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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF US\$100 MILLION

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR AN

INTEGRATED RURBAN DEVELOPMENT AND CLIMATE RESILIENCE PROJECT

MARCH 14, 2025

Agriculture and Food Practice
South Asia Region

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CURRENCY EQUIVALENTS

Exchange Rate Effective February 28, 2025

Currency Unit = SRI LANKAN RUPEE (LKR)

LKR 295.25 = US\$1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASMP	Agriculture Sector Modernization Project
AWD	Alternate Wetting and Drying
CBSL	Central Bank of Sri Lanka
CERC	Contingent Emergency Response Component
CMC	Cascade Management Committee
CMP	Cascade Management Plan
CSA	Climate-Smart Agriculture
CSIAP	Climate Smart Irrigated Agriculture Project
DA	Designated Account
DAD	Department of Agrarian Development
DoA	Department of Agriculture
E&S	Environment and Social
ESCP	Environment and Social Commitment Plan
EIRR	Economic Internal Rate of Return
ESG	E&S Guidelines
EX-ACT	EX-Ante Carbon-balance Tool
FAO	Food and Agriculture Organization
FM	Financial Management
FO	Farmer Organization
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIS	Geographical Information System
GoSL	Government of Sri Lanka
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IPF	Investment Project Financing
IUFR	Interim Unaudited Financial Report

IWWRMP	Integrated Watershed and Water Resources Management Project
LSA	Livelihood Support Assistance
M&E	Monitoring and Evaluation
MFD	Maximizing Finance for Development
MoALLI	Ministry of Agriculture, Livestock, Lands and Irrigation
MTR	Midterm Review
NAOSL	National Audit Office of Sri Lanka
NCGI	National Credit Guarantee Institute
NDC	Nationally Determined Contribution
NPV	Net Present Value
NQI	National Quality Infrastructure
OHS	Occupational Health and Safety
PDO	Project Development Objective
PG	Producer Group
PMU	Project Management Unit
POM	Project Operations Manual
PP	Productive Partnership
PPSD	Project Procurement Strategy For Development
PSC	Project Steering Committee
PUC	Public Unlisted Company
SAPP	Smallholder Agribusiness Partnership Programme
SBD	Standard Bidding Document
SEA/SH	Sexual Exploitation and Abuse/Sexual Harassment
SEP	Stakeholder Engagement Plan
SMEs	Small and Medium Enterprises
SOP	Series of Projects
STEP	Systematic Tracking of Exchanges in Procurement
TOR	Terms of Reference
WSM	Watershed Management



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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies) Sri Lanka	Operation Name Integrated Rurban Development and Climate Resilience Project		
Operation ID P505241	Financing Instrument Investment Project Financing (IPF)	Environmental and Social Risk Classification Substantial	

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input checked="" type="checkbox"/> Contingent Emergency Response Component (CERC)
<input checked="" type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date 10-Apr-2025	Expected Closing Date 30-Jun-2030
Bank/IFC Collaboration Yes	Joint Level Joint Project – involving co financing with IFC (loan, equity, budget, other) or staffing

Proposed Development Objective(s)

The Project Development Objective is to increase productivity, market access, and climate resilience of agri-food producers in selected areas.

Components



Component Name	Cost (US\$)
Promotion of Climate-Smart Production, Value Addition, and Inclusive Access to Markets	47,000,000.00
Integrated Management of Natural Resources for Climate Resilience	55,000,000.00
Strengthening the Enabling Environment for Sectoral Growth	14,000,000.00
Project Management, Monitoring and Learning	4,000,000.00
Contingent Emergency Response Component	0.00

Organizations

Borrower:	Democratic Socialist Republic of Sri Lanka		
Contact	Title	Telephone No.	Email
Samantha Bandara	Director General, Department of External Resources	94112484500	info@erd.gov.lk
Implementing Agency:	Ministry of Agriculture, Livestock, Land and Irrigation		
Contact	Title	Telephone No.	Email
D. P. Wickremasinghe	Secretary	94112034300	info@agrimin.gov.lk

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	120.00
Total Financing	120.00
of which IBRD/IDA	100.00
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Development Association (IDA)	100.00
IDA Credit	100.00

Non-World Bank Group Financing

Commercial Financing	17.00
Unguaranteed Commercial Financing	17.00
Counterpart Funding	3.00
National Government	3.00

IDA Resources (US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	100.00	0.00	0.00	0.00	100.00
Total	100.00	0.00	0.00	0.00	100.00

Expected Disbursements (US\$, Millions)

WB Fiscal Year	2025	2026	2027	2028	2029	2030	2031
Annual	0.00	3.00	15.00	25.00	25.00	25.00	7.00
Cumulative	0.00	3.00	18.00	43.00	68.00	93.00	100.00

PRACTICE AREA(S)

Practice Area (Lead)

Agriculture and Food

Contributing Practice Areas

Water; Environment, Natural Resources & the Blue Economy; Social Sustainability and Inclusion



CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Overall	● Substantial

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
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ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8: Cultural Heritage	Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description

Institutional Arrangements (Section I.A, Schedule 2): Establish, by no later than ninety (90) days after the Effective Date, and thereafter maintain, until the completion of the Project, a project steering committee (“Project Steering Committee”), with membership, functions and terms of reference satisfactory to the Association, to guide the implementation of the Project, as set forth in the POM.

Operations Manual (Section I.B, Schedule 2): The Recipient shall ensure that the Project is carried out in accordance with the arrangements and procedures set out in the Operations Manual.

Investment Grants: (Section I.C, Schedule 2): For purposes of carrying out the activities under Part 1.2(a) of the Project, the Recipient shall ensure that the Investment Grants are made to Selected Beneficiaries, for the purpose of financing implementation of Eligible Business Plans.

Investment Grants: (Section I.D, Schedule 2): For purposes of carrying out the activities under Part 1.3(a) of the Project, the Recipient shall ensure that the Investment Grants are made to Selected Entrepreneurs, for the purpose of financing business proposals related to agriculture machine services, business development and technical services for the agriculture sector.

Environmental and Social Standards (Section I.E, Schedule 2) Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Standards, Environmental and Social Commitment Plan (“ESCP”), and other instruments prepared in a manner acceptable to the Association.

Institutional Arrangements (Section I.A, Schedule 2): Establish, by no later than thirty (30) days after the Effective Date, and thereafter maintain, until the completion of the Project, a project management unit in the Ministry of Agriculture,



Livestock, Lands and Irrigation (the “Project Management Unit”), with composition, resources and terms of references acceptable to the Association, to guide the implementation of the Project and which shall include a Project director, a finance specialist a procurement specialist, an environmental, a social specialist and such other specialists performing such functions as may be further detailed in the POM.

Conditions

Type	Citation	Description	Financing Source
Disbursement	Section III.B.1(b)	Disbursement under Categories 1, 2(a), 2(b) and 3: the Recipient may not withdraw until and unless the Recipient has provided evidence satisfactory to the Association that (i) the Project Management Unit has been established with composition, resources and terms of references acceptable to the Association, including evidence that the Project director, the finance specialist, the procurement specialist, the environmental and the social specialist have been recruited and (ii) the POM satisfactory to the Association has been approved and adopted by the Recipient.	IBRD/IDA
Disbursement	Section III.B.1(c)	Disbursement condition for Contingent Emergency Response component: the Recipient may not withdraw until and unless the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw amounts under	IBRD/IDA



		Category (4); and (B) the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and (ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.	
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I. STRATEGIC CONTEXT

A. Project Strategic Context

- 1. Sri Lanka has regained stability and a path to growth following a severe economic crisis in 2022–2023, triggered by years of fiscal mismanagement, governance failures, and external shocks.** The crisis, marked by a debt standstill, soaring inflation, and sharp increases in poverty, saw extreme poverty rise from less than 1 percent in 2019 to over 5 percent in 2023. Structural reforms, including cost-reflective utility pricing, revenue measures, and prudent monetary policy, have stabilized external and fiscal balances, moderated inflation, and supported economic recovery. Following significant progress in the external debt restructuring, credit risk rating for Sri Lanka was upgraded in December 2024 by several credit rating agencies. However, household budgets remain strained, with persistent risks of food insecurity and malnutrition linked to climate vulnerabilities and the high cost of a nutritious diet, job losses, and a decline in female labor force participation, all of which have worsened human capital outcomes.
- 2. The country experienced significant political leadership change in late 2024 with both presidential and parliamentary elections that have influenced the country’s development priorities.** The new administration has prioritized poverty reduction and rural development along with digital development and the Clean Sri Lanka initiative, looking at environmental, social, and governance sustainability; economic growth; education; anti-corruption measures; logistics; tourism; and healthcare improvements. These priorities reflect the Government’s commitment to addressing the pressing needs of the population and fostering sustainable development.
- 3. Sustained medium- to long-term growth requires greater private investment, higher exports, and productivity growth.** Sri Lanka’s untapped export potential, estimated at US\$10 billion annually, could create over 140,000 jobs if structural reforms are implemented.¹ Enhanced productivity, alongside liberalized trade and an improved investment climate, will increase competitiveness, contributing to expanding exports in manufacturing, services, and agriculture and improving national incomes. Leveraging the country’s strategic location, skilled workforce, and capacity in high-value sectors like agribusiness and sustainable tourism offers a pathway to inclusive growth, addressing critical issues such as food security and labor market recovery. Addressing climate change impacts, including rising temperatures and extreme weather events, will also be critical to ensuring long-term resilience and sustainability.

B. Sectoral and Institutional Context

- 4. The development of a modern and commercially diversified agri-food sector is a crucial part of the Government’s strategy for economic recovery and for bringing prosperity to rural areas.** The agriculture sector is crucial for Sri Lanka’s economy, employing a significant portion of the rural population and contributing 6.9 percent to gross domestic product (GDP). It also supplies raw materials to the food and beverage manufacturing sectors, which account for around 26 percent of GDP. Sri Lanka’s agricultural sector is characterized by plantation (mainly tea, rubber, coconut, plus cinnamon and other spices) and food crops (mainly rice, maize, fruits, vegetables, and other crops) subsectors that are dominated by smallholder producers. The plantation sector, especially tea, rubber, and coconut, is key to the country’s foreign exchange earning strategy. Before the economic crisis, the agri-food and fisheries sectors accounted for 23 percent of total annual merchandise exports (2012–2022).² However, of the country’s approximately 2.3 million ha of agricultural land, 80 percent is used for non-plantation food crops. About

¹ World Bank. 2024. “Sri Lanka Development Update: Opening up to the Future.”

² United Nations ‘Comtrade’ database.



1.65 million smallholder farmers operate on less than 2 ha of land and contribute 80 percent of total annual food production. Despite a declining share in GDP, the smallholder contribution remains the backbone of the agricultural sector and an important source of employment.

5. **Government policies have traditionally been highly interventionist in the sector, most notably in achieving rice self-sufficiency.** Historically, paddy production has benefited from investment in irrigation and fertilizer subsidies. Fertilizer subsidies represented around 35 percent of total agriculture expenditure between 2017 and 2022. While public investments increased the area under irrigation to around 0.6 million ha (around 70 percent of paddy cultivation area), the productivity of paddy (3.5–4.0 tons/ha) and other food crops (maize - 3 tons/ha, green gram - 1 ton/ha, onion - 12 tons/ha) has stagnated. Substantial allocation of public expenditure on subsidized inputs crowded out the provision of core public goods such as agricultural research and advisory and extension services. The resulting distortions were further exacerbated by policy changes such as the ban on fertilizer imports in 2021 that led to a 31.5 percent drop in paddy production, negatively affecting the food security of the entire population.

