competence and capacities of SMEs. Improving the performance (e.g. product range, efficiency, effectiveness) of SMEs also contributes to social integration and peace building. In particular, women gain more influence in society through their role as producers. Support for quality production and quality standards will be linked to the cold chain infrastructure to make sure, that compliance efforts are spread over the whole chain and that all actors in the chain collaborate to achieve higher value added and higher price for the final product.

4.3 Mainstreaming

Youth
- Introduction of IT related technologies to attract interest of youth;
- Upgrading public training facilities, both assets and curricula;
- Conducting study tours exposing young farmers and processors to modern agriculture and processing in other countries.

Gender
- All activities will be gender mainstreamed and aim to improve female labour force participation and better involvement in agricultural value chains, e.g. through better access to market information, finance, networking systems and training;
- Capacity building in food processing (quality and safety) and wholesale marketing will be offered by specific courses tailored for women (suitable timing and child care solutions for women in training to increase participation rates);
- In particular, the inclusion and support for women entrepreneurs in private-sector promotion formats\(^{38}\) will improve access to women's markets. In addition, women entrepreneurs who are successful in the market will act as role models for women who are still in the start-up phase;
- Stressing in communication the important role that women should and do play in agriculture and food safety;
- Including monitoring gender disaggregated data wherever appropriate in the Logframe.

Climate change and climate smart sustainable agriculture and environmental sustainability through private sector-led extension
- Use of renewable energies and energy efficient technologies for the cold chain in the investment component;
- Reducing the negative environmental impact of agriculture and preserving natural resources;
- Promotion of drought and flood resistant crop varieties in the targeted value chains;
- Promote organic agriculture.

Community reconciliation
- Ensuring ethnical and religious diversity in capacity building activities;
- Promoting wide geographical coverage within the country.

\(^{38}\) Including through quota.
Securing social protection and occupational health for the workforce is to be considered when designing the activities.

4.4 Contribution to SDGs

This action is relevant for the 2030 Agenda. It contributes primarily to the progressive achievement of SDG(s). The proposed intervention areas refer to the following SDGs: SDG 2 (Ending hunger, ensure food security and improved nutrition and promoting sustainable agriculture); SDG 3 (Ensure healthy lives and promote well-being for all at all ages); SDG 8 (Ensure decent work and promote development oriented policy strategies for economic growth); SDG 9 (Promote inclusive and sustainable industries, infrastructure and innovation) as well as SDG 12 (Ensure sustainable consumption and production patterns).

For mainstreaming crosscutting issues the following SDGs will be catered for

- Gender (women): SDG 5 (gender equality)
- Youth: SDG 10 (reduced inequalities)
- Environmental sustainability and climate change: SDGs 13 (climate action)

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the government of Sri Lanka.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

5.3.1 Indirect management with International Organisations

A part of this action may be implemented in indirect management with the UN Industrial Development Organisation (UNIDO) (as lead entity) and the Food and Agriculture Organisation (FAO) under one contract.

The implementation by these entities entails (SO1) improving food safety and quality compliance, consumer demand driven, through the adoption of better practices by food producers and processors and an updated risk based and well-coordinated food control system.

39 [www.sanctionsmap.eu](http://www.sanctionsmap.eu). The sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.
The envisaged entities have been selected using the following criteria: i) Proven experience in the country, ii) Technical expertise in the relevant field, iii) Institutional standing, acceptance to the government and presence in the country, iv) Willingness to accept strong role for the EU in policy dialogue with government and private sector, v) Willingness to provide sufficient visibility to the EU.

In addition these entities have a local presence and are currently implementing similar activities in the framework of the EU Trade-related assistance project, and FAO acts as a partner focusing on food safety policy and the legal framework.

In case the envisaged entities would need to be replaced, the Commission’s services may select (a) replacement entity(ies) using the same criteria. If the entities are replaced the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 5.3.3.

### 5.3.2 Indirect management with a Member State Organisation

A part of this action may be implemented in indirect management with the German Gesellschaft für Internationale Zusammenarbeit (GIZ).

This implementation entails (SO2) increase the share of the Sri Lankan national organic market through better standards, higher investments and increased consumer demand.

The envisaged entity has been selected using the following criteria: i) Proven experience in the country, ii) Technical expertise in the relevant field, iii) Institutional standing, acceptance to the government and presence in the country, iv) Market and private sector driven approach, v) Willingness to accept strong role for the EU in policy dialogue with government and private sector, vi) Willingness to provide sufficient visibility to the EU.

