This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2017 Part1 in favour of Sri Lanka

**Action Document for Support to the modernisation of the agricultural sector in Sri Lanka**

<table>
<thead>
<tr>
<th>1. Title/basic act/CRIS number</th>
<th>Support to the modernisation of the agricultural sector in Sri Lanka CRIS number: ACA/2016/039-216 financed under Development Cooperation Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Zone benefiting from the action/location</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>4. Sector of concentration/thematic area</td>
<td>Integrated Rural Development</td>
</tr>
</tbody>
</table>
| 5. Amounts concerned | Total estimated cost: EUR 30 000 000  
Total amount of EU budget contribution EUR 30 000 000  
The contribution is for an amount of EUR 30 000 000 from the general budget of the European Union for 2017, subject to the availability of appropriations following the adoption of the relevant budget.  
The World Bank (WB) will provide USD 125 000 000 loan as a separate programme |
| 6. Aid modality(ies) and implementation modality(ies) | Project Modality  
Indirect management with the WB  
Direct Management – procurement of services |
| 7 a) DAC code(s) | 31120 – Agricultural |
| b) Main Delivery Channel | WB – 44001  
For profit – 52000 |

<table>
<thead>
<tr>
<th>General policy objective</th>
<th>Not targeted</th>
<th>Significant objective</th>
<th>Main objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation development/good governance</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Aid to environment</td>
<td>☐</td>
<td>X</td>
<td>☐</td>
</tr>
<tr>
<td>Gender equality (including Women In Development)</td>
<td>☐</td>
<td>X</td>
<td>☐</td>
</tr>
<tr>
<td>Trade Development</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Reproductive, Maternal, New born and child health</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>RIO Convention markers</td>
<td>Not targeted</td>
<td>Significant objective</td>
<td>Main objective</td>
</tr>
<tr>
<td>Biological diversity</td>
<td>X</td>
<td>☐</td>
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<tr>
<td>Combat desertification</td>
<td>X</td>
<td>☐</td>
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<tr>
<td>Climate change mitigation</td>
<td>X</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Climate change adaptation</td>
<td>☐</td>
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<td>☐</td>
</tr>
</tbody>
</table>
The presidential elections in January 2015 and the subsequent formation of a National Government in August 2015 created new space for policy/sectorial dialogue and cooperation between the Government and the international community. The new Government's interest for the modernisation of the agriculture offers a good window of opportunity for engaging the EU in the sector and starting a policy dialogue linked to the EU focal sector "integrated rural development" for the MIP 2014-2020.

The Government prepared with the WB's support, a programme to modernise the agriculture sector which aims on the one hand at increasing private investments in the agriculture sector to expand the competitiveness of export oriented farmers while on the other hand at creating the enabling conditions for small holder farmers in poverty stricken districts to move towards a more sustainable, resilient and productive agriculture. The programme will be funded through a loan from the WB, matching grants provided by the private sector and EU funds. The total contribution to the modernisation of the agriculture programme provided by the WB and EU will be approximately EUR 140 million.

The present document refers more in detail to the part that will be funded by the EU, which is supporting the programme component focused on small holder farmers that is fully in line with the priorities defined in the EU food security policy.

The action Overall Objective is to contribute to a more productive, diversified, climate resilient, market oriented and equitable agriculture in Sri Lanka. The Specific Objective is to contribute to the creation of the enabling conditions for small holder farmers in poverty stricken districts to move towards a more sustainable, resilient and productive agriculture.

The intervention will be structured around two components.

1. One component will be implemented through the WB and will operate at provincial and district level with the final beneficiaries. This component will assess constraints and needs of small holder farmers and will design and implement together with competent provincial institutions and private sector, measures (such as advisory services, farmer organisation, technology, infrastructure etc.) to enable small holder farmers, their families and communities to benefit from a more sustainable, productive and competitive agriculture.

2. One component will be implemented directly through a service contract. The technical assistance will operate mainly, but not exclusively, at the national level and will provide support to the main stakeholders in identifying and addressing the needs/gaps in capacities, policy, fiscal, legislative or regulatory frameworks needed to enable small holder farmers to move towards a more sustainable, resilient and productive agriculture.

1 CONTEXT

1.1 Country and sector context

The election of Maithripala Sirisena as President in January 2015 and the formation of a National Government in August 2015 paved the way for a significant political, institutional and social transformation. The international community in Sri Lanka, among which the European Union plays a crucial role, was invited by the Government to provide support to the national development agenda. The action designed for the agriculture sector needs to be appraised as resulting from the changes in the overall situation in the country.

Sri Lanka, a multi-ethnic and multi-religious island nation with a population of 20 million over a land area of 65,610 km², has been among the fastest growing countries in South Asia and in 2010 graduated from low income to lower middle income country. While the average growth recorded 6.2 % between 2002 and 2014, per capita Gross Domestic Product (GDP) ascended from USD 869 in 2000 to USD 3,625 in 2014. 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, important challenges lie ahead, as Sri Lanka aspires to become an upper middle-income country. Growth in the last five
years is largely driven by investments on infrastructure development and reconstruction, and public spending. The country must now adopt structural reforms driven by technology and innovation which are vital to enhance productivity, product diversification and market diversification to stimulate a sustainable and inclusive level of growth.