6. **Several constraints contribute to the slow growth and competitiveness of the agriculture sector in Sri Lanka.** On-farm productivity is low, especially among smallholders, notably because of: (a) land fragmentation and limited use of farmer aggregation models that result in poor economies of scale; (b) limited adoption of good production practices and integrated land use due to low knowledge at the grassroots level; (c) high dependence on rainfed irrigation, with susceptibility to climate change and low-productive irrigation systems; (d) low penetration of agriculture insurance; and (e) lack of diversification into high-value crops due to, in part, land use restrictions and a focus on paddy cultivation. Off-farm value addition and commercialization are constrained by: (a) inefficient post-harvest practices, including lack of cooling and other issues with farm-to-market transport and storage; (b) institutional fragmentation with weak links between quality assurance and certification agencies that lead to delays in delivery and post-harvest losses; (c) limited agri-processing and integration to markets, especially to export-oriented markets; and (d) frequent changes in policies that undermine private investments. The lack of infrastructure for cold chain and poor management practices, together with inefficient post-harvest handling, cause post-harvest losses in Sri Lanka for fruits and vegetables, estimated at 30–40 percent.³ Cold chain potential remains untapped due to the high initial capital cost of land, cold storage, and auxiliary refrigeration facilities. Yet projections show that active interventions can reduce cooling energy requirements by 5–12 percent by 2032–2033 for dairy, fisheries, and poultry.⁴

7. **Key constraints to the private sector’s expansion of agribusiness in Sri Lanka include limited access to financing and risk mitigation, inadequate infrastructure, and fragmented institutions and regulatory processes⁵.** Many small and medium enterprises (SMEs), farmer companies, and smallholder farmers struggle to secure affordable credit, hindering investment in modern and/or climate-smart technologies and scaling operations. Banks cite poor quality of business plans and cash forecasts, as well as the risk of losses and lack of efficient insurance to mitigate the risk of climate shocks, as key constraints to expanding credit in the sector. The lack of familiarity with formal financial institutions in assessing borrower capacity among small-scale producers and producer companies also remains a challenge. Farmer beneficiaries cite complex requirements for collateral and the high cost of borrowing as hindrances. Fragmentation and inefficiencies in regulatory services contribute to excess costs and

³ Rajapaksha, L., et al. 2021 “Reducing Post-harvest Losses in Fruits and Vegetables for Ensuring Food Security—Case of Sri Lanka.” *MOJ Food Processing and Technology* 9 (1): 7–1.

⁴ Government of Sri Lanka. 2019. “The Kigali Cooling Plan Strategy for Sri Lanka.” National Ozone Unit, Ministry of Environment.

⁵ Based on survey of financial institutions and beneficiary consultations conducted as part of the project preparatory work.



problems with the credibility of trade certificates, reduced quality, and food waste. Quality infrastructure and the delivery of efficient quality services are critical to ensure that food products and agricultural commodities comply with market standards. Additionally, regulatory barriers, such as complex land tenure systems and inconsistent policies, create uncertainty for private investors. These challenges are further compounded by climate change, which disrupts productivity and increases risk for agribusinesses.

8. **The Integrated Rurban Development and Climate Resilience Project aligns with the World Bank’s Maximizing Finance for Development (MFD) approach and recognizes the role of the private sector in achieving agri-food system transformation.** By deploying market-based solutions, the project will promote productive alliances that ensure efficient use of scarce public resources to maximize private investment. Bankable value chain investments will be identified and financed through cost-sharing arrangements, where a portion of the costs will be covered by the project as a catalytic investment, while the remaining costs will be borne by the beneficiaries’ contributions and loans secured from the commercial banks. This strategic arrangement will mobilize US\$15 million in private investment. The project will also mobilize US\$2 million in private investment through interventions in innovation and entrepreneurship. Furthermore, the project will support a better business environment for investment through improvements in last-mile agriculture public goods and services delivery, including quality infrastructure and enhancement of data quality enabling private sector investment along different agricultural value chains that are dominated by small and medium producers. To maximize private sector engagement, the project will leverage synergies with the International Finance Corporation (IFC) through planned IFC investments and/or advisory services when opportunities arise.

9. **Rising impacts of climate change are a major threat to the agri-food sector in Sri Lanka.** Changing rainfall patterns, rising temperatures, and extreme weather events adversely affect farm production, aggregation, processing, and distribution along agri-food value chains. Future projections expect drier areas to become drier and wetter areas to become wetter. Significant losses have already been reported due to the rising incidence of climate shocks, affecting the livelihoods of farmers as well as other value chain actors. The 2016/2017 drought reduced rice yields by 40 percent, mainly affecting dry and intermediate zones of the country.⁶ Tea, the main export crop concentrated in the wet zone, also saw a significant decline in production in years affected by drought.⁷ Rapid land, watershed, and critical habitats degradation due to unmanaged expansion of smallholder agriculture further increases the vulnerability of rural livelihoods. Declining forest cover, loss of fertile soil, and unsustainable land management reduce land productivity, causing economic losses. Climate change disproportionately affects poorer households which are more dependent on farming income.⁸ According to the Climate Risk Index 2021, Sri Lanka is the 30th most climate-vulnerable country in the world and highly susceptible to extreme weather events.

10. **Sustainable and climate-resilient growth of the agri-food system requires improvements to water use efficiency, especially in the dry zones, which host two-thirds of Sri Lanka’s farmland and the bulk of its irrigation infrastructure.** Agriculture is the largest consumer of water, and its efficiency remains low. The key staple crop, paddy rice, is highly water intensive, and farmers have few incentives or opportunities to shift out of paddy production or improve efficiency, due to prevailing subsidies and restrictions on conversion of paddy land to other agriculture uses. Low levels of water productivity and

⁶ Gunaratne, et al. 2021. “Climate Change and Food Security in Sri Lanka: Towards Food Sovereignty.” Humanities and Social Science Communications.

⁷ Wijeratne. 2018. “Climate Change and its Implications on the Tea Industry in Sri Lanka. Sri Lanka Tea Industry in Transition: 150 Years and Beyond.” It is also worth noting that smallholder tea farmers who are at lower elevations than estates now account for most tea production and are especially vulnerable to rising temperatures.

⁸ World Bank. 2021. Rural Nonfarm Sector and Livelihood Strategies in Sri Lanka: Background Report to Sri Lanka Poverty Assessment.



water use efficiency heightened Sri Lanka's vulnerability to climate change, including extreme weather patterns.⁹ At the same time, there is a need for investments to continue to improve Sri Lanka's traditional 'cascade systems', which are small community-managed watersheds that include water storage tanks (artificial lakes), paddy command areas, upland farming zones, and associated watersheds. Poor land management leads to siltation that decreases the holding capacity of irrigation reservoirs. Much of the infrastructure requires rehabilitation to ensure reliable water supply and efficiency, which are key to a modernized food system. Climate change exacerbates the risks of resource degradation and loss of ecosystem services and necessitates integrated solutions for effective natural resources management.

11. Efforts to improve the competitiveness of the sector must also address structural inequities to strengthen opportunities for economic inclusion. Sri Lanka has low levels of female participation in the labor force remain consistently at around 30 percent (compared with around 75 percent for men). Rates of informal employment for women are highest in the agriculture sector (43 percent) as opposed to the services sector (33 percent); in the agriculture sector (non-plantation), women are likely to be involved in unpaid labor and/or have less control over the later stages of production that are linked to income generation. There are less than half as many female-led SMEs in agriculture than male-led ones and they face greater barriers in accessing business skills and markets and possess lower knowledge of agricultural machinery and technologies. Gender disparities in land ownership, control over resources such as water, access to markets, and skills training are often neglected aspects in rural development programming¹⁰ and limit women's ability to obtain agricultural assets, services, and benefits such as subsidies, credit, irrigation water, and so on. Significant gender disparities persist, particularly in women's participation and leadership within local decision-making bodies, such as Watershed Management (WSM) Committees, farmer organizations (FOs), and irrigation organizations. Women comprise only about 40 percent of members in WSM Committees.¹¹ People with disabilities are highly vulnerable to exclusion from economic activities, as well as the aging population with a declining share of children; around 71 percent of people living with disabilities above the age of 18 are not engaged in economic activities.¹² The project will address these gaps by specifically targeting women in productive partnerships (PPs) and entrepreneurship and strengthening decision-making in cascade management committees (CMCs) and FOs.

12. Over the past decade, the World Bank and IFC have worked to support Sri Lanka's agriculture sector. FOs such as producer groups and farmer companies have been established under various project interventions in Sri Lanka to accelerate commercialization in non-plantation agriculture and support improved market links. The World Bank-financed Agriculture Sector Modernization Project (ASMP, P156019) aimed to strengthen agribusiness partnerships and improve farming practices. It had registered 141 new farmer producer organizations, supported the formation of farmer-owned and operated public unlisted companies (PUCs), and reported an overall 44 percent increase in the average value of sales. Meanwhile, IFC has provided targeted technical assistance to export-oriented sectors, particularly cinnamon, coconut, and SME exporters. It has also supported value chain development through financial products, agri-insurance, and digitization efforts. Several recent and ongoing World Bank-financed projects in Sri Lanka support promotion and adoption of modern technologies and climate-smart

⁹ Salman, M., et al. 2022. "Efficient Agricultural Water Use and Management in Paddy Fields in Sri Lanka - National Outlook." Rome.

¹⁰ USAID (United States Agency for International Development)/Sri Lanka. 2020. Gender and Social Inclusion Analysis. Final Report.

¹¹ Irrigation organizations in general tend to accept membership only of farmers who own land for growing paddy (FAO 2018). A review report on women's involvement in agriculture in Sri Lanka indicates that in FOs of minor systems, women's involvement averages around 22 percent but in major irrigation systems (over 200 ha), female representation is 2–5 percent (Gender Issues in Agriculture-Sri Lanka).

¹² USAID/Sri Lanka. 2020. Gender and Social Inclusion Analysis. Final Report.



practices. The Climate Smart Irrigated Agriculture Project (CSIAP, P163742) and the Integrated Watershed and Water Resources Management Project (IWWRMP, P166865) focus on building climate resilience and natural resource management and, to date, report over 40,000 ha of land with improved irrigation services. The CSIAP has provided around 49,000 ha of agricultural land around minor tanks with improved climate-smart agriculture practices. However, in the sector, demand-driven approaches for value chain development, improvements to the enabling environment, and an integrated area-based approach for climate resilience remain as gaps. This project undertakes the concept of Productive Partnerships to establish a market-led approach to value chain development and a concentrated area-based approach for irrigation infrastructure development with integrated agricultural interventions.

II. PROJECT DESCRIPTION

13. The Integrated Rurban Development and Climate Resilience Project builds on current and recently closed World Bank-financed operations and other sector engagements designed to rapidly address pressing development challenges, especially as Sri Lanka recovers from the economic crisis. It is the first in a Series of Projects (SOP), envisioning two projects over a nine-year period, that incorporates learning and institutional development for multisector solutions and adjusts the implementation approach as needed across projects. The World Bank and IFC are collaborating to create an enabling environment for smallholder producers to link with commercial buyers and financial institutions, with IFC providing complementary technical assistance to the sector to enhance service delivery (see Figure 1). The SOP will deepen investments in the enabling environment, boost market links, and invest in coordinated efforts for climate resilience to bring greater competitiveness and private sector engagement in the agriculture, livestock, plantation, and aquaculture sectors. This will support Sri Lanka's objectives of increasing agriculture exports and ensuring a sustainable and climate-resilient agri-food production system with improved coordination among a number of departments and agencies.

A. Project Development Objective

The Project Development Objective (PDO) is to increase productivity, market access, and climate resilience of agri-food producers in selected areas.