In addition GIZ has a strong country presence, GIZ has substantial experience in facilitating private investments with long-standing relationships with private sector organic importers among others from the EU, and is an EU MS institution. GIZ is currently implementing a project on the development of agricultural SMEs focusing on organic products in the areas of forming public private partnerships with European companies for better market access, and better certification and traceability of the products. The activities under specific objective 2 of this programme would be directly following-up on this.

In case the envisaged entity would need to be replaced, the Commission’s services may select a replacement entity using the same criteria. If the entity is replaced the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 5.3.3.

### 5.3.3 Changes from indirect to direct management mode due to exceptional circumstances

Calls for tenders (services) could be launched for implementation of specific objectives 1 and 2 where indirect management (preferred modality) cannot be implemented due to circumstances outside of the Commission’s control.
5.4 **Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 **Indicative budget**

<table>
<thead>
<tr>
<th>Description</th>
<th>EU contribution (amount in EUR)</th>
<th>Indicative third party contribution (EUR)</th>
<th>Total (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.1 - SO 1: Increase food safety and quality compliance, through the adoption of good agriculture and hygienic practices by food producers and processors and an updated risk-based and well-coordinated food control system Indirect management with UNIDO and FAO</td>
<td>6 500 000</td>
<td></td>
<td>6 500 000</td>
</tr>
<tr>
<td>5.3.2 - SO 2: Increase the share of the Sri Lankan national organic market share through better standards, higher investments and increased consumer demand Indirect management with GIZ</td>
<td>3 000 000</td>
<td>1 000 000 (BMZ)</td>
<td>4 000 000</td>
</tr>
<tr>
<td>5.8 - Evaluation</td>
<td>200 000</td>
<td>N.A.</td>
<td>200 000</td>
</tr>
<tr>
<td>5.9 - Audit/Expenditure verification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.10 - Communication and visibility</td>
<td>100 000</td>
<td>N.A.</td>
<td>100 000</td>
</tr>
<tr>
<td>Contingencies</td>
<td>200 000</td>
<td>N.A.</td>
<td>200 000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>10 000 000</td>
<td>1 000 000</td>
<td>11 000 000</td>
</tr>
</tbody>
</table>

5.6 **Organisational set-up and responsibilities**

The overall coordination of all components of the programme will be ensured through an overarching steering committee meeting co-chaired by EU Delegation and Government of Sri Lanka involving the implementing partners, financing institutions and representatives of the private sector. The steering committee meeting will take place every 4 months in the first project year and bi-annually later.
5.7 Performance and Results monitoring and reporting

Studies to set baseline data and targets as well as final data will be conducted by the entrusted entities during the inception phase and at the end of project implementation, respectively. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix.

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per joint programming document should be taken into account. Where appropriate, indicators are gender-disaggregated. During inception phase (and eventually the review of the logical framework, specific attention will be given to disaggregate data by gender).

The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, a mid-term, and final evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to capacity development of government and private sector, responsiveness of the services to the need of the people including in relation to better availability and access to safe and quality food and effectiveness of the food safety and quality control system.

The final evaluation will be carried out for accountability and learning purposes at various levels (including policy revision), taking into account in particular performance against results by comparing start and end data. Possibility of replication of intervention to other provinces and the effectiveness of strategies used will also be assessed.

Special attention will be given to the rights-based approach, the capacities strengthen of right-holders and duty-bearers and the gender effects of the programme. Each evaluation will include gender expertise.

The Commission shall inform the implementing partners at least 60 days in advance of the dates foreseen for the evaluation missions. The implementing partners shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and
recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, evaluation services may be concluded under a framework contract in the second year and last year of implementation of the programme. In addition, implementing partners may also carry out their own internal evaluations, the findings of which should be shared with the EU.

5.9 **Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.10 **Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and other agreements.

The Communication and visibility manual for European Union external action (or any succeeding document) shall be used to establish the Communication and visibility plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted under a framework contract.
## APPENDIX - Indicative Logframe matrix (for project modality)

