



The World Bank

Sri Lanka Agriculture Sector Modernization Project Additional Financing (P173297)

Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 11-Feb-2021 | Report No: PIDISDSA28739

**BASIC INFORMATION****A. Basic Project Data**

Country Sri Lanka	Project ID P173297	Project Name Sri Lanka Agriculture Sector Modernization Project Additional Financing	Parent Project ID (if any) P156019
Parent Project Name Sri Lanka Agriculture Sector Modernization Project	Region SOUTH ASIA	Estimated Appraisal Date 05-Jan-2021	Estimated Board Date 31-Mar-2021
Practice Area (Lead) Agriculture and Food	Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance, Economy and Policy Development, Ministry of Finance	Implementing Agency Ministry of Mahaweli, Agriculture, Irrigation and Rural Development, Ministry of Plantation Industries and Export Agriculture, Ministry of Agriculture

Proposed Development Objective(s) Parent

The Project Development Objectives (PDO) are to support increasing agriculture productivity, improving market access, and enhancing value addition of smallholder farmers and agribusinesses in the project areas.

Components

Agriculture Value Chain Development
Productivity Enhancement and Diversification Demonstrations
Project Management, Monitoring and Evaluation

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	28.00
Total Financing	28.00
of which IBRD/IDA	0.00
Financing Gap	0.00

**DETAILS****Non-World Bank Group Financing**

Trust Funds	28.00
Free-standing Cofinancing Trust Fund	28.00

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Sri Lanka has shown steady growth over the last decade although key macroeconomic challenges persist.** Sri Lanka is an upper-middle-income country with a gross domestic product (GDP) per capita of US\$4,102 (2018) and a total population of 21.7 million. Following 30 years of civil war that ended in 2009, Sri Lanka's economy grew at an average of 5.6 percent during 2010–2018, reflecting a peace dividend and a determined policy thrust toward reconstruction and growth. However, economic growth witnessed a slowdown in the last few years.
2. **Social indicators rank among the highest in South Asia and compare favorably with those in middle-income countries.** Economic growth has translated into shared prosperity with the national poverty headcount ratio declining from 15.3 percent in 2006/07 to 4.1 percent in 2016. Extreme poverty is rare and concentrated in some geographical pockets. However, a relatively large share of the population subsists on slightly more than the poverty line. Female labor force participation at 34.9 percent was less than half of men (73.4 percent) by 2019 and needs to increase to facilitate sustained economic growth.
3. **However, low fiscal revenues combined with largely nondiscretionary expenditure in salary bill, transfers, and interest payments have constrained critical development spending on health, education, and social protection, which is low compared to peer countries.** Macroeconomic vulnerabilities remain high due to weak fiscal buffers, high indebtedness and large refinancing needs. Reviving growth is a key priority in the new administration's policy agenda, with the objective of raising growth to 6.5 percent in the medium-term. The outbreak of Covid19 is however expected to dampen growth significantly through reduced export earnings, private consumption and investment in the short-run.

Sectoral and Institutional Context

4. The modernization of the agriculture sector is a priority for the Government of Sri Lanka (GoSL). This was the case in when the Agriculture Sector Modernization Project (ASMP) was prepared in 2015/16 and has been confirmed by the newly elected Government in August 2020 based on the commitments in the President's



manifesto, "Vistas of Splendor and Prosperity". Although the sector only currently contributes 7.7 percent to GDP, it still employs approximately 27 percent of the population with around 1.65 million smallholder farmers operating on average less than 2 hectares of land. When the agriculture and food sector and taken together, including production and agro-processing, the share of the sector increases to 24 percent of GDP. To achieve agricultural transformation requires commercialization of the smallholder sector with increased diversification into higher value, higher productivity crops and improved linkages with domestic and export markets. This needs to be led by the private sector, crowding in private investment and optimizing the use of scarce public resources, while continuing to promote good governance and ensuring environmental and social sustainability. A key challenge is to ensure an improved enabling environment for all private sector actors in agricultural value chains—farmers who are by far the largest current investors, input suppliers, processors, distributors, and marketers—including increasing access to finance.

5. The ASMP was approved by the World Bank Board on June 28, 2016, for the amount of US\$125 million equivalent. The Project Development Objective (PDO) is *to support increasing agriculture productivity, improving market access, and enhancing value addition of smallholder farmers and agribusinesses in the project areas*. The ASMP promotes the demonstration of agriculture diversification and technology improvements, value-chain development for higher value-added production and better market linkages, and income generation from agriculture. The project consists of two main investment components: Component 1 - Agriculture Value Chain Development; Component 2 - Productivity Enhancement and Diversification Demonstrations; plus Component 3 - Project Management, Monitoring and Evaluation (M&E).

6. **Component 1: Agriculture Value Chain Development (Original Total US\$ 102.73 million, IDA US\$ 58.63 million).** This component promotes commercial and export-oriented agriculture; leverages investments from farmer producer organizations and agribusinesses for high value agriculture production and value addition; and provides the enabling environment, incentives, and access to finance for such investments through matching grants (MGs), technical assistance support, linkages to the commercial banking sector, and a Partial Credit Guarantee (PCG) facility. The component is implemented by the Ministry of Plantations (MOP) and the Central Bank of Sri Lanka (CBSL).