B. Theory of Change and PDO Indicators

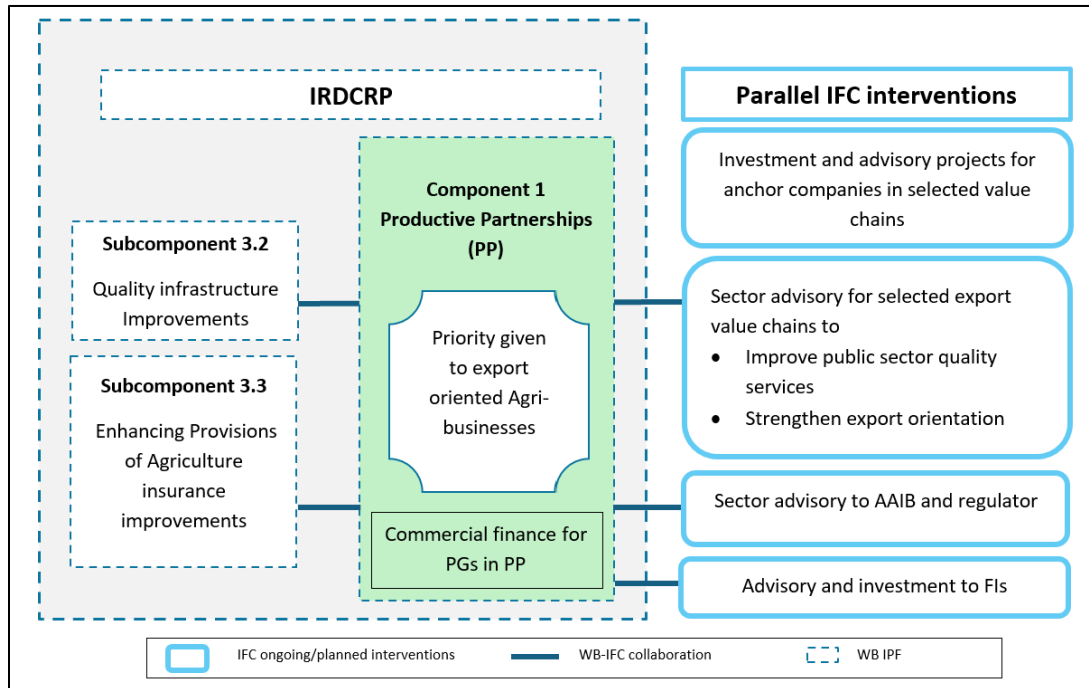
14. **The project's Theory of Change, in Figure 2, outlines the challenges constraining sustainable rural development.** The project will contribute to alleviating poverty and food insecurity in rural Sri Lanka by addressing unreliable water access, low agricultural productivity, and limited market connectivity, all of which are exacerbated by climate impacts. It focuses on improving smallholder farmers' access to value chains, finance, and insurance and strengthening institutional frameworks. Key activities include forming and building the capacity of producer groups (PGs), promoting youth entrepreneurship, and adopting climate-smart agricultural technologies. These interventions aim to enhance productivity, market access, and climate resilience, ultimately improving smallholder incomes and fostering inclusive and sustainable rural development.

15. PDO Level Indicators

- Agri-food producers adopting improved and climate-resilient agricultural technology or practices supported by the project (Number)
- Area provided with improved irrigation or drainage services (Ha)

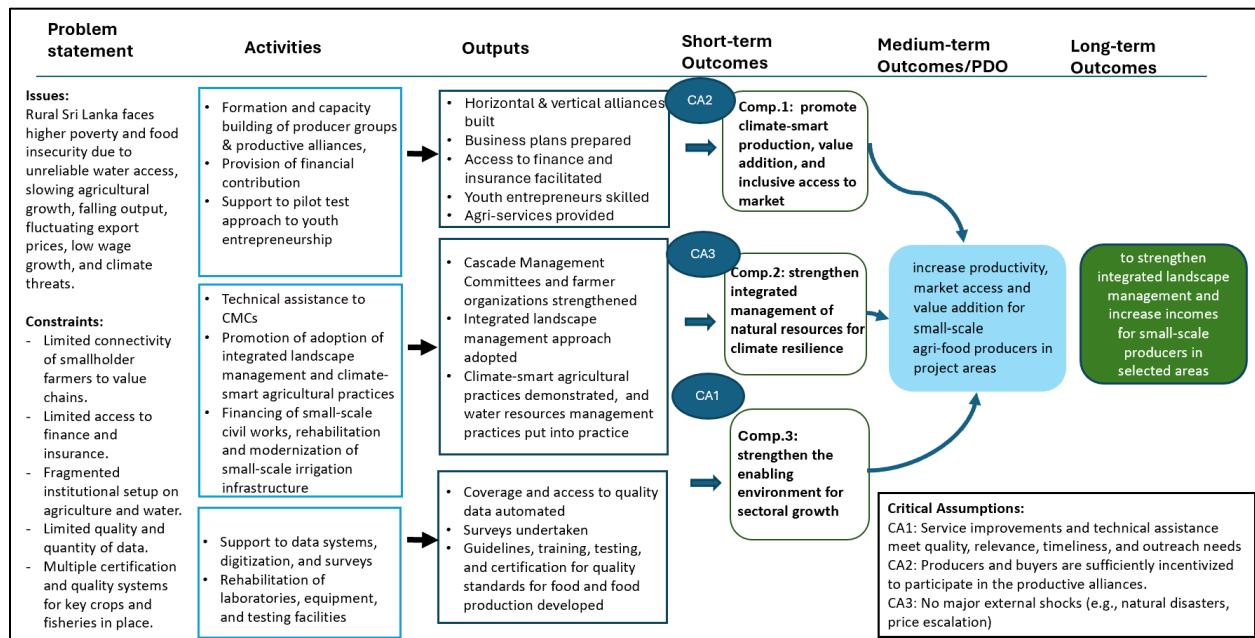


Figure 1. One World Bank Group Approach to Collaborated Activities



Note: IRDCRP = Integrated Rurban Development and Climate Resilience Project.

Figure 2. Theory of Change





- Agri-food producers with increased marketed value of their produce of at least 15 percent compared to comparison group through Productive Partnerships (Number)
- People with enhanced resilience to climate risks (disaggregated by sex) (Number) [CRI].

C. Project Beneficiaries

16. **The project's main beneficiaries are small-scale and medium-scale producers and households engaged in the agri-food sectors and residing in the project areas.** The project will also benefit agribusiness firms through support for improved market links. Component 1 will directly benefit an estimated 10,000 beneficiaries of small- and medium-scale holdings in agriculture, plantation, aquaculture, and livestock with technical assistance and access to finance to boost value addition and strengthen market links, as well as youth and women entrepreneurs to develop enterprises in agricultural services across the country. Component 2 will benefit around 380,000 people with enhanced resilience to climate risks in targeted landscapes in 12 districts¹³ where climate hotspots were identified. The project will take steps to address gender gaps and facilitate participation in and access to the project benefits for female farmers. Component 3 will support the delivery of services to the sector in both public goods and quality of data and sector information, which will benefit a large share of producers, including export-oriented producers.

17. **Several other groups are expected to benefit from the project.** Agriculture, livestock, and aquaculture processors and other off-takers will benefit from lower transaction costs in sourcing higher-quality products through the project's support of national quality infrastructure to improve the production capacity of PGs and invest in their ability to add value to and market their production. Government institutions will benefit from strengthened institutional capacity for providing higher-quality public services and better data for decision-making. Domestic private sector companies will benefit from serving as suppliers of production inputs.

D. Project Components

18. **The project has five components** financed through a US\$100 million IDA credit, US\$3 million in contributions from the Government of Sri Lanka (GoSL), and US\$17 million mobilized from private capital, including from small and medium producers and producer organizations. The GoSL contribution would be used for the payments of government staff salaries, allowances, and taxes and charges under Component 3. The project is exploring the possibility of using financing from the Green Climate Fund (GCF) Cooling Facility already allocated to Sri Lanka, to expand the scope and impact of the project.¹⁴

19. **Component 1: Promotion of Climate-Smart Production, Value Addition, and Inclusive Access to Markets** (US\$47 million: IDA US\$30 million, private capital US\$17 million). This component will promote climate-smart agricultural production by supporting growth-oriented small and medium producers to establish and/or upgrade their market links with off-takers in a market-driven, profitable, and sustainable way and intensify and add value to their production. The project will do so by: (a) supporting the strengthening of organized PGs or producer companies with a particular focus on export orientation and facilitating PPs between producers and buyers through the preparation of business plans; and (b) competitively selecting and facilitating access to blended finance for the most commercially viable,

¹³ Hambantota, Kilinochchi, Mullaitivu, Trincomalee, Batticaloa, Ampara, Anuradhapura, Polonnaruwa, Kurunegala, Puttalam, Monaragala, and Jaffna.

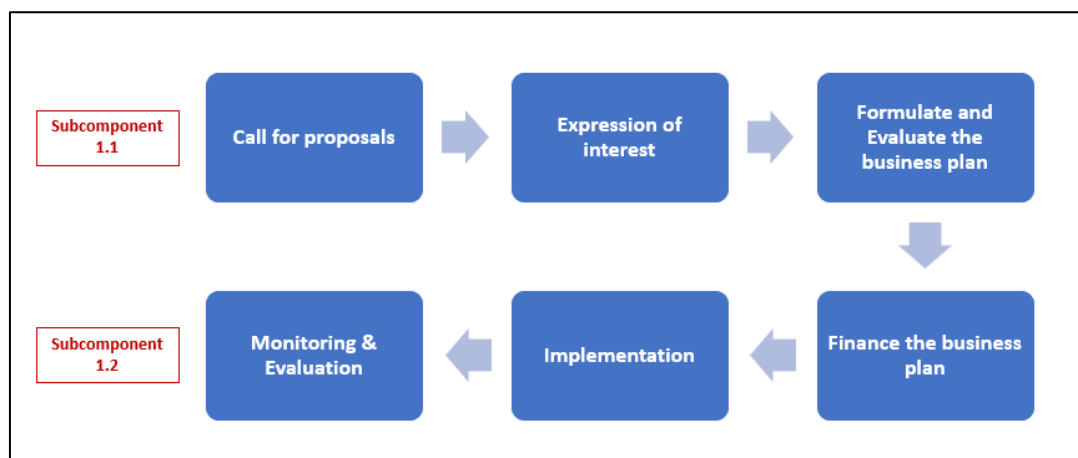
¹⁴ In October 2021, the GCF Board approved US\$36 million for Sri Lanka as part of a larger program named 'cooling facility', submitted by the World Bank. The facility is available until 2032 for implementation. The GCF funds under the cooling facility can only be used for cooling-related activities.



inclusive, and climate-smart business plans. The project will also spur the private sector provision of agri-services targeting innovative youth entrepreneurs through training and business development support. The project will focus on investments for PGs to build capacity, link effectively to markets, and boost climate resilience by improving cold chain management and adopting climate-smart practices. This will complement ongoing and planned investments and advisory services from IFC focused on agribusinesses and tighten value chains in the agriculture sector, especially for exports.

20. **Productive partnership involves three core agents: a group of smallholder producers, one or more buyers, and the public sector.** These agents are connected through a business proposition, or ‘business plan’, which describes the capital and services needs of the producers and proposes improvements that would allow them to upgrade their production capacities and skills to strengthen their links with the market, that is, the buyer(s). The implementation of business plans (Figure 3) through a subproject is typically supported through three core inputs and/or activities directed toward the producers’ needs including business development, technical assistance, and productive investments. Through this approach, the project will support growth-oriented small and medium producers organized in legally registered companies to establish and/or upgrade market links with commercial off-takers.¹⁵

Figure 3. PPs’ Implementation Cycle



- **Subcomponent 1.1: Capacity Building and Development of Horizontal and Vertical Alliances** (IDA US\$5 million). The project will finance works, goods, and services for upgrading of organized and legally registered producer cooperatives or companies;¹⁶ facilitation of PP agreements; and formulation of business plans. Under this subcomponent, the project will support pre-investment activities for project promotion and business plan identification, including: (a) outreach, awareness raising, communication strategies, seminars, study tours and workshops,¹⁷ and technical assistance in facilitating links between small and medium-scale producers with agribusinesses, buyers, and off-takers; and (b) training, technical assistance, operational cost, and consulting and non-consulting services

¹⁵ This approach has been successfully supported in Sri Lanka under the International Fund for Agriculture Development (IFAD) financed SAPP (2017–2025), where nearly 40 partnerships between buyers and PGs have been established. The project builds on this experience and incorporates lessons learned from this program as well as from the World Bank’s experience globally in financing PPs. The project also builds on ASMP’s experience through its productivity enhancement and diversification investments and successful support to vertical and horizontal alliances.