Over the past 15 years Sri Lanka has shifted its economic structure from the agriculture to industry and services\(^1\). Today, while the contribution of agriculture sector to GDP remains at 11 %, about one-third of the population is engaged in and dependent on activities in agriculture sector. Agriculture has been the key to reduce the level of poverty, accounting for about one third of the overall decline in poverty over the past decade. Conversely, characteristics of the poor reveal that 48.8 % of the poor are still from the agriculture sector compared to 23.8 % and 27.2 % in industry and services sectors respectively. Small-holders account for a significant portion of the rural poor and are mainly engaged in "subsistence agriculture". It is expected that employment in primary agriculture will continue to decline when other sectors of higher productivity absorb rural surplus labour. At the same time, small-holder farmers will have to adopt more sustainable, more productive, but technology and capital intensive agricultural practices.

Modernising the agriculture sector is a priority in the agenda of the Government of Sri Lanka and in particularly of the President.

**1.1.1 Public Policy Assessment and EU Policy Framework**

Successive Governments have carried out a range of policy measures to reform the agriculture sector and uplift the livelihoods of the rural population. During the previous Government, main policy directions on agriculture were specified in the National Strategy "Mahinda Chintana" and in the National Agricultural Policy (2007). The political leadership in the country has changed after the presidential elections in January 2015, yet agriculture remains among the priorities of the Government\(^2\).

A change of approach can be noticed in the strategic choices adopted by the new Government.

The previous Government promoted a strong regulatory public intervention in agriculture, especially through subsidies and measures, with a particular focus on increasing production and productivity of traditional crops. This approach succeeded in making Sri Lanka self-sufficient in rice although it did not prove to be sufficient to create the foundation for an overall transformation in the agriculture sector. This is particularly relevant for the former conflict affected areas and the Central and Uva Provinces where traditional agriculture coincides with higher levels of poverty when compared to other Provinces. Since 2009, former conflict-affected areas have strongly benefitted from reconstruction, rehabilitation and livelihoods programmes. However the interventions in agriculture were scattered and localized and lacked a sectorial approach. Small-holder farmers received extensive support to develop their productive capacities but at a small scale and without a strategic commercial approach behind. As a result, these areas are lagging behind in terms of capacity to diversify the production to more value-added crops and link to the local and international markets. Further, most of the challenges faced and key issues in the agriculture sector remained unresolved, namely the low nutritional status of the agriculture community, unseen role and potential of women in agriculture, weak linkages with the private sector and low resilience to the adversities of climate change.

The new Government has been working in defining its main programmes and strategies. The Ministry of National Policies and Economic Affairs, is currently working on the new National Development Policy for Sri Lanka together with a Public Investment Programme (PIP) for a period of three years (2017 – 2019). The policy will include all agriculture sub-sectors (including fishery, livestock, plantation, crop agriculture). In regards to crop agriculture (falling under the responsibility of the

\(^1\) Country diagnostic, World Bank, October 2015


Ministry of Agriculture), the PIP gives priority to the commercialisation of the agriculture 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 driver for competitiveness of agriculture and agro-based products in the international market.

The President has taken a personal lead in setting the priorities of the Government in the area of agriculture and has launched, as a first step, a three-year National Food Production Programme (2016-2018), focusing on import substitution by what could be cultivated domestically to promote self-sufficiency and reduce budget deficit. This programme is meant to deal with the "most urgent" production needs but it does not address the deeper issues in the sector and the implementation strategy on how to reach the ambitious targets is not clear.

The Ministry of Primary Industries has also developed the concept of creating Agriculture Development Mega Zones. With this approach the Government gives attention to crops which can have a high export value by initiating and developing public-private partnerships and enhance private sector participation in production and market value chains. The farmers are planned to be supported with new technologies, facilities, inputs and capacity building.

The Ministry of Agriculture plans to revise the National Agricultural Policy (NAP) with technical support of the Food and Agriculture Organisation of the United Nations (FAO). The preparation of the policy is at a very early stage and the structure has been shared for consultation.