<table>
<thead>
<tr>
<th>Results chain: Main expected results (maximum 10)</th>
<th>Indicators (at least one indicator per expected result)</th>
<th>Sources of data</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impact (Overall Objective)</strong></td>
<td>Quantities and value of perishable agricultural and fishery products exported from Sri Lanka, Quantities and value of perishable agricultural and fishery products sold at the domestic market in Sri Lanka, % increase of sustainable agriculture, livestock and fisheries products marketed complying with food safety requirements, % increase of incomes by the targeted producers and MSME in the agriculture, livestock and fisheries sectors, Women's labour force participation (baseline 36.4%), Agriculture earned income female/male (baseline 0.31)</td>
<td>National and project data and statistics, Survey results, Annual reports</td>
<td>Not applicable</td>
</tr>
<tr>
<td><strong>Outcome(s) (Specific Objective(s))</strong></td>
<td>Metric tons of food products traded in compliance with food safety and quality standards, Number of rejections of food products from external markets</td>
<td>National statistics, Survey results, institution level, Project annual reports</td>
<td>Government is supportive of the different programme components and committed to support the private sector driven approach. Beneficiaries from targeted value chains keen</td>
</tr>
<tr>
<td>Results chain: Main expected results (maximum 10)</td>
<td>Indicators (at least one indicator per expected result)</td>
<td>Sources of data</td>
<td>Assumptions</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------------------------------------------------------</td>
<td>----------------</td>
<td>-------------</td>
</tr>
<tr>
<td>and increased consumer demand</td>
<td>misleading and fraudulent organic claims</td>
<td></td>
<td>to comply with food safety &amp; quality standards</td>
</tr>
<tr>
<td></td>
<td>Investment into the Sri Lankan organic sector by international and local investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td><strong>ER 1.1:</strong> The food safety and quality control system at the regulatory and institutional levels is robust and operates in line with international best practices to ensure safe food for consumers</td>
<td><strong>ER 1.1</strong> - Road map for institutional reforms for better food safety&lt;br&gt;- Legal and regulatory framework for food safety and quality updated for # of high risk sectors&lt;br&gt;- Appropriate institutional structure and process modalities&lt;br&gt;- # of agreements/MOUs between stakeholders for better delivery of control&lt;br&gt;- ICT platform available for food-borne illness surveillance, contaminant and residue monitoring and emergency preparedness</td>
<td><strong>1.1</strong> - Road map.&lt;br&gt;- Specific project reports.&lt;br&gt;- Regulations and Laws&lt;br&gt;- Technical project reports&lt;br&gt;- Signed MOUs.&lt;br&gt;- Technical project reports.&lt;br&gt;- ICT platform</td>
</tr>
<tr>
<td></td>
<td><strong>ER 1.2:</strong> Quality Infrastructure and service providers respond better to the needs of the public and private sectors for food safety and quality, through strengthened institutional capacity</td>
<td><strong>ER 1.2</strong> - # standards, codes of practice, guidelines and procedures created or updated, aligned with international best practices&lt;br&gt;- # of TC for standardisation having effective representation in international fora (mirror committees)&lt;br&gt;- # of accreditation schemes (e.g. organic) with international recognition, or prepared (ready) to receive it&lt;br&gt;- # of calibration and/or measurement capabilities available and ready for accreditation, participation in international inter-comparisons, or inclusion in the key</td>
<td><strong>ER 1.1-1.4:</strong>&lt;br&gt;- Buy-in from government to work towards coherent regulatory framework.&lt;br&gt;- Necessary data available to create ICT platform&lt;br&gt;- SLSI and NQI responsible political authorities accept cooperation, integrate recommendations / advice into their respective strategic and operational plans, and have adequate infrastructure and sufficient human</td>
</tr>
</tbody>
</table>