¹⁶ As the project builds on several ongoing programs, the project will, as a first priority, leverage existing organized PGs such as cooperatives, farmer groups, producer societies, or PUCs established and strengthened under other projects.

¹⁷ These activities will strengthen the capacity of the institutions leading the pre-investment activities and supporting the formation of partnerships and market access.



to support the selection and preparation of joint business plans, including investment requirements for small and medium producers to upgrade their productive capabilities to meet the commercial agreements. Facilitators and service providers will enable the establishment of PPs around fair and transparent commercial agreements that will lead to the formulation of detailed business plans. Business plans will need to be fully market-driven, gender-inclusive, environmentally sustainable and climate-smart, that is, they will support producers to adopt sustainable and resilient technologies and practices, for example, through bulk purchases of inputs like drought-resistant seeds and organic fertilizers or providing market access to sustainable eco-friendly or carbon-neutral products, among others. Facilitators and service providers will prepare PGs for the implementation of their business proposals by strengthening their technical and business capacities, including climate risk management strategies for enhanced adaptation. The business plans will focus on environmental sustainability (such as pollution mitigation) and carbon neutrality (energy efficiency) and will be screened for this through an independent evaluator. This subcomponent complements ongoing investments/advisory by IFC in agribusinesses by focusing on key value chains where small-scale producers may be organized and strengthened as export-oriented market players in the value chain, meeting downstream requirements of buyers and off-taker agribusinesses.

- **Subcomponent 1.2: Improved Market Integration for Increased Climate-Smart Production and Value Addition** (US\$35 million: IDA US\$20 million, private capital US\$15 million). The project will support works, goods, services, and investment grants to competitively select eligible PP business plans and support their implementation, by facilitating small and medium producers to invest in technical assistance, productive assets, fixed capital (such as equipment and minor infrastructure); working capital to finance business expenditure; and inputs. Viable business proposals identified through a competitive process will be financed through a blended financing arrangement consisting of: (a) beneficiary contribution, (b) a credit consisting of a loan at market rates to the legally registered PG extended by a commercial financial institution, and (c) contribution from the project to the PG.¹⁸ The *project contribution* will serve to de-risk the investment of commercial banks and incentivize the adoption of innovative, climate-smart, and energy-efficient technologies, including those that enhance climate resilience and promote cold chain investments. Investments in this component complement ongoing and potential IFC engagements in the agri-finance sector that can unlock additional funds on the agribusiness and producer side, including advisory services and investments.
- **The project will strengthen commercial and economic inclusion through two or more windows with different target beneficiaries and different shares of blended finance.** The windows' different conditions will be tailored to the needs of the producer organization with different levels of development, business experience, and readiness for commercial activities. The two windows will operate in line with eligibility criteria and financing caps, detailed in the Project Operations Manual (POM). Subprojects will be selected via a demand-driven, transparent mechanism that ensures compliance with technical, financial, social, climate-smart, and environmental parameters detailed in the POM. Additionally, it will identify opportunities to strengthen energy efficiency and cooling in the value chain.

¹⁸ This support will be provided on a case-by-case basis as some groups may be able to afford more than others. This portion of the financing will be disbursed once the beneficiary contribution has been received and/or the credit arranged.



Additional consideration will be given to female-headed or organized producers with significant ownership of women in the evaluation process.

- **Subcomponent 1.3: Strengthening Private Sector Provision of Agri-services through Innovation and Entrepreneurship** (US\$7 million: IDA US\$5 million, private capital US\$2 million). The project will support works, goods, services, and investment grants to entrepreneurs to spur private sector provision of agri-services, with a focus on promoting business opportunities for women and youth along the value chain. Technical assistance under the project will support the identification and competitive selection of innovative entrepreneurs in the provision of services in the agriculture sector,¹⁹ including machine services, machine repair services, and business development services, among others. The project will support training and capacity building, entrepreneurship support (including business development support, mentorship, and skilling), and climate risk management and adaptation and help entrepreneurs obtain blended credit, including facilitating access to credit on market rates together with an investment grant to offset costs of business startup (including working capital for business expenditures, assets, and small infrastructure). The POM will outline the outreach, selection, oversight, financial disbursement, monitoring, and reporting process. Activities in this subcomponent will target women, youth, the disabled, and other underrepresented and marginalized populations through outreach and awareness raising to foster entrepreneurship and job creation along value chains and in the rural economy.

21. **Component 2: Integrated Management of Natural Resources for Climate Resilience** (IDA US\$55 million). This component will enhance the climate resilience of natural resources through: (a) improving the institutional governance of natural resources in cascades and village tanks through continued strengthening of CMCs, including strengthening gender equality in leadership; (b) enhancing water resources management in small, medium, and major irrigation systems to increase water use efficiency and productivity; and (c) supporting the accelerated adoption of CSA practices to improve productivity, strengthen climate adaptation, and increased greenhouse gas (GHG) mitigation and carbon sequestration. The component builds on, replicates, and scales up several successful models and interventions from the CSIAP and the IWWRMP and aims to bring improved institutional coordination between agriculture and irrigation sectors. The component has the following subcomponents:

- **Subcomponent 2.1: Improving Cascade Management and On-Farm Water Use Efficiency** (IDA US\$22 million). This subcomponent will focus on village tank cascade systems that come under the mandate of the Department of Agrarian Development (DAD) in climate hotspot areas. This subcomponent will: (a) strengthen integrated management of cascades by applying integrated landscape management principles for climate resilience and carbon sequestration²⁰; and (b) undertake restoration and rehabilitation of critical small hydraulic infrastructure, including small tanks, ponds in the project areas, agro-wells, and access roads using materials that are resilient to extreme weather events such as heatwaves and/or flooding to enhance water availability and productivity. The project will support CMCs through institutional strengthening and implementation of small-scale interventions

¹⁹ The activities build on a similar youth entrepreneurship model from the IFAD-financed SAPP, as well as similar programs for skilling along the value chain (Australian High Commission) and World Food Programme (training youth in machine repair) that demonstrated the potential to create jobs in the services sector, especially among women and youth.

²⁰ Integrated Landscape Management is a holistic approach to managing land resources that aims to balance social, economic, and environmental objectives. The principles of Integrated Landscape Management focus on collaboration among diverse stakeholders and sustainable use of natural resources within a landscape.



identified in Cascade Management Plans (CMPs) (for example, human-wildlife conflict, degradation of catchments, improvements to drainages) and that capture underutilized opportunities (for example, community-based aquaculture). Implementation support for landscape management plans will include creating incentives for adopting alternative means of resource use (for example, multipurpose soil conservation bunds, conservation farming, reforestation, tree-planting, land leveling, and community forestry) in degraded patches of land and alternative livelihoods for resource users. These interventions build on, replicate, and scale up support to 61 CMCs established under the CSIAP and fund priority small-scale interventions identified in CMPs. All tank rehabilitation and infrastructure development activities will be monitored by DAD together with CMCs. The project will leverage community-based contracting FOs to support the implementation of small-scale maintenance and repair works, creating local opportunities. Additionally, priority will be given to engaging poorer, female-headed, and vulnerable households, particularly in the seasonal works.

- **Subcomponent 2.2: Irrigation and Water Resources Management** (IDA US\$30 million). This subcomponent will help: (a) improve the productivity of irrigated agriculture in major and medium irrigation schemes through improved water resource management; and (b) enhance the adaptive capacity of the local landscape and population from climate-induced droughts and floods. The activities will focus on the same districts where investments in small tanks under Subcomponent 2.1 will be carried out according to the selection and prioritization criteria detailed in the POM. The project will support goods, services, and civil works for the improvement of water use efficiency and productivity, modernization of on-farm and off-farm irrigation and drainage canals and diversion structures, improving watershed management, and capacity strengthening of FOs, specifically in water management, operation, and maintenance of hydraulic assets. This subcomponent will also finance the goods and services to: (a) enhance data systems and operational models for the Irrigation Department; and (b) develop a joint framework for investment prioritization for all stakeholders, toward improving water use efficiency and water resources management and strengthening coordinated action for improved natural resources management in the designated areas.
- **Subcomponent 2.3: Boosting Climate Smart Agriculture Technologies and Practices** (IDA US\$3 million). This subcomponent will promote adoption of CSA technologies and practices in the village tank cascade systems and major and medium irrigation schemes where integrated resource management and infrastructure rehabilitation is taking place under Subcomponents 2.1 and 2.2. The on-farm benefits of CSA practices will be tailored to the specific agro-ecological context and will focus on promotion and adoption of these practices by farmers. The project will support goods and services related to research, demonstration, and extension of CSA practices to promote adoption, as well as outreach and training, such as through farmer field school and farmer training school models. Customized packages designed to address local climate risks such as droughts, floods, variations in rainfall patterns and extreme events in both paddy command areas (for example, alternate wetting and drying [AWD], drought-resistant varieties, salinity-tolerant varieties, inter-season cultivation, and crop diversification) and upland farming areas (for example, micro irrigation and solar water pumping, movable rain shelters for off-season production, agro-wells, and soil health improvement measures) will be promoted.



22. **Component 3: Strengthening the Enabling Environment for Sectoral Growth** (US\$14 million: IDA US\$13 million, GoSL US\$1 million). This component supports the enabling environment to boost competitiveness and modernization of the agriculture sector by: (a) improving the quality and availability of sector data for improved evidence-based decision-making, (b) improving critical quality infrastructure for market access and competitiveness, and (c) enhancing the provision of agricultural insurance.

- **Subcomponent 3.1: Better Quality and Availability of Agriculture Data** (IDA US\$2 million). This subcomponent will improve the availability and quality of public data for improved decision-making in the sector. The project will finance goods and services for: (a) improving the quality and availability of existing data systems collected by the Ministry of Agriculture, Livestock, Lands and Irrigation (MoALLI) and departments and capacity building; and (b) conducting at least two agriculture surveys to improve the availability of sector-level information, including climate and environmental risks and market information. This subcomponent will be supported with additional technical assistance for the design of data architecture systems and agricultural survey design from the 50x2030 initiative.²¹
- **Subcomponent 3.2: Quality Infrastructure Improvements** (US\$11 million: IDA US\$10 million, GoSL US\$1 million). This subcomponent will support the national quality infrastructure (NQI) for food safety and trade in food and agriculture products. The project will finance goods, services, and small civil works packages related to: (a) digitization and automation services through, for example, interoperable workflow management and traceability systems for relevant agencies; (b) a strategic study on prioritized investments that support improvements in certification, testing, traceability, and other laboratories services; and (c) investments in sustainable capacity building and equipment to meet NQI needs, especially for export sectors and food safety. The project will also identify opportunities to strengthen the cold chain performance to ensure that the storage, transport, and processing of the products meet the necessary standards in terms of temperature to support sustainable cold chain networks. By addressing issues such as sanitary and phytosanitary standards and monitoring that are expected to worsen with climate change (and other non-climate factors), this subcomponent directly builds resilience to climate risks such as climate-driven phytosanitary contamination and temperature-sensitive food safety threats. It will also support mitigation efforts by reducing cooling energy requirements. This subcomponent complements ongoing advisory by IFC in improving quality certifications for export-oriented agri-produce, meeting high-value destination market buyers' requirements.
- **Subcomponent 3.3: Enhancing Provision of Agricultural Insurance** (IDA US\$1 million). This subcomponent will support the expansion of agricultural insurance provision. The project will support goods and services to the Agriculture and Agrarian Insurance Board (AAIB) to support operational efficiencies, digitization, and expanded coverage for potential beneficiaries. This includes hardware and software upgrades to AAIB to improve operational efficiencies and complement innovative product developments. These investments to AAIB will complement potential parallel IFC technical assistance to develop crop insurance products, especially targeting beneficiaries of the PPs.

²¹ The 50x2030 initiative is a multiagency partnership that seeks to transform data systems in 50 countries by 2030 by improving availability of high-quality, relevant agricultural data for policymakers.