With regard to the EU policy framework, the specific objective 2 in the Multiannual Indicative Programme (MIP) for the period 2014-2020 aims at Contributing to the enhancement of food and nutrition security of communities in target areas through the promotion of inclusive sustainable agricultural practices that bring economic growth and improved climate change resilient livelihoods, with efficient natural resources management. The MIP is currently under revision and could include a second sector focusing on governance and reconciliation. It is important to notice though that initiatives in the agriculture sector, which target the most vulnerable layers of the population in the poorest areas (often located in post conflict zones), can also contribute to the reconciliation process. The EU approach in Sri Lanka also builds on the most relevant EU policies and strategies such as the "European Consensus on Development", "Agenda for Change", and especially the need to focus the support for inclusive and sustainable growth on sectors that have a strong multiplier impact on developing countries' economies, such as the agriculture sector. It also builds on thematic policies such as the EU Policy framework on food security (2010), Addressing under-nutrition in external assistance (2011), and the Communication on the EU approach to Resilience (2012), EU Communication on private sector (2014). By working with small-holder farmers on improving productivity, agriculture resilient patterns and marketing practices, the action directly contributes to the main EU objectives in the area, namely, agriculture sustainability, agriculture growth and resilience. It also promotes in the country a stronger role for the private sector in establishing agriculture value chains which is one of the key focal areas for intervention of the EU food security, nutrition and agriculture policy.

1.1.2 Stakeholder analysis

The programme is an initiative of the Government; as such it has been designed as a joint effort of the Ministry of National Policies and Economic Affairs, the Ministry of Agriculture and the Ministry of Primary Industries at the central level and the Provincial authorities of the targeted Provinces.

The Central Government

The institutional framework of the agriculture sector is very complex and multi-layered. The current Government is composed of 50 Ministries and the agriculture is shared among six of them with sometimes overlapping, evolving and unclear separation of mandates and responsibilities.

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Ministry of National Policies and Economic Affairs is in charge of the overall coordination of national policies and will be entrusted with the coordination of the action. The Ministry is also a potential beneficiary of the technical support that will be provided by the action, especially with regards to the overall planning and coordination of the agriculture sector which involves a large number of stakeholders. In this regards, the Ministry has the potential to be the driving force for a sectorial approach involving a wide number of sub-sectors and Ministries.

The Ministry of Agriculture plays an important administrative and coordinating role in the crop agriculture sector and it is leading the revision of the National Agricultural Policy. It does not have experience with the management of sector programmes. However, the Ministry plays an important regulatory and research role in agriculture and the EU plans to closely work with it not only in the implementation of the component under the WB supported programme but also through the technical assistance (TA). This Ministry has to be a key player in the effort to move to a more modern agriculture sector.

Ministry of Primary Industries is one of the two main counterparts of the WB programme. Its main responsibility is development of export promotion and value addition of the agriculture sector. It is a dynamic and entrepreneurial Ministry with the potential to play a key role in facilitating a stronger private intervention in the sector. The EU plans to closely associate this Ministry under the TA component.

Ministry of Finance is in charge, among other duties, of the execution of the national budget and public expenditure management. Since one of the objectives of the technical assistance to be provided by the action is to support the country to work on the main eligibility criteria for budget support operations, the Ministry is a potential beneficiary of the technical support.

The Provincial, District and Local Authorities

Under the 13th Amendment to the Constitution, service delivery is devolved to the Provincial Councils and Local Authorities (LA), i.e. Urban councils, Municipal councils, and Pradashya Sabas (Village councils), which are the closest to the rural communities and have the mandate to provide direct support to small-holder farmers and farmer organisations. However, these institutions remain ineffective to a large extent due to the lack of resources, revenue and technical capacity to develop integrated plans and sound economic policies at the local level. The level of coordination, interaction and engagement between LAs (elected officials) at the district level, on the one hand, and central and provincial government institutions at the district level (i.e. District and Divisional Secretaries, Provincial Department of Agriculture, Irrigation Department etc.), on the other, needs to be improved and strengthened. The Provincial level will be an active partner in the implementation of the component to be financed through the WB but will also be targeted by the TA. On one side, the Provinces will be in charge of monitoring the interventions in support to small-holder farmers and on the other side, they will be supported to play a more strategic and effective role in the agriculture.

To ensure technology and knowledge transfer to the public extension service, the action will involve government extension staff and Agrarian Services Departments in the activities, through partnership arrangements.

The small-holder farmers

Small-holder farmers are the main target /beneficiaries of the programme mainly in North, North Central, Central, Uva and Eastern Provinces of Sri Lanka. The majority of the targeted beneficiaries are involved in subsistence family farming. Small-holder farmers will be both key stakeholders and beneficiaries of the action. They will be closely involved in the design of the EU intervention under the modernisation programme, they will be the target of the assistance and they will have the ownership of the end result. They will be put at the centre of the rural transformation and will be supported to become a vector of growth for the economy.