[30]
<table>
<thead>
<tr>
<th>Results chain: Main expected results (maximum 10)</th>
<th>Indicators (at least one indicator per expected result)</th>
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<th>Assumptions</th>
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</thead>
</table>
| ER 1.3: Producers and enterprises comply better with food safety and quality standards through strengthened compliance capacity, and are more competitive. | comparisons database  
- # Reference materials available with certification or recognised traceability  
- # of international fora with effective participation of Sri Lankan institutions  
- # of accredited laboratory tests or prepared (ready) for accreditation  
- # of accredited or internationally recognised certification services (in the case of private certification schemes) for product or system certification for relevant standards, or prepared (ready) for it  
- # of accredited other conformity services (e.g. inspection, proficiency testing, personnel certification), or prepared (ready) for accreditation  
1.3 - # of participants in trainings whose competence has increased as a result of the project activities  
- # of organisations that participated in the training  
- # of businesses with implemented new management systems to comply with international standards.  
- # products covered with food safety or quality certifications  
- # of Metric Tons of food pass through the cold chain or use new technologies. | final audit reports  
- Key comparison database from BPIM  
- List of accreditation scopes of calibration laboratories.  
- External audit reports  
- Reports from the MUSSD.  
- Project reports.  
- Report from SLAB  
- Peer evaluation reports, mutual recognition agreements, or final audit reports  
1.3- Lists of participants, exams results, and certificates awarded  
- Training material  
- Agreements with SME and other VC | and financial resources to carry out activities  
- Responsible authorities and institutions support international recognition  
- Target beneficiaries commit and participate in planned project activities and in accordance to set timeline  
- Target beneficiaries commit and effectively participate in the planned project activities, in accordance to the set timeline  
- The cold chain and/or new technologies are
<table>
<thead>
<tr>
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</tr>
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</table>
| ER 1.4: Consumers, enterprises, institutions and other stakeholders are better informed and display practices driven by demand for safe and quality food | - # businesses that improved production or management processes for enhanced productivity and performance  
- % volume of production by supported businesses  
- % non-conformities by supported business.  
- # of clusters or collaborative initiatives established  
- Metric Tons sold by clusters or collaborative initiatives, or traded through buyer-supplier platforms | members to receive technical support  
- Project reports.  
- Inventory and service reports from cold chain management  
- Company reports  
- Constitution agreements (linkages/clusters) | available at the 8th quarter of the project.  
- Beneficiaries along the VC are committed to collaborate/cooperate  
- Beneficiaries are committed to accept support and to cooperate with proposed actions  
- Ministry/ies approves the campaigns to be aired/printed/established on social media  
- Local institutions are committed to support project activities |
| ER 2.1: An enabling regulatory and policy framework for the | 1.4 - % of consumers with adequate knowledge on food safety (among the identified groups)  
- Operationalised multimedia SBCC campaign  
- # of awareness or promotional activities conducted, for specific actors in the value chain  
- # of people reached through the awareness activities  
- # of copies of information/awareness materials distributed to the public and target groups (in printing/web) | 1.4 - Sample surveys  
- Campaigns with airtime, printed material and active on-line content (social media).  
- Agendas of the activities  
- Lists of participants  
- Materials developed  
- Copies distributed | ER 2.1-2.4  
- NOCU is |
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>domestic organic food sector is established by relevant government authorities in line with international best practices.</td>
<td>IFOAM consultants</td>
<td>2.2 - # increase of collaboration with interest groups, round table discussions and events. - # increase of participation at trade fairs; production of publications in collaboration with policy-making and private sector stakeholders</td>
<td>committed and has the capacities to adapt organic policy according to IFOAM’s recommendations</td>
</tr>
<tr>
<td>ER 2.2: National organic standards are introduced through certification (including Participatory Guarantee Systems (PGS) to guarantee food safety and quality, meeting consumer demands.</td>
<td>2.3 - # increase of study tours to Sri Lanka for potential investors - Matchmaking and brokering investment deals - # manuals and guidelines with recommendations based on analysis of PPP specific challenges - Provide information and assistance to public sector to increase their capacities to enter PPPs - # increase of study tours to EU markets for Sri Lankan traders with potential to (increase) export</td>
<td>2.3 data from organic certifiers (Control Union, Lacon etc.) Statistics on rise of investment in organic agriculture sector; request data from EDB and verify with private sector partners bi-annually Joint assessment with partners from European chambers</td>
<td>Official partners are committed to and have sufficient staff and resources to improve and implement standards in the best interest of the sector and the environment.</td>
</tr>
<tr>
<td>ER 2.3: European and Sri Lankan private investment in the organic food sector is mobilised in the domestic organic food sector in line with EU environmental and sustainable principles.</td>
<td>2.2 - agendas of events - lists of participants</td>
<td></td>
<td>Certifiers are willing to establish a presence through better policies and a growing market.</td>
</tr>
</tbody>
</table>

[33]
<table>
<thead>
<tr>
<th>Results chain: Main expected results (maximum 10)</th>
<th>Indicators (at least one indicator per expected result)</th>
<th>Sources of data</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| ER 2.4: Digital solutions ensure value chain transparency and contribute to farmers’ market access and increase in income | 2.4 Needs assessment and product outline in cooperation with the private sector have been carried out and potential cost sharing agreement between the program and the private sector has been negotiated | 2.4 project data in collaboration with app designer, Sri Lankan exporters and European importers | - Trends and projections towards increased global demand for organic produce validated and trickle down to Sri Lanka.  
- Investors and SMEs committed to long term collaboration for mutually beneficial trade relationships.  
- Farmers willing to test application and realise benefits |

*Indicators will be gender disaggregated wherever appropriate and feasible.*