23. **Component 4: Project Management, Monitoring and Learning** (US\$4 million: IDA US\$2 million, GoSL US\$2 million). This component will support the overall management, implementation, and supervision of project interventions; capacity building; and monitoring, evaluation, communication, dissemination, and continuous learning throughout the life of the project. The project’s progress and impacts will be monitored and evaluated, notably through a baseline, midterm, and end-of-project impact assessment as well as on-demand quantitative or qualitative studies.

24. **Component 5: Contingent Emergency Response Component** (US\$0 million). This zero-dollar component will allow for swift reallocation of unallocated credit proceeds from the other components to provide emergency recovery support following an eligible crisis or emergency. If an eligible emergency is being declared, the GoSL may request the World Bank to reallocate project funds to support the response effort. Activation of the CERC (and financing to be provided) will require the World Bank’s no-objection upon: (a) declaration of an emergency by the GoSL; (b) a request letter for CERC activation and the evidence required to determine the eligibility of the emergency as defined in the CERC Manual; (c) an Emergency Action Plan, including the emergency expenditures to be financed; and (d) meeting the environmental and social requirements as agreed in the Environmental and Social Commitment Plan and CERC Manual.

E. Role of Partners

25. The overall engagement strategy involves leveraging the expertise and resources of various partners to enhance agricultural development and financial access for smallholders. The design of Component 1 was heavily informed by the ongoing International Fund for Agriculture Development (IFAD) engagement in the sector.

Table 1. Role of Partners

Name of Partner	Nature of Involvement/Description
IFAD	<ul style="list-style-type: none"> Building on and further scaling up experiences under the Smallholder Agribusiness Partnership Programme (SAPP) to strengthen market-led value chain development and improve access to credit for smallholders. Future co-financing options for this project are being explored.
Asian Development Bank (ADB)	<ul style="list-style-type: none"> Investment program in the establishment of National Credit Guarantee Institute (NCGI) offering credit enhancement to the financial sector for micro, small, and medium enterprise lending, including for the agriculture sector Planned investment program to provide long-term financing for the agriculture sector, alongside technical assistance to financial institutions on product development for agri-finance.
Food and Agriculture Organization (FAO)	<ul style="list-style-type: none"> Drawing on lessons for CSA practices and dissemination methods such as farmer field schools and farmer business schools.
Gates Foundation	<ul style="list-style-type: none"> Strengthening the quality of data at MoALLI will improve inputs to the Inclusive Digital Agriculture Transformation (IDAT) system for data-driven policy making.
United Nations Industrial Development Organization (UNIDO)	<ul style="list-style-type: none"> Support to quality infrastructure complements technical assistance and support to trade facilitation and National Single Window.

F. Lessons Learned and Reflected in the Project Design

26. **Productive alliance projects have been effective in increasing productivity, market integration, and income for smallholder farmers.** Globally, World Bank-financed productive alliance projects have resulted in improved manufacturing and production practices, increased land productivity, greater market access for smallholder farmers, and increased incomes for farmers as well as job creation and



employment. This project includes many of the lessons learned on design features and implementation experiences.

27. **Building vertical alliances between smallholders and agribusinesses, fostering horizontal alliances through PGs, and establishing trust among stakeholders are key elements for a successful outcome.** SAPP in Sri Lanka, supported by IFAD, offers valuable insights into building PPs in Sri Lanka that enhance market links, inclusivity, and sustainability. This is evident from SAPP's public-private-producer partnership (4P) model, which leverages co-financing and shared risks to drive engagement. The program identified high-demand value chains and promoted scalability while supporting value addition to enhance incomes. A key lesson learned from the SAPP is the need to further engage the financial sector to strengthen access to credit for PGs, thereby reducing risks and transaction costs. The SAPP also offers a successful model for engaging youth and women in the agriculture sector, which has been incorporated in the current project design.

28. **Forming PGs enables smallholders to collectively access high-value markets by leveraging economies of scale, improving quality, and reducing information asymmetry.** As shown by other programs in South Asia and other regions, establishing shared infrastructure facilitates direct links with larger buyers. However, the sustainability of these groups depends on their economic purpose and long-term support. Business service providers play a vital role in linking producers to markets by conducting supply chain analyses, fostering agreements, and building the capacity of all stakeholders. Investments in skills development and equipment, alongside strategic cost-sharing grants, reduce risks for both producers and buyers. Trust between producers and market actors, supported by flexible partnerships and the use of existing networks, improves market outcomes. Progressive intermediaries, such as traders and input suppliers, often have the capacity to adapt and enhance marketing systems, further benefiting smallholders. Projects such as the Sri Lanka ASMP reveal the importance of aligning farm-level upgrades and business development with market demand. Matching grants and producer alliances around high-value crops such as tropical fruits or niche sectors such as shrimp provide pathways to scale. On the other hand, the need for proper planning, implementation, and auditing, as well as rigorous capacity building of alliances and improved stakeholder coordination, has been identified as a key lesson for the future.

29. **Using government mechanisms and community engagement for project execution strengthens ownership, builds capacity, and institutionalizes best practices.** The IWWRMP demonstrated the value of government-led coordination, including environmental and social management, grievance redress, and community engagement, fostering technical expertise and long-term sustainability. The CSIAP highlighted the benefits of mobilizing inclusive CMCs for integrated water management, enhancing local ownership, resolving conflicts, and ensuring sustainable maintenance. Addressing gaps in participation and technical expertise through training and better representation of women and youth can further improve effectiveness.

30. **Cross-sectoral integration improves the effectiveness of agricultural and conservation projects.** For instance, the IWWRMP shows the potential benefits (not fully exploited) of combining water management with on-farm support for productivity. Similarly, the World Bank-financed Ecosystems Conservation and Management Project (P156021) underscores the importance of combining livelihood support for communities with natural resource management to reduce dependency on protected areas and mitigate human-wildlife conflicts.

31. **Globally, evidence from World Bank-financed projects shows that empowering women and youth through targeted skill-building, entrepreneurship support, and digital inclusion can significantly enhance livelihood opportunities and foster inclusive growth.** Programs integrating technical and vocational education with access to finance, childcare, and digital skills training are particularly impactful,



and youth and women will be specifically supported with programs that provide start-up financing, entrepreneurial training, and mentorship.

III. PROJECT IMPLEMENTATION

A. Institutional and Implementation Arrangements

32. **Recipient and implementing agency.** The recipient of the IDA credit will be the Democratic Socialist Republic of Sri Lanka, represented by the External Resources Department of the Ministry of Finance, Planning and Economic Development. The overall responsibility for project implementation, including management and coordination, will lie with the MoALLI through a Project Management Unit (PMU).

33. **A Project Steering Committee (PSC) will ensure effective coordination at a higher level and provide strategic advice.** The PSC will be established by no later than 90 days after credit effectiveness and will have representatives from relevant ministries, departments, provincial councils, and the finance commission. The key functions of the PSC will be to review the annual workplans and budgets and provide overall guidance and debottlenecking for the project. The PSC will convene quarterly or as needed for implementation.

34. **The PMU** will be established at the ministry level by no later than 30 days after credit effectiveness and will be responsible for coordinating the implementation of different activities and subcomponents under respective departments. It will be responsible for the procurement arrangements of all investments, which will include drafting the terms of references (TORs), technical specifications, bidding documents, and requests for proposals. The PMU will also be responsible for conducting the selection of consultants and all other procurement-related activities; signing, paying, and managing contracts; monitoring; and reporting as specified in the POM and unless otherwise delegated. MoALLI will manage project Designated Account (DA) in the Central Bank of Sri Lanka (CBSL) and will be responsible for overall project reporting to the World Bank. The PMU will draw primarily on government staff and will be strengthened with technical experts, as needed, either through internal staff appointed or through external hiring.

35. **Detailed arrangements.** The PMU is responsible for the implementation of all project components on behalf of MoALLI. It will be responsible for all procurement of civil works, goods, and services related to the implementation of these activities as well as contract management and payments. Activities under each subcomponent will be implemented in close coordination with Chief Secretaries, Provincial Authorities, Field Officers, or other relevant stakeholders. The implementation of the components will be as follows:

- **Component 1** implementation related to PPs will be supported through a Technical Committee made up of focal points from relevant departments,²² an Independent Evaluation Committee, and implementation support consultants. The Technical Committee will support the PMU in identifying potential value chain partners and outreach. The PMU will support interested organized producers with technical assistance to facilitate partnerships and support in business plan development while the Independent Evaluation

²² The departments preliminarily identified for participation in the PP Technical Committee include DoA, Department of Export Agriculture (DEA), Department of Animal Production and Health (DAPH), National Aquaculture Development Authority (NAQDA), Coconut Development Authority (CDA), Rubber Development Department (RDD), Tea Smallholdings Development Authority (TSHDA), Department of Cinnamon Development (DCD), and Export Development Board (EDB). Additional members may be included during the project period depending on identification of new value chains for development.



Committee will review and recommend the business plans for financing. Project contribution will be disbursed to qualifying PGs for the PPs based on approved business plans and after confirmation of beneficiary contribution and approved credit. In addition, under Subcomponent 1.3, the PMU will manage a separate window on innovation and entrepreneurship, under which applications for participation in eligible training programs for machine repair, technical, or other services will be assessed, as well as proposals from eligible and qualifying entrepreneurs in agri-services provision.

- **Component 2** will be implemented by the PMU in close coordination with the DAD (Subcomponent 2.1), the Irrigation Division of MoALLI (Subcomponent 2.2), and Department of Agriculture (DoA) (Subcomponent 2.3). Each of these departments will nominate a deputy project director to coordinate and monitor project activities under their component.
- **Component 3** will be implemented by the PMU in consultation with relevant departments responsible for data quality (Agri-Tech Division), agriculture insurance (AAIB), and quality assurance in the agri-food sector. The PMU will be responsible for the procurement of goods, works, and services related to the activities under the component. Where lab upgrades are implemented, the PMU will include the relevant department or agency in the Procurement Committee and services are to be approved by the relevant department or agency before making payments.

B. Results Monitoring, Evaluation, and Verification Arrangements

36. **The project will include a technically and operationally rigorous monitoring and evaluation (M&E) system.** The PMU will design, implement, and institutionalize a robust M&E system to collect timely data and analyze the progress and outcomes of project activities. Analysis and interpretation of M&E data and findings will inform strategic and operational decisions and course corrections as well as be central to accountability and capturing lessons learned. The project will explore and use various evaluative approaches to assess its relevance, effectiveness, impact, efficiency, sustainability, and thematic evaluations on employment creation, hydrology, and agricultural productivity. This will be further complemented by regular monitoring of data collected by the PMU using real-time technology such as Geo-Enabling initiative for Monitoring and Supervision to facilitate data use, knowledge management, and communication.

37. **The project's management information system will be complemented with a geographical information system (GIS)** to map all expected infrastructure to be rehabilitated and constructed as well as natural resources (for example, watersheds, land use classification, crops), roads, and settlements. This GIS is expected to provide real-time data regarding the progress of the work and will assist the World Bank in remote supervision. To the extent possible, the GIS will also map the activities of other donors in the same areas to support coordination and collaboration. Since the project would involve personal data, requiring the collection, storage, processing, and transfer of personal data of beneficiaries, the POM will establish guardrails to protect the privacy of beneficiaries using data governance and personal data protection protocols, which will be in line with global best practices.