1.1.3 Priority areas for support/problem analysis

The agriculture sector in Sri Lanka is fragmented both at the national level (with six Ministries involved) and between administrative layers (with power and responsibilities shared between the
national, provincial and district levels). The design and implementation of a sector policy has suffered from the complexity of the sectorial and administrative systems. A three-year Public Investment Programme (PIP) is under preparation and identifies a number of challenges and issues that need to be addressed. The agriculture is one of the sections covered by the PIP and ranges from crop production to export, spices, fish, livestock, and plantations. A comprehensive and coordinated policy is still missing and this represents an obstacle to the capacity of the Government to accompany the modernisation of the sector. Also, beside a few major agriculture companies, most operators are small-scale cultivators who face problems related to low productivity and diversification, absence of market linkages, non-availability of inputs and limited access to credit facilities. Farmers are not organised and tend to focus on low value crops that are not commercially viable. Also, problems of different nature have direct impact on crop production: institutional /structural constraints (land legislation, strong interference from the public sector, complex distribution of responsibilities at all levels, policy choices like the fertilizer subsidies), soil and water management (poor reliability of irrigation water delivery, weak farm water management, limited land extent for small-holder farmer cultivation); lack of innovation (inadequate support from the extension workers, lack of access to improved technologies); strong impact of climate change.

Consequently, the Government of Sri Lanka has developed a programme with the WB which work with two main Ministries: with the Ministry of Primary Industries to develop value chains for export markets and with the Ministry of Agriculture to focus on small-holder farmers.

The Ministry of Agriculture has developed a concept focusing on four components:

- organisation of farmers into farmer companies and cooperatives,
- introducing innovative comprehensive agriculture packages in priority districts to organise the production and the commercialisation of products,
- improving local productive infrastructures, and
- strengthening policy making capacities of public institutions.

The Government of Sri Lanka requested the European Union to join the efforts and contribute in priority to 1. the introduction of innovative packages and associated market and production infrastructure in lagging districts/areas and 2. the improvement of the institutional capacities of the Government.

1. The Ministry of Agriculture is targeting priority districts with high poverty headcount, high number of poor and agricultural potential located in the Central, Uva, East, North, and North Central Provinces. The choice of the final districts to be supported by the EU will be based on the priorities identified by the Government and the EU strategic priorities especially in the areas of environment, climate change, water management, sustainable agriculture, nutrition sensitive agriculture and value chain development. Flexibility for new agricultural approaches will be given during the design and implementation of this component. Small-holder farmers will benefit from a comprehensive approach that will look at the conditions for improved production and marketing. This component will be designed based on an assessment of crops available, farmers choices and preferences, potential for development and value addition, environmental/social/regulatory framework, technology needed and knowledge gaps. Small-holder farmers through established farmer companies will work with the support of service providers to develop the production and marketing system and will be the owners of the interventions made. When needed, the action can support the rehabilitation/construction of market and production infrastructure.

2. Improvement of the institutional capacities of the Government. The Government will be supported in the preparation of credible and relevant policies, legislation and capacities to support the reform and modernisation of the agriculture sector. A special attention will be put on the areas of PFM/macroeconomic, policy dialogue and transparency/oversight of the budget.

This component could also greatly benefit from the Food and Nutrition Security Impact, Resilience, Sustainability and Transformation (FIRST) facility, set up through the EU Global Public Goods and Challenges thematic programme in 2014, which aims to enhance the capacities of governments and
regional administrations to improve sustainable agriculture policies and their implementation by providing policy assistance and capacity development support. Sri Lanka has been selected as priority country to receive support from FIRST and it is planned to mobilize an expert in the country during the course of 2016. The expert will first be located at the FAO office but should later move within the Government structure.

The Information for Nutrition Food Security and Resilience for Decision Making (INFORMED) programme contributes to strengthening resilience to withstand food crises as a result of human-induced and natural disasters. It provides regular, timely and evidence-based information to decision-makers as a mean to achieve this goal. The latter is closely linked to the current efforts to improve the agriculture statistics in the country. Sri Lanka has already been identified as a beneficiary country under the new EU-INFORMED programme.

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>M</td>
<td>Each administrative/institutional level will have well-defined responsibilities for specific components of the programme. The Government will be supported by project staff for all procurement, and financial issues related to the implementation of the activities. On the other side, one of the aims of the TA support from EU, WB and FAO is to help the Government improve the coordination in the sector.</td>
</tr>
<tr>
<td>The limited capacities of the Ministries don’t allow for full national ownership of the programme.</td>
<td>M</td>
<td>The interventions are based on Government priorities and choices; in terms of capacities, the project will provide capacity building, long term and short term assistance at national and sub-national levels and research support to have an information-based policy. It is not a short term perspective but the programme can really bring a positive impact in terms of improving the capacities in the sector.</td>
</tr>
<tr>
<td>Adverse climate patterns affect the agriculture sector.</td>
<td>M</td>
<td>Sri Lanka is heavily affected by adverse climate patterns with alternation of floods and droughts. The programme will have a strong component aimed at promoting more sustainable and climate resilient production patterns through the introduction of innovative practices. The institutional component can also contribute to strengthening the analytical/research capacities of national institutions. It is expected that in the areas of interventions, farmers will be better equipped and will have greater knowledge on climate smart agriculture.</td>
</tr>
</tbody>
</table>

Assumptions
1. The Government continues to show strong interest in the modernisation of the agriculture sector;
2. The budget allocations to the sector are sufficient to continue the key reforms;
3. The institutional set up is stable during the implementation of the programme;
4. The Government is open for broader consultation and coordination with international partners; which helps to establish favourable conditions for well-structured policy dialogue.