C. Disbursement Arrangements

38. The overall disbursement methods to be used under the project will be advance, reimbursement, direct payments, and special commitments. A separate dedicated DA for the project, denominated in US dollars, will be opened at the CBSL. This DA will be operated and managed by the PMU. Advances from the World Bank will be deposited in the DA, which will be solely used to finance eligible expenditures related to the project. The disbursements to the DA will be report-based. Grants would be paid using



banking channels, and there would be reporting of expenditures by the recipients, which will be included in the interim unaudited financial reports (IUFs). Beneficiary contribution in joint financing will be a maximum of US\$17 million. Quarterly IUFs will be submitted to the World Bank by the PMU within 45 days of the end of each quarter. The entire disbursement process will be handled using the World Bank disbursement mechanism/system. World Bank credit proceeds will be used to finance eligible expenditures necessary to meet the PDO, with due attention to efficiency and cost-effectiveness. If the World Bank determines that the credit proceeds have been used to finance ineligible expenditures, the GoSL will refund such amounts to the World Bank.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic, and Financial Analysis

39. Investments undertaken under the project are expected to have substantial development impacts during and beyond the project period. The project will generate increased returns from agriculture through higher agricultural output and productivity, increased value addition in selected products, and new market opportunities, fostering increased incomes and employment opportunities for the rural population. The direct benefits would result from investments in: (a) the provision of improved agricultural technologies; (b) strengthening of climate-smart water and soil resources management through the modernization of major and minor irrigation schemes, tanks, ponds and agro-wells, and watershed restoration practices; and (c) improved access to markets through the formation of productive alliances and improved quality infrastructure. Other expected benefits include: (a) strengthened capacity and the organizational level of producers and marketing groups; (b) increased awareness and use of technology, CSA methods, and water resources management practices through farmer schools and other training opportunities; and (c) improved institutional capacity of key ministries and select districts to develop and implement locally responsive district-level plans for convergence to foster rural development.

40. **Economic analysis.** A cost-benefit analysis was conducted on the project investments with direct quantifiable benefits, in Components 1 and 2. This includes the following activities: (a) financing of productive alliances and entrepreneurship, (b) investment in and rehabilitation of irrigation infrastructure, and (c) support for the adoption of CSA practices. Given the demand-driven approach of the project—particularly in Component 1—and the range of potential activities and actor profiles, several subprojects were modeled as examples. These include three models for productive alliance—(a) a banana commercialization plant with a capacity of 186 tons/year, (b) a modern onion storage infrastructure with a capacity of 13 tons, and (c) a milk processing center with a capacity of 180,000 liters per year—and one model of youth entrepreneurship—a group of four youths providing agricultural services to 220 farmers. The following additional activities have been modeled to illustrate the benefits of investing in the rehabilitation of irrigation tanks and micro irrigation infrastructure and encouraging the adoption of CSA: (a) cultivation of 0.5 ha on a plot located in a lowland area (including the cultivation of paddy, brinjal, tomato, green chilis, pumpkin, cowpeas, green gram, and onion); and (b) cultivation of 0.5 ha on a plot located in an upland area (including the cultivation of maize, cabbage, brinjal, pumpkin, cowpeas, black gram, and green chilis). Profitability indicators confirm the viability of these models. All examples yield net present values (NPVs) greater than zero and benefit-cost ratios exceeding 1, reflecting substantial additional margins and high returns on investment.

41. **Overall, the project interventions are economically justified**, generating an NPV (at a 10 percent social discount rate) of US\$126.4 million and an economic internal rate of return (EIRR) of 27.7 percent over a 20-year period, not accounting for environmental externalities. These economic results are



satisfactory (for example, the EIRR being almost three times higher than the social discount rate), given that several other project benefits could not be quantified due to the difficulty of assigning them a monetary value. In addition, these economic results are robust when testing several sensitivity scenarios, including delays in implementation, cost overruns, and reductions in benefits.

42. **The valuation of environmental externalities further enhances the economic justification of the project.** Based on the GHG accounting analysis, the project is estimated to mitigate GHG emissions by 1.34 MtCO₂-eq over 20 years (an average mitigation of approximately 0.07 MtCO₂-eq per year). This reduction is primarily driven by promoting the adoption of good agricultural practices across various crops, reforestation, and/or afforestation activities as well as enhancing water catchment areas and buffer zones surrounding the tanks in the cascade systems. The project interventions are also expected to generate substantial ecosystemic benefits, including a reduction in soil erosion and in the risk of flooding. When evaluating these environmental and ecosystemic benefits using the social price of carbon estimates,²³ the overall economic results of the project increase to an NPV of US\$159.7 million and an EIRR of 32.2 percent (assuming the low range pricing of US\$68 per tCO₂-eq) and an NPV of US\$192.8 million and an EIRR of 37 percent (assuming the high range pricing of US\$138 per tCO₂-eq).

43. **Climate co-benefits.** The project contributes significantly to climate adaptation and mitigation, with a strong emphasis on adaptation, through various interventions in CSA, water management, ecosystem protection, sustainable technology adoption, and enhanced market access. The specific mechanisms for achieving these climate contributions are outlined in the project's components. The project is consistent with Sri Lanka's Nationally Determined Contribution (NDC) commitments under the Paris Agreement,²⁴ the revised National Policy on Climate Change (2023), the 2050 Carbon Net Zero Road Map and Strategy (2023), and the National Adaptation Plan for Climate Change Impacts in Sri Lanka (2016–2025).

44. **The project is aligned with the goals of the Paris Agreement for adaptation and mitigation.** With respect to mitigation risks, the project activities conform to CSA pillars and are universally aligned with little or no risks of the operation having any negative impact on Sri Lanka's low-GHG emissions development pathway. The project promotes the adoption of low-carbon agricultural operations including AWD rice production, better soil management, energy-efficient irrigation, water conservation measures, conservation farming, and community forestry for reduced emissions and enhanced carbon sequestration. The project also promotes the adoption of climate-smart and energy-efficient processing and refrigeration investments designed to minimize emissions increase while also leveraging research, farmer field schools, and extension services for resource use efficiency and adoption of CSA practices. The private sector investment and business development activities under Component 1 have also been assessed for alignment with Sri Lanka's mitigation objectives and decarbonization plants and will aim to minimize emissions intensity by promoting sustainable production practices, renewable energy integration, and resource-efficient technologies across agribusiness value chains. With respect to adaptation risks, the project explicitly includes promoting the adoption of climate-resilient seeds and technologies, crop diversification, and interseason cultivation and strengthening institutions and governance to address climate impacts. The project also invests in climate-resilient irrigation, storage, warehouses, markets, access roads, and flood control measures to minimize climate risks. It promotes integrated watershed management practices to increase the resilience of the agriculture sector to climate change impacts. It also promotes farmers' access to finance, allowing investments in modern agricultural

²³ Based on the World Bank Guidance note on shadow price of carbon in economic analysis (November 2017).

²⁴ Sri Lanka committed to reduce GHG emissions by 14.5 percent for the decade to 2030, including an unconditional reduction of 4 percent. The updated NDC was submitted in 2021.



practices and climate-resilient measures across the value chain, thereby addressing climate risks and reducing the risks to an acceptable level.

45. **Gender.** The key sector gap identified is in women’s decision-making in governance, including in CMCs. Women’s lack of representation in leadership roles within CMCs has far-reaching implications. Without women in decision-making positions, their perspectives and needs are often overlooked in discussions on resource allocation, governance, and strategic decisions. This exclusion can exacerbate existing inequalities by limiting women’s access to essential resources such as water, agricultural inputs, and financial support, which are often controlled or distributed through community structures. The absence of female leaders also perpetuates cultural norms that undervalue women’s contributions to community development, creating a cycle of marginalization that undermines both gender equity and overall community resilience. To address this, women’s leadership will be supported through increased leadership training (Component 2) and by engaging with male members of the community to increase the acceptability of women in leadership positions and to sensitize men on the benefits of women in CMC leadership to the families and the community. Progress will be monitored by tracking women’s leadership in CMCs. Given the lack of data on women’s leadership roles in CMCs as well as other FOs,²⁵ the project will assess the extent of this gap, to be captured in a baseline study.

46. The project also identified gender gaps in farm and off-farm employment and agribusiness entrepreneurship. A critical factor underpinning these gender disparities is harmful attitudes that restrict women’s participation in labor, limit their income negotiation, and hinder their access to PGs and to services (including financial) and training.²⁶ To address this, the project will support women-led smallholder farm enterprises by providing tailored training, technical, financial, and business support to join in the PGs and PPs (under Component 1) and increase women’s access to financial services via blended credit (including grants to be funded under the project). This will be coupled with: (a) targeted outreach, training, and support for business development; (b) support for establishing women’s networks to increase cross-learning and implement mentorship programs; and (c) support for programs to change harmful attitudes and behaviors among families, within the community, and support for safety measures to enable increased women’s participation. By ensuring that women-led smallholder farm enterprises have access to these resources, the project aims to enhance the climate resilience of a greater proportion of women in the sector.

47. **Citizen engagement and beneficiary feedback.** The project has a comprehensive citizen engagement approach. Under Component 1, the project will support the capacity building of PGs, including the development of business plans and project contributions for select productive alliance business plans that receive commercial finance. Under Component 2, the project will support the scale-up and capacity building of the CMCs to provide avenues for locally led and coordinated action for natural resource management. It will also support the preparation and implementation of CMPs in a participatory manner. Furthermore, social audit committees will be formed to monitor civil works and consultations with relevant stakeholders will continue during implementation. Beneficiary feedback surveys and citizen scorecards will be used to assess the quality of the service delivery. Finally, a robust grievance redress mechanism (GRM) will be established for the project. An intermediate-level result indicator has been added to the Results Framework as a beneficiary feedback indicator to measure beneficiary satisfaction in project interventions.

²⁵ No quantitative data are available on women’s leadership positions in agricultural and farmer organizations. Anecdotal evidence suggests there are very few women in FOs’ leadership roles.

²⁶ FAO. 2018. Country Gender Assessment of Agriculture and the Rural Sector in Sri Lanka. Colombo.



B. Fiduciary

48. The project's financial management (FM) arrangements include planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing in accordance with the fiduciary requirements of the World Bank operational policies for IPF. It is envisaged that a PMU, set up under MoALLI, will be responsible for overall FM coordination and monitoring of project activities. It will maintain FM arrangements at all project implementation levels including ensuring compliance with all financial covenants in the Financing Agreement. A full-time FM specialist appointed for the project will be the focal point who coordinates with the World Bank on FM arrangements. The accounting and payment functions and procedures will be centralized at the PMU and all fund transfers will be between bank accounts, and no cash transfers will occur. All payments will be made by the PMU of MoALLI with the supporting documents provided by other implementing agencies. The detailed FM arrangements will be reflected in the FM chapter of the POM.

49. MoALLI will be responsible for budgetary allocations for the entire project based on annual budget estimates. A separate budget code (line item) under direct foreign financing will be allocated to the project under MoALLI in the GoSL's annual estimates.

50. **Audit.** The project will be subject to internal and external audits. The project's internal audit will be conducted by the internal auditor appointed for the project. The project's external audit will be conducted by the National Audit Office of Sri Lanka (NAOSL). The NAOSL is the supreme audit institution of the country. It ensures full transparency and provides reasonable assurance to all stakeholders on the use of project funds. The external audit will cover project activities carried out by all agencies and all payments made from the project funds and will be conducted every financial year. The annual financial statements for the project will be prepared by the PMU and audited by the NAOSL. The final audit report will be submitted by the PMU to the World Bank within six months from the end of the financial year. There are no overdue audit reports by MoALLI.

51. **FM risk.** FM assessments carried out by the World Bank for MoALLI are found to be moderately satisfactory. While MoALLI has developed significant FM capacity under World Bank-financed projects that it has implemented, capacity gaps remain. There was an instance where ineligible expenditure was reported and delays in financial reporting during the implementation of the ASMP. At this stage, FM residual risk is assessed as high due to the capacity constraints in the ongoing World Bank-funded operations. Residual risk will remain high until the new PMU is set up with adequate FM staff and it demonstrates the capability to maintain acceptable FM arrangements for the project for a reasonable period of implementation. The FM risk will be reassessed and adjusted as appropriate.

52. **Retroactive financing** will be available under the project for an amount of up to US\$10 million for payments made for eligible expenditures incurred prior to credit signing but on or after June 1, 2024. Eligible expenditures include incremental operating costs (as defined in the Financing Agreement) and procurement of consultancy services, goods, works, and non-consultancy services. All expenditures for which retroactive financing is sought will be submitted to the World Bank with adequate documentation to verify their eligibility per project objectives and relevant guidelines. The procurement under retroactive financing will be in accordance with the World Bank Procurement Regulations.