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt
The present action seeks to strengthen the rural development through support to agriculture sector by improved techniques, investments, capacity building and analytical and policy support.
The programme will build on past EU experience and draw lessons from three successive programmes implemented under the 2007-2013 Country Strategy Programme: (1) the "Assistance to Conflict Affected People" (EU ACAP, 2009-2013); (2) "Socio-Economic Measures" (EU SEM 2010-2014); and (3) the ongoing "Support to District Development Programme" (EU SDDP 2012-2017). These programmes had agriculture components in support to small-holder farmers in post-war conflict-affected areas. The implementation of these programmes together with the successive evaluations provided valuable insights on the main problems and challenges faced by farmers. When negotiating the intervention, the EU has made extensive use of the knowledge acquired through these previous programmes.

However, most of the previous EU development cooperation projects have been implemented through NGOs and international organisations with limited consultation with the Government at both central and district level. Agriculture related activities were addressed mainly through livelihood projects with a focus on conflict affected areas with a more humanitarian perspective than from a development angle.

The important lessons learned from these projects show a need to move from the humanitarian approach to a more long term approach of empowering the beneficiaries. It is important to strengthen the farmers and the farmer organisations so that they will be the drivers of the reform of the sector, which will be done by the WB through its intervention. This point is crucial as previous projects lacked sustainability because they fail to empower local farmer organisations to become a vector for change. At the same time, it is crucial to strengthen the capacities of the actors in charge of the implementation of national policies in agriculture.

All interventions in the agriculture need to be closely linked with the protection of the environment, the disaster risk reduction (DRR) and the climate change. Lastly, it is important to take into account the complexity of the governance system when formulating the interventions, to strengthen capacity of the public officials at all levels as well as the information system and the coordination among actors.

Another key lesson is to coordinate and make use of all available resources both at national and global levels. The current intervention is placed in the context of the EU global commitments and relevant tools including INFORMED, FIRST, the pro-poor land initiative promoting the application of the voluntary guidelines for the tenure of land (VGGT), the promotion of the responsible agriculture investments (RAI). In this sense, the action is not isolated but is part of a more comprehensive range of support that the EU can provide to the country. Policy dialogue by EU and country's visions will be placed at the centre of this approach.

The proposed programme will aim to facilitate the dialogue and strengthen the relationship with the Government, to move to a sector approach and will contribute to prepare the foundation for a sector reform programme.

While the WB is one of the main partners of the Government, its recent involvement in rural development has been focusing mainly on livelihoods, climate change and support to local authorities. The WB will bring additional expertise from similar programmes implemented in other countries, namely: Turkey Technology Development project; China Agricultural Technology Transfer Project, Zambia small-holders agriculture commercialisation strategy, Vietnam Agriculture Competitiveness Project.

3.2 Complementarity, synergy and donor coordination

Sri Lanka's graduation to a Middle Income Country has led to change of the composition and the form of external development financing in the country. This has ultimately resulted in a drop in investments undertaken by development partners in the country. Key development partners in the country include Asian Development Bank, Japan International Cooperation Agency, WB and Agence Française de Developpement as development financing institutions (DFIs) and Australia, Canada, Germany, EU, India and the USA as bilateral partners. DFIs focus mainly on infrastructure projects with emphasis on energy, transportation and water. Australia, Germany, and USA have bilateral country allocations, with grant projects focusing on Governance and Reconciliation and economic development and growth.
FAO is a leading technical partner of the country and is currently providing technical assistance to the Ministry of Agriculture, including revision of the National Agriculture Policy. FAO has implemented the ACAP and SEM EU funded programmes and is currently implementing SDDP programme also funded by the EU. FIRST and INFORMED (funded by the EU and implemented by FAO) will soon also be mobilised in Sri Lanka.

Donor coordination in the country is limited. A Development Partner Forum (DPF) meets regularly to share information on strategies and programmes related to development cooperation, however there is no official link with the Government. At the same time, representatives of Ministry of National Policies and Economic Affairs as well as line ministries attended some DPF meetings in 2015 and 2016. Several thematic subgroups have been established in the areas of public finance management, water, private sector development, social integration and vocational training. There is no coordination mechanism in the agriculture sector given the limited involvement of the partners. The action can play an important role in facilitating the establishment of a coordination mechanism in the sector. The preparation of the programme provided a chance to strengthen not only the dialogue with the authorities but also among partners. In this sense, the EU has played an important role in bringing different partners around the same table. There is now the common understanding that a formal coordination mechanism in the sector would bring strong benefits to both national authorities and development partners.

3.3 Cross-cutting issues

The following cross cutting issues will receive a particular attention:

Gender: About 70% of rural women in the country are engaged in subsistence agriculture, of whom 56% work as unpaid family workers. In addition, women’s traditional role in agriculture is at the post-harvest stage, and any expansion in agribusiness activities would create more opportunities for them. The programme will support women in many ways including the choice of beneficiaries for the inclusion in the agriculture technology packages and capacity building activities. The action is expected to generate entrepreneurial and employment opportunities for women, especially women-headed households, in farmer producer organisations, and will provide them with targeted and customised training in technology and business skills. Targeted outreach activities will be organised specifically for women.

Environment: the impact of agriculture on the environment has been neglected by previous policies. Heavy use of pesticides has jeopardised the quality of water and could be one of the underlying causes of a widespread kidney disease of an unknown origin. Also, the use of water for irrigation is not regulated leading to important losses and waste. The programme will introduce the approach of climate smart agriculture and will support the scaling up of environmentally-friendly techniques. From the WB perspective, the project is classified as an Environmental category B which means that it is expected to bring positive environmental benefits to project areas through the introduction and expansion of technology applications that help improve cropping patterns and farming methods, increase efficiency in the management of water resources, protect agriculture soils and roll out integrated pest management. Also, an environmental assessment and management framework has been prepared to guide the screening and selection of the technology packages from an environmental perspective.

Climate change adaptation: The inconsistent rainfall patterns together with the increase in climatic extremes and warming, pose the requirement of continuing research efforts in the feasible adaptation approaches and practices. The programme will facilitate knowledge sharing on best practices and the introduction and scaling up of climate resilient productive patterns. The beneficiaries and the main agricultural institutions will be empowered to adapt new technologies and practices. The programme

5 FAO provided support to farmers to return and start their activities in war affected areas. The support included: rehabilitation of land and minor irrigation systems, support to start crop cultivation and to access necessary inputs, support to strengthen the capacities of extension officers.
will align with the National Climate Change Adaptation Strategy which has still not been implemented on the ground explicitly.

**Nutrition:** Nutrition is the only MDG not met, disparities are very important across the country and the reasons are not always easily detected. While the programme does not aim to fund specific activities on nutrition it will support the diversification of the agriculture products and empower the local communities and farmers who are the most vulnerable in terms of nutritional intakes. Also, it will empower the Government by developing its analytical and research capacities thus contributing to develop better local knowledge on nutrition. The action will not have specific nutrition interventions. However, the EU and FAO are working in bringing the FIRST and INFORMED initiatives to Sri Lanka and support will be provided in parallel to improve the capacity of the Government to deal with Food Security, Nutrition and Sustainable Agriculture.

### 4 Description of the Action

#### 4.1 Objectives/results

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG target(s) to "End poverty in all its forms everywhere" (goal 1), but also promotes progress towards Goal(s) "End hunger, achieve food security and improved nutrition and promote sustainable agriculture" (goal 2) and "take urgent action to combat climate change and its impacts" (goal 13) This does not imply a commitment by the country benefiting from this programme.

The **Overall Objective** is to contribute to a more productive, diversified, climate resilient, market oriented and equitable agriculture in Sri Lanka.

The **Specific Objective** is to contribute to the creation of the enabling conditions for small-holder farmers in poverty stricken districts to move towards a more sustainable, resilient and productive agriculture.

**The expected Results:**

1. Smallholder farmers are more organised, are aware of social, environmental and economic aspects linked to farming, benefit from effective and innovative advisory services and have more access to credit, crop insurance schemes and market information systems;
2. Smallholder farmers have access to adequate infrastructures needed to boost their productivity, competitiveness and access to market;
3. Government has credible and relevant policies, legislation, reforms and capacities to implement its plans for a modernisation of the sector.

#### 4.2 Main activities

All activities are implemented in consultation with the programme stakeholders closest to the final beneficiaries of the specific activity;

1. District-wise assessments to identify specific needs (farm typology; cropping patterns, use of inputs, availability/cost / use of services, assessment of productive infrastructure – for example water storage, distribution, irrigation facilities, processing plants, storage and market facilities- mapping of programmes/plans addressing these needs..)
2. Design and implement tailor-made comprehensive interventions at district levels to address the specific needs identified for the farmers to get the support needed to improve productivity, sustainability and competitiveness of their products.
3. Rehabilitation/construction of productive and market infrastructures in the selected areas.
4. Capacity building programme designed and implemented with long-term and short-term assistance focusing on key policy areas, public finance and macroeconomic environment, sectoral reforms, transparency and oversight of the budget.
4.3 Intervention logic

The logic behind the intervention is to empower the small-holder farmers to play a role in the development of agro-value chains thus uplifting the living standards of rural communities. The action is focused on the most important layer in the agriculture sector in Sri Lanka, which is almost exclusively involved in subsistence and family farming and has a very limited land per household. This setting does not allow farmers to produce marketable products and become commercial farmers but instead puts them in a situation where they have relied on middle-men and needed to look into different sources of income (which has often led to emigrate to urban areas or abroad). By organising a critical number of farmers into farmer companies and help them enhance their skills, infrastructure environment, technology and market linkages, the action can bring the value chains approach at the local level, directly to the farmers.