53. **All procurement for this project will adhere to the World Bank Procurement Regulations for IPF Borrowers (dated September 2023).** Compliance with the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 (Anti-Corruption Guidelines) is mandatory along with adherence to the Financing Agreement, Project Procurement Strategy for Development (PPSD),



Procurement Plan, and POM agreed with the World Bank. Stakeholders, including the PMU, bidders, and service providers, will uphold the highest ethical standards per Section III: Governance, including Fraud and Corruption, and Annex IV of the Procurement Regulations.

54. Sri Lanka's public procurement follows GoSL Procurement Guidelines, aligning with international best practices and the UN Model Procurement Law. The National Procurement Commission, reinstated under the 21st Amendment to the Constitution, ensures governance excellence. Standard Bidding Documents (SBDs) and Works SBDs by the Construction Industry Development Authority regulate bid solicitation under this framework.

55. MoALLI will oversee procurement planning, administration, contract management, and decision-making for the project. The PMU, comprising line department representatives, procurement specialists, and support staff, will centralize procurement while consulting provincial and district authorities. Deputy Project Directors will coordinate with ministries; guide evaluation committees; and assist in drafting TORs, specifications, and bidding documents. Departments on the ground will supervise contracts, with record-keeping and reporting jointly managed by the PMU and provinces. Procurement methods, risk thresholds, and approval authorities for the project and respective agencies are detailed in the POM's procurement section, ensuring efficient oversight and coordination across all levels.

56. The PPSD drafted by the PMU outlines procurement activities, identifies challenges at the national and institutional levels, and provides solutions. The Procurement Plan covers the procurements of the first 18 months. Transactions will be managed via the Systematic Tracking of Exchanges in Procurement (STEP) for efficient documentation and management.

57. Recent engagements with the agriculture and water resources sectors through World Bank-funded operations, specifically in the CSIAP, ASMP, Climate Resilience Multi-Phase Programmatic Approach, and Contingent Emergency Response Component under MoALLI for the emergency operations, unveiled specific obstacles to implementation in the fiduciary domain, surfacing some governance issues as well. These include challenges in coordination among agencies due to the decentralized nature of the operation, inadequate staffing, limited capacity, poor understanding of fiduciary obligations, noncompliance, local supply constraints, poor record-keeping, and unavailability of documents for audits. Further, high-value contracts, unreliable estimates, and delayed decision-making have resulted in delays. Consequently, the residual procurement risk is rated High. Mitigation measures, based on experience and tailored to current challenges, are incorporated into the PPSD and POM. These risks and mitigation strategies will be continuously reviewed and updated throughout project implementation to ensure improved governance and procurement efficiency.

58. **National procurement conditions.** In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market (as specified in the Procurement Plan tables in STEP), the country's own procurement procedures may be used. All consultancy services will be procured following the Procurement Regulations and the World Bank's Standard Procurement Documents. When the recipient uses its own national open competitive procurement arrangements as set forth in the GoSL Procurement Guidelines, such arrangements will be subject to paragraph 5.4 of the Procurement Regulations. The arrangements will be subject to the following conditions when applying national procurement procedures: (a) only bidding documents acceptable to the World Bank will be used for all national open competitive procurement; (b) the request for bids/request for proposals document will require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights; and (c) the eligibility of bidders will be as defined under



Section III of the Procurement Regulations. For any inconsistency between the procurement arrangements based on the GoSL Procurement Guidelines and the World Bank’s Procurement Regulations, the latter will prevail.

C. Environmental, Social, and Legal Operational Policies

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Area OP 7.60	No

59. **The environmental risk rating for the project is Substantial** due to: (a) sensitive locations: under Component 2, some irrigation schemes are near or within protected areas such as forest reserves and wildlife parks where activities such as desilting, spill raises, and disposal of materials could affect biodiversity; (b) simultaneous subprojects: multiple, geographically dispersed subprojects require strong inter-agency coordination and integration of environmental and social (E&S) due diligence with procurement and implementation activities; (c) resource extraction: quarrying, burrowing, and removal of trees for restoration of reservoirs in small tank cascades as well as canals in medium- to large-scale irrigation schemes; and (d) business plans: selection of Component 1 activities based on business plans are to be prepared, which makes it difficult to fully evaluate anticipated risks. Overall, the project will have a positive environmental outcome resulting from CSA, conservation farming, increased water storage, and improved landscape management within small tank cascades. Environmental risks include habitat damage from reservoir rehabilitation and resource extraction; loss of mature trees; poaching for own consumption and accidental forest fires due to the presence of labor crews close to forest areas; occupational health and safety (OHS) hazards that are inherent to working in remote locations, specifically confrontation with wildlife resulting in snake bites or elephant attacks; and other general construction-related risks including spread of invasives, water pollution, soil erosion, and disturbances to wildlife from noise, light, and human activity. There are no other perceived significant security risks in any of the project areas. Associated facilities will mostly be in the form of material supply facilities for project-funded civil works such as existing quarries, burrow sites, and concrete plants, and managing these will be part of E&S management plans. Community-based aquaculture and fisheries value chains may raise concerns related to siting, waste management and sustainability. These risks are manageable through early planning, screening, adherence to the mitigation hierarchy, and robust implementation monitoring.

60. **The social risk rating is Substantial** due to: (a) livelihood disruption: access to water may be temporarily restricted during reservoir rehabilitation under Component 2; (b) displacement risks: land inundation and clearance of irrigation canal reservations may lead to temporary or permanent displacement; (c) exclusion of vulnerable groups: poor farmers, women, and marginalized groups risk exclusion due to inequitable beneficiary selection, elite capture (especially under Component 1), and lack of resources; (d) community protests: concerns over construction quality and land tenure disputes may arise; and (e) sexual exploitation and abuse/sexual harassment (SEA/SH) risks: labor influx may increase the risk of sexual exploitation and abuse or harassment. The project will avoid adverse impacts by using a ‘negative list’ to exclude activities requiring land acquisition. Private land acquisition will be avoided, and voluntary land donations will adhere to World Bank Voluntary Land Donation Criteria. Residual impacts will be mitigated through Livelihood Support Assistance (LSA) plans. Transparent beneficiary selection and community engagement through a Stakeholder Engagement Plan (SEP) will ensure equitable



participation. Stakeholder consultations have informed project design, focusing on the inclusion of vulnerable groups and improved beneficiary participation. SEA/SH risks have been identified as Moderate.

61. To mitigate E&S risks, the recipient has prepared and disclosed the E&S Commitment Plan (ESCP) and the SEP on their external website (<https://www.agrimin.gov.lk>) on January 26, 2025. ESCP and SEP have been disclosed on the World Bank external website²⁷. The recipient will prepare E&S Guidelines (ESG) and will include Environment and Social Management Plans and Labor Management Procedures, including Codes of Conduct for workers, which include addressing SEA/SH risks (to be finalized and disclosed within two months after Board approval), as part of the respective bidding/contract documents for subprojects.

62. **E&S management and institutional capacity.** MoALLI has experience with World Bank-financed projects, benefiting from institutional capacity built under prior operations. ESG will be developed, including a 'negative list' and subproject screening criteria, and impact management tools, monitoring mechanisms, and technical guidance on mitigation measures. The implementation mechanism includes a PMU which will be staffed with specialists to oversee implementation of E&S risk management.

63. **OP 7.50 is applicable to this project** because it will finance activities that may use or risk polluting waters of the Palk Strait and/or their tributaries, which is considered an international waterway. The exception to the riparian notification requirement according to paragraph 7(a) of the policy applies because activities are limited to upgrading and modernization of existing, small-scale schemes which will not adversely change the quantity and quality of water flows to other riparians. The exception to the notification requirement was approved by the World Bank management on January 12, 2025.

64. **Grievance redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, because of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, visit <https://accountability.worldbank.org>.

²⁷ ESCP was disclosed at <http://documents.worldbank.org/curated/en/099031125230094715> on March 11, 2025. SEP was disclosed at <http://documents.worldbank.org/curated/en/099011425235517885> on January 14, 2025.



V. KEY RISKS

Rating	Explanation of Risk Rating	Mitigation Measures
Political and Governance		
Substantial	Despite the recent elections, there may be further political changes or opposition to the overall direction of reforms in the agricultural sector. Moreover, the population faces a substantial strain from the ongoing economic adjustment process, exacerbating these risks.	The project will strengthen engagement with the government and key stakeholders to ensure broad-based political support and build strong trust with the incoming ministry counterparts. Ongoing political economy analysis to anticipate and manage potential disruptions is also envisaged.
Stakeholder		
Substantial	The project will engage with multiple government departments and agencies, diverse groups of community members, farmer groups, and private sector companies. However, the diversity of stakeholders and the limited capacity of MoALLI to ensure systematic outreach pose significant challenges.	The project will promote multi-stakeholder engagement and integrated planning and community participation, and beneficiary satisfaction will be monitored through a results indicator. A Project Steering Committee with the participation of the stakeholders of the other ministries, including the Ministry of Finance, will ensure effective coordination.
Technical Design of Project or Program		
Substantial	The project leverages lessons from ongoing and past initiatives but features a complex technical design to address various aspects of agricultural value chains, requiring coordination among multiple agencies. Risks are highest under Component 1, which involves facilitating producer-buyer links and supporting the preparation and screening of financing proposals. There is also a risk that the financial sector will not lend to small-scale producers.	The project will leverage credit available enhancement measures (NCGI), complementing a planned intervention by ADB, which will include long-term credit and technical assistance to banks and IFC engagements with banks with continuous coordination. The risk is mitigated by establishing a 'technical working group' to coordinate and support the PMU, alongside mobilizing consultancy services to supplement existing capacities.
Institutional Capacity for Implementation and Sustainability		
Substantial	MoALLI lacks a specialized department to lead Component 1, while Component 3 involves activities spanning multiple agencies. Although the Irrigation Division has considerable experience implementing project activities, DAD and DoA have limited project experience, focusing mainly on their respective government programs. Additionally, coordination between government agencies in implementing project activities remains weak.	Components 1 and 3 will be implemented by the PMU with support from a technical working group, an independent evaluation group, and consultancy services. The project will provide short-term consultancy support to DAD for activity preparation and supervision and hire social mobilizers to strengthen coordination between beneficiaries and implementing entities. Additionally, a set of investments under the Irrigation Division has been prepared for implementation and disbursement in the first year.



Rating	Explanation of Risk Rating	Mitigation Measures
Fiduciary		
High	Procurement and financial management challenges stem from limited central oversight, high staff turnover, and heavy caseloads, compounded by inefficient processes like lengthy approvals and decentralized arrangements. Additional risks include policy shifts, insufficient forecasting, fragmented contracts, delayed technical inputs, and slow contract awarding. Governance issues, including non-compliance, corruption, and fraud, also undermine efficiency.	To address these risks, the PMU will ensure compliance with World Bank procedures, oversee centralized procurement and FM, and delegate local contract administration to provincial offices. Process automation, e-procurement, and streamlined workflows will improve planning and lead times. Clear authority documentation and proactive stakeholder engagement will ensure continuity amid policy changes. Regular audits, bidder due diligence, and integration of procurement steps into systems like STEP will enhance transparency and mitigate governance risks. Finally, the project will finance continuous training and capacity building.
Environmental and Social		
Substantial	Environmental risks stem from activities near protected areas; large-scale irrigation and canal rehabilitation; and construction-related impacts such as biodiversity loss, habitat damage, pollution, and OHS hazards. Social risks include livelihood disruptions, potential displacement, exclusion of vulnerable groups, and SEA/SH risks due to labor influx.	Key mitigation measures include early planning, robust E&S due diligence, adherence to the mitigation hierarchy, avoiding of private land acquisition, equitable beneficiary selection, and community engagement through an SEP and an LSA plan. These steps will address biodiversity, construction-related, and social concerns while ensuring the inclusion of vulnerable groups.