In addition, the action will contribute to strengthen the role of the private sector as a vector for growth, by creating farmer companies and building their capacity to access local markets, credit facilities and eventually export oriented markets.

The institutional component is designed to help the authorities to accompany this process and be able to support the changes in the sector. A particular focus will be in the areas of Public Finance Management (PFM), macro-economy, sector policies and reforms as well as transparency and oversight of the budget. Also, an important impact expected by the intervention is to strengthen the institutional levels that are closer to the final beneficiaries (i.e. the provinces and the districts) and improve the knowledge of the public sector of the real needs of the farmers.

Finally, this intervention has to be seen in the context of a renewed dialogue and partnership between the Government and its international partners. For the first time, two of the major donors in the country will jointly support the Government in the modernising agriculture. Both donors have access to a wide range of tools and facilities that can be mobilised in support to the country. As such, the action is fully incorporated into the overall EU policies in food security, agriculture, value chains development.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 66 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.
5.3 Implementation modalities

5.3.1. Procurement (direct management)

<table>
<thead>
<tr>
<th>Subject in generic terms, if possible</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit and evaluation</td>
<td>Services</td>
<td>3</td>
<td>2nd trimester 2019.</td>
</tr>
</tbody>
</table>

The Call for Tenders will be launched with a suspensive clause after the decision will be adopted by the Commission, but before the signature of the Financing Agreement.

5.3.2 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the WB in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the management of the component aiming at introducing innovative agricultural packages in most lagging districts. This implementation is justified because:

The WB will provide a USD 125 million investment programme to support the modernisation of the agriculture sector in Sri Lanka. The programme will target the Ministries of Primary Industries mainly on value chains development for export products and the Ministry of Agriculture with the aim to support small-holder farmers as well as strengthening the capacities of the Government on policy making. One of the components of the WB programme will support the creation of agriculture technology demonstration parks to demonstrate the entire value chain approaches for selected crops, involving: farmers mobilisation and training, agriculture production, post-harvest handling and/or processing, and marketing. A tender process will ensure that the most innovative and locally suitable solutions are implemented with the support of service providers directly at the local level.

The Government of Sri Lanka requested the EU to contribute to the introduction of innovative packages and associated market and production infrastructure in lagging districts/areas. The EU would sign a separate agreement with the WB for an amount of additional EUR 25 million to support the introduction of innovative technology packages in geographical areas not yet covered by the WB but considered as priority by the Government.

The entrusted entity would carry out the following budget-implementation tasks, consisting of: launching and evaluation of call for tenders, definition of eligibility, selection and award criteria, acting as contracting authority concluding and managing contracts, carrying out payments.

The entrusted international organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission’s authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

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 in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 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 realization of this action impossible or exceedingly difficult.

5.5 Indicative budget

<table>
<thead>
<tr>
<th></th>
<th>EU contribution (amount in EUR)</th>
<th>Indicative third party contribution in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3.1 Procurement (direct management) TA Services</td>
<td>4 500 000</td>
<td>N.A.</td>
</tr>
<tr>
<td>5.3.2 Indirect management with an International Organisation – WB</td>
<td>25 000 000</td>
<td>125 000 000</td>
</tr>
<tr>
<td>5.9 Evaluation; 5.10 Audit</td>
<td>500 000</td>
<td>NA</td>
</tr>
<tr>
<td>Totals</td>
<td>30 000 000</td>
<td>125 000 000</td>
</tr>
</tbody>
</table>

5.6 Organisational set-up and responsibilities

The EU, the Government and the WB are the main responsible actors for the management and oversight of the programme.

In the context of the financing agreement, the EU and the Government will set up an oversight committee with all involved counterparts (final list of participating institutions will be drawn in the terms of references for the coordination committee) to share information and supervise both components funded by the EU.

In the context of the component implemented by the WB under indirect management, the EU will be partnering with the Government and the WB through the specific steering mechanism and organisational set up provided under the Government-WB programme.

In the context of the technical assistance implemented under direct management, a specific internal organisational will be set up under the direct supervision of the EU Delegation.

5.7 Performance monitoring and reporting

For both components, 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 log-frame matrix. 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 a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

For the component to be implemented through the WB, the EU contribution will be also covered by the mid-term and final evaluations to be contracted under the overall WB programme.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to ongoing implementation of the technology packages, the involvement of parties and the overall coordination between service providers, farmers and national and sub-national entities. The evaluation will draw also from the assessment that will be made through the mid-term evaluation of the overall WB programme. For the component related to the technical assistance, the mid-term evaluation will allow to appraise the set-up, the involvement of the parties, the activities implemented and the improvements that can be expected within the institutions.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that at the time of the evaluation a sector reform programme in the agriculture sector is likely to be in place.

The European Union will also take part in the evaluations to be contracted under the WB programme.

The Commission shall inform the implementing partners at least one month 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, two contracts for evaluation services shall be concluded under a framework contract in 2019 and 2021.

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.

Indicatively, one contract for audit services shall be concluded under a framework contract in 2019 and 2021.

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 and supported with the budget allocated to the implementing partners.

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 delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.
## APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)  

<table>
<thead>
<tr>
<th>Overall objective: Impact</th>
<th>Results chain</th>
<th>Indicators</th>
<th>Baselines (incl. reference year)</th>
<th>Targets (incl. reference year)</th>
<th>Sources and means of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contribute to achieving a more productive, diversified, climate resilient, market oriented and equitable agricultural sector in Sri Lanka.</td>
<td>1.1. Rural poverty headcount ratio at national poverty lines (% of rural population) - (*in line with the poverty headcount index in the MIP 2014-2020)</td>
<td>1.1. 7.6 (2012)</td>
<td>1.1. TBD during the inception of the first year of operation</td>
<td>1.1 World Development Indicators – WB Economic and social statistics of Sri Lanka report (CB), 1.2. Sri Lanka State of the Economy Report (IPS), 1.1 and 1.2. Department of Census and Statistics (DCS) reports household /beneficiary surveys</td>
<td>The Government continues to show strong interest in the modernisation of the agriculture sector; 2. The budget allocations to the sector are sufficient to continue the key reforms; 3. The institutional set up is stable during the implementation of the programme;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2. Agriculture value-added per worker (constant 2005 US$) and per hectare (** EU RF Level 1 #8 – if hectares are counted)</td>
<td>1.2. 1,024 (2014)</td>
<td>1.2. TBD during the inception of the first year of operation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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6 Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

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15
<table>
<thead>
<tr>
<th>Specific objective(s):</th>
<th>Outcome(s):</th>
<th>1.1. Share of participating farm households adopting improved practices supported by the project;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribute to the creation of the enabling conditions for small holder farmers in poverty stricken districts to move towards a more sustainable, resilient and productive agriculture</td>
<td>1.1. 0 %</td>
<td>1.1. 75 %</td>
</tr>
<tr>
<td>1.2. Share of project supported farmer producer organisations and partnerships making profit.</td>
<td>1.2. 0 %</td>
<td>1.2. 60 %</td>
</tr>
<tr>
<td>1.3. Increase in average value of marketed agriculture products due to project interventions.</td>
<td>1.3. 0 %</td>
<td>1.3. 25 %</td>
</tr>
<tr>
<td>1.4 1.3 Average Global Competitiveness score in project areas (** EU RF 1 ≠ 29)</td>
<td>1.4 TBD during inception phase</td>
<td>1.4 TBD during inception phase</td>
</tr>
<tr>
<td>1.5 Specific indicators for the capacity building interventions will be available at the end of the design phase of the facility.</td>
<td>1.5 TBD during inception phase</td>
<td>1.5 TBD during inception phase</td>
</tr>
<tr>
<td>1.6 Agricultural and pastoral ecosystems where sustainable land management practices have been introduced with EU support (number of hectares) (**EU RF level 2 ≠ 6)</td>
<td>1.6 0</td>
<td>1.6 TBD during inception phase</td>
</tr>
<tr>
<td>1.1 WB reports Mid-term and end of project evaluations – through surveys.</td>
<td>1.2 WB reports. Mid-term and end of project evaluations – through surveys.</td>
<td>1.3 WB reports. Mid-term and end of project evaluations – through surveys.</td>
</tr>
<tr>
<td>1.5 progress reports from TA.</td>
<td>1.4. WB reports. Mid-term and end of project evaluations – through surveys.</td>
<td>1.5 progress reports from TA.</td>
</tr>
<tr>
<td>1.6 Mid-term and end of project evaluation – through surveys.</td>
<td>1.6 Mid-term and end of project evaluation – through surveys.</td>
<td></td>
</tr>
<tr>
<td>Outputs</td>
<td>1. Number of smallholder farmers involved in the agriculture comprehensive packages (disaggregated by gender)</td>
<td>1. Number of technology comprehensive packages completed and handed over.</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Smallholder farmers are more organised, are aware of social, environmental and economic aspects linked to farming, benefit from effective and innovative advisory services and have more access to credit, crop insurance schemes and market information systems;</td>
<td>1.1 0</td>
<td>1.1 0</td>
</tr>
<tr>
<td>Smallholder farmers have access to adequate infrastructures needed to boost their productivity, competitiveness and access to market;</td>
<td>2.1 0</td>
<td>2.1 TBD during inception phase</td>
</tr>
<tr>
<td>Government has credible and relevant policies, legislation, reforms and capacities to implement its plans for a modernisation of the sector</td>
<td>3. TBD during inception phase</td>
<td>3. TBD during inception phase</td>
</tr>
<tr>
<td>Specific indicators will be available at the end of the design phase of the facility.</td>
<td>3. TBD during inception phase</td>
<td>3. TBD during inception phase</td>
</tr>
</tbody>
</table>