ANNEX 1. RESULTS FRAMEWORK

PDO Indicators by PDO Outcomes

Baseline	Closing Period
Increase productivity for agri-food producers in selected areas	
Agri-food producers adopting improved and climate-resilient agricultural technology or practices supported by the project (Number)	
Apr/2025	Jun/2030
0	8,000
Area provided with improved irrigation or drainage services (Hectare(Ha))	
Apr/2025	Jun/2030
0	71,630
Increase market access for agri-food producers in selected areas	
Agri-food producers with increased marketed value of their produce of at least 15 percent compared to comparison group through Productive Partnerships (Number)	
Apr/2025	Jun/2030
0	8,000
Increase climate-resilience for agri-food producers in selected areas	
People with enhanced resilience to climate risks (Number)	
Apr/2025	Jun/2030
0	380,000
> Out of which women (Percentage)	
Apr/2025	Jun/2030
0	60

Intermediate Indicators by Components

Baseline	Closing Period
Promotion of Climate-Smart Production, Value Addition, and Inclusive Access to Markets	
Small and medium producers in targeted value chains provided with improved market services (Number)	
Apr/2025	Jun/2030
0	10,000



Productive Partnerships with business plans approved by Evaluation Committee and financed (disaggregated by 'approved' / 'financed') (Number)	
Apr/2025	Jun/2030
0	60
➤ Productive Partnerships with business plans approved by Evaluation Committee (Number)	
Apr/2025	Jun/2030
0	60
➤ Productive Partnerships with business plans financed (Number)	
Apr/2025	Jun/2030
0	40
Small and medium producers financed through Productive Partnerships (Number)	
Apr/2025	Jun/2030
0	8,000
Entrepreneurs with innovation business plans approved by Evaluation Committee (disaggregated by sex and age) (Number)	
Apr/2025	Jun/2030
0	500
➤ Out of which women (Percentage)	
Apr/2025	Jun/2030
0	40
➤ Out of which youth (Percentage)	
Apr/2025	Jun/2030
0	30
Private capital mobilized (Amount(USD))	
Apr/2025	Jun/2030
0	17,000,000
Integrated Management of Natural Resources for Climate Resilience	
Cascade Management Committees (CMC) with women in leadership roles (Percentage)	
Apr/2025	Jun/2030
0	60
Landscape Governance Index (disaggregated by landscape) (Number)	
Apr/2025	Jun/2030
3.00	4.00
➤ Landscape Governance Index for each landscape (Number)	
Apr/2025	Jun/2030
3.00	4.00



Irrigation infrastructure assets rehabilitated or modernized (Number)	
Apr/2025	Jun/2030
0	700
Share of targeted beneficiaries with rating 'Satisfactory' or above on project interventions (Percentage)	
Apr/2025	Jun/2030
0	70
➤ Share of targeted women with rating 'Satisfactory' or above on project interventions (Percentage)	
Apr/2025	Jun/2030
0	70
➤ Share of targeted youth with rating 'Satisfactory' or above on project interventions (Percentage)	
Apr/2025	Jun/2030
0	70
Landscapes under enhanced conservation and/or sustainable management (terrestrial and inland water areas) (Hectare(Ha)) ^{CR1}	
Apr/2025	Jun/2030
0	283,000
Net GHG emissions (tCO2eq/year)	
Apr/2025	Jun/2030
0	70,000
Strengthening the Enabling Environment for Sectoral Growth	
Agricultural surveys conducted (Number)	
Apr/2025	Jun/2030
0	2
Agencies participating in automation platform supported by the project (Number)	
Apr/2025	Jun/2030
0	8
Project Management, Monitoring and Learning	
Contingent Emergency Response Component	



Monitoring and Evaluation Plan: PDO Indicators by PDO Outcomes

Increase productivity for agri-food producers in selected areas	
Agri-food producers adopting improved and climate-resilient agricultural technology or practice supported by the Project (Number)	
Description	Climate resilience indicator. This indicator measures the number of small- and medium-scale producers who have adopted an improved agricultural technology promoted by the project. Adoption of these practices and technologies aim to increase agricultural productivity and ensure food security while reducing GHG emissions and could include—but not be limited to—sprinkling, planting methods, erosion control, integrated pest management and fertilizer use, and systems for shrimp and fish farming.
Frequency	Biennial (in year 1, before midterm review [MTR] and before closing)
Data source	Field survey
Methodology for Data Collection	Sample based
Responsibility for Data Collection	PMU
Area provided with improved irrigation or drainage services (Hectare (Ha))	
Description	This indicator measures, in hectares, the total area of land provided with improved irrigation or drainage services in operation supported by the project.
Frequency	Biennial (in year 1, before MTR and before closing)
Data source	Project and activity records
Methodology for Data Collection	Review of records
Responsibility for Data Collection	PMU
Increase market access for agri-food producers in selected areas	
Producer Groups with increased marketed value of their produce of at least 15 percent compared to comparison group through Productive Partnerships (Number)	
Description	The indicator measures the number of small-scale farmers who have successfully achieved a minimum increase of 15 percent in the market value (price times volume sold) of their agricultural products because of participating in PPs. This increase is assessed in comparison to comparable groups that have not participated in the PPs.
Frequency	Biennial (in year 1, before MTR and before closing)
Data source	Field survey
Methodology for Data Collection	Sample based
Responsibility for Data Collection	PMU
Increase climate-resilience for agri-food producers in selected areas	
People with enhanced resilience to climate risks (Number)	
Description	Corporate Results Indicator. The indicator refers to the number of individuals who have improved their capacity to anticipate, prepare for, respond to, and recover from the impacts of climate change—principally through improved landscape resilience (increased vegetation cover) and climate-resilient water supply and agricultural production systems.
Frequency	Annual
Data source	Field survey
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU



Monitoring and Evaluation Plan: Intermediate Results Indicators by Components

Component 1: Promotion of Climate-Smart Production, Value Addition, and Inclusive Access to Markets	
Small and medium producers in targeted value chains provided with improved market services (Number)	
Description	The indicator refers to the number of producers who have received enhanced market services aimed at facilitating their participation in specific value chains. These services may include access to information, training, financial support, and better links to buyers, which collectively aim to improve their market performance and economic outcomes.
Frequency	Annual
Data source	Project and activity records
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Productive Partnerships with business plans approved by Evaluation Committee and financed (disaggregated by 'approved' / 'financed' (Number)	
Description	The indicator counts the number of PPs financed through a blended-financed mechanism supported under the project building on approval of their business plans. The blended financing consists of own contribution, commercial loan(s), and project contribution.
Frequency	Annual
Data source	Minutes of Evaluation Committee meetings, loan documents, business plans
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Small and medium producers financed through Productive Partnerships (Number)	
Description	The indicator counts the number of small and medium producers who are financed through a blended-financed mechanism supported under the project. The blended financing consists of own contribution, commercial loan(s), and project contribution under PPs.
Frequency	Annual
Data source	Loan documents
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Entrepreneurs with innovation business plans approved by Evaluation Committee (disaggregated by sex and age) (Number)	
Description	The indicator counts the number of PPs financed through a blended-financed mechanism supported under the project building on approval of their business plans. The blended financing consists of own contribution, commercial loan(s), and project contribution.
Frequency	Annual
Data source	Minutes of Evaluation Committee meetings, loan documents, business plans
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU



Private capital mobilized (Amount (US\$))	
Description	Private capital mobilized is defined as financing from a private entity on commercial terms due to the active and direct involvement of a multilateral development bank leading to commitment. Evidence of active and direct involvement includes mandate letters, fees linked to financial commitment, or other validated or auditable evidence of a multilateral development bank's active and direct role leading to commitment of other private financiers. Private Capital Mobilization does not include sponsor financing.
Frequency	Annual
Data source	Project and activity records
Methodology for Data Collection	PP business plan
Responsibility for Data Collection	PMU
Component 2: Integrated Management of Natural Resources for Climate Resilience	
Cascade Management Committees (CMCs) with women in leadership roles (Percentage)	
Description	Gender Indicator. Women's leadership roles in CMCs are defined as positions of authority and influence that allow them to actively participate in decision-making processes and shape policies regarding the use, conservation, and distribution of the cascades. Roles will be formal positions such as chairperson, deputy-chair, and/or vice president.
Frequency	Biennial (in year 1, before MTR and before closing)
Data source	Field survey, Landscape Governance Assessment Tool
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Landscape Governance Index (disaggregated by landscape) (Number)	
Description	The indicator refers to a comprehensive assessment of challenges in governance practices using the average of the 30 indicators in the Landscape Governance Assessment Tool as the index. The assessment will be carried out in two representative dry zone production landscapes, that is, the Kala Oya and the Yan Oya.
Frequency	Biennial (before MTR and before closing)
Data source	Landscape Governance Assessment Tool
Methodology for Data Collection	Application of the tool review
Responsibility for Data Collection	PMU
Irrigation infrastructure assets rehabilitated or modernized (Number)	
Description	The indicator measures the total number of irrigation infrastructure assets rehabilitated or modernized covering major and medium irrigation schemes, minor tanks, agro-wells, ponds, and anicuts/small barrages.
Frequency	Biannual
Data source	Project progress reports
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Share of targeted beneficiaries with rating 'Satisfactory' or above on project interventions (Percentage) (disaggregated by sex and youth)	



Description	The indicator refers to the assessment of project effectiveness from the perspective of beneficiaries. It measures the percentage of individuals or groups who perceive the interventions positively, indicating satisfaction with the services or benefits received. It will capture demand-side accountability to ensure that beneficiaries have a voice in evaluating and influencing project outcomes and it will include a feedback mechanism.
Frequency	Biennial (in year 1, before MTR and before closing)
Data source	Perception survey
Methodology for Data Collection	Sample based
Responsibility for Data Collection	PMU
Landscapes under enhanced conservation and/or sustainable management (terrestrial and inland water areas) (Hectare)	
Description	Corporate Results and Climate Resilience Indicator. The indicator measures the land area for which new and/or improved sustainable landscape management practices have been introduced, thereby improving the conservation of biodiversity, sustainable use, and enhancement of the flow of ecosystem services. The indicator counts the area for which sustainable landscape management practices have been adopted as a result of activities under Components 1 and 2. Sustainable landscape management practices refer to a combination of at least two technologies and approaches to increase land quality and restore degraded lands, for example, agronomic, vegetative, structural, and management measures that, applied as a combination, increase the connectivity between protected areas, forest land, rangeland, and agriculture land.
Frequency	Annual
Data source	Project and activity records
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU
Net GHG emissions (tCO₂e/year)	
Description	Corporate Results Indicator. Net GHG emissions are calculated as an annual average of the difference between the project gross (absolute) emissions aggregated over the economic lifetime of the project and the emissions of a baseline (counterfactual) scenario aggregated over the same time horizon. The application of the EX-Ante Carbon-balance Tool (EX-ACT) (version 9.4.2) indicates that the project would have the potential to reduce a total of 1.34 MtCO ₂ -eq over a 20-year evaluation period (6 years of project implementation and 14 years of capitalization).
Frequency	Biennial (in year 1, before MTR and before closing)
Data source	EX-ACT
Methodology for Data Collection	Application of the EX-ACT methodology
Responsibility for Data Collection	PMU
Component 3: Strengthening the Enabling Environment for Sectoral Growth	
Agricultural surveys conducted (Number)	
Description	The indicator refers to the total number of surveys carried out to collect data on agricultural practices, production, and related metrics.
Frequency	Annual
Data source	Draft survey reports
Methodology for Data Collection	Review



Responsibility for Data Collection	PMU
Agencies participating in automation platform developed by the project (Number)	
Description	The indicator counts the number of government agencies participating in automated processes of the testing and certification system. The testing and certification system consists of a data platform and basic architecture and participation involves contributing to the data flow and use of data for their own purposes.
Frequency	Annual
Data source	Regular audits, validation checks
Methodology for Data Collection	Review
Responsibility for Data Collection	PMU