7. **Component 2: Productivity Enhancement and Diversification Demonstrations (Original Total US\$ 58.63 million, IDA US\$ 58.63 million).** This component supports smallholder farmers to produce competitive and marketable commodities, improve their ability to respond to market requirements, and move towards increased commercialization. It supports: (a) farmer training and capacity building and the establishment of farmer producer organizations (sub-component 2.1); (b) establishment of Agriculture Technology Demonstration Parks (ATDPs)¹, supporting the introduction, demonstration, and scale-up of innovative agriculture technology packages that are not yet available or practiced by farmers and producer organizations but would support productivity improvements, diversification, commercialization, as well as more sustainable and climate resilient production patterns (sub-component 2.2); (c) production and market Infrastructure, complementing productive investments in the ATDPs (sub-component 2.3); and (d) analytical and policy advisory support (sub-component 2.4). Component 2 is implemented by the Ministry of Agriculture (MOA) and in the five participating provinces of Northern, Eastern, Central, Uva, North-Central and Central Province.

8. **Component 3: Project Management, Monitoring and Evaluation (Total Cost US\$ 8.48 million, IDA US\$ 7.75 million).** The component supports the Project Management Units (PMUs) of MOP and MOA and the Provincial

¹ ATDPs are also known as agriculture clusters, and the terms are used interchangeably in this document



Project Management Units (PPMUs) in the participating provinces in project management and coordination, technical supervision, financial management, procurement, safeguards and M&E.

9. The GoSL is committed to the concept of agriculture clusters / ATDPs and to scaling up the approach to additional districts. The President, H.E. Gotabaya Rajapaksa, was elected in November 2019 on the back on a manifesto which subsequently was adopted as the policy strategy for the GoSL elected in August 2020. In this manifesto, agriculture is prioritized and specifically the administration sees the sector as being a driver of economic growth and for the agriculture to become a “global player”, based on a smallholder model producing high quality outputs using modern technological methods. With the onset of Covid-19, there is also a policy push to move the agriculture sector to better meet the food needs of the Sri Lankan population. The project’s design has been discussed extensively with the newly elected government and received full support. Activities within the proposed new districts are already identified, consistent with the activities under the parent project. As the districts for scale up are in provinces where the project is already active, the implementation arrangements are in place to ensure scale up can proceed quickly and therefore no extension to the closing date has been requested.

10. The proposed AF would be funded under a recipient-executed trust fund support by European Union (EU) in the amount of US\$23.19 million equivalent. The EU’s Multiannual Indicative Program (MIP) for the period 2014-2020 for Sri Lanka prioritizes support to the transformation of the agriculture sector through investment and policy dialogue, focusing on disadvantaged regions. The MIP also promotes a strong role for the private sector in establishing agriculture value chains, which is one of the focal areas for intervention of the EU in food security, nutrition and agriculture policy. The design of ASMP, and in particular Component 2, is therefore fully consistent with the EU’s strategy. GoSL is supportive of EU co-financing ASMP rather than having a standalone project, and AF is considered the best mechanism to introduce this. This arrangement would allow for more effective coordination and alignment of donor support and reduce the transaction cost for the GoSL. Aligning the Bank’s IDA-financing and the EU’s contribution along a common development objective and implementation program would also be a first step towards building more programmatic multi-donor support in the agriculture sector in Sri Lanka. The trust fund would be administered by the Bank on behalf of the EU and executed by the GoSL. An Administrative Agreement (AA) was signed between the Bank and the EU on December 15, 2017.

C. Proposed Development Objective(s)

Original PDO

11. The Project Development Objectives (PDO) are to support increasing agriculture productivity, improving market access, and enhancing value addition of smallholder farmers and agribusinesses in the project areas.

Current PDO

12. There is no proposed change to the PDO

Key Results

13. The current results framework is being revised to reflect the additional impacts and results coming from the Additional Financing. The indicators are not being revised. Current results are as follows:

14. **Overall implementation Status:** The project implementation is proceeding well despite delays in first 2.5 years of implementation. The Mid Term Review (MTR) completed in October 2019 found that the prospects for rapid acceleration of the project implementation were positive. Component 1 Agriculture Value Chain



Development was performing well and on a trajectory to fully disburse ahead of the original closing date; and for Component 2: Productivity Enhancement and Diversification Demonstrations, the international technical assistance provider (International Service Provider – ISP) procured under a US\$5m contract to provide support for component implementation, was being mobilized and a timeline established for completion of the agriculture clusters. In 2020, the project faced several issues which temporarily delayed implementation due to the impacts of Covid-19, especially in relation to the extended period of reduced budget allocations, and the impact of the change in government including policy shifts with respect to agriculture with an increased focus on achieving food self-sufficiency in a number of critical crops. However, despite these challenges the project has been able to move ahead and has already achieved many results.

15. Component 1 implementation status and results: Matching grant (MG) awards were initially delayed as the detailed institutional and procedural arrangements for the submission, screening, technical review and approval took time to be finalized and tested. The system is now well-established and the awards of MGs accelerated considerably during the course of 2019 and into 2020. As of October 2020 there are 254 approved projects plus 18 clusters (with 391 participants), so an overall total of 645 approved grants for a total of US\$30.1m. Of the 254 approved projects from the large and small MG window, disbursement has commenced in 140. The total approved projects include over US\$60m mobilized private capital, demonstrating the contribution of the project for the Maximizing Finance for Development agenda. The impact of the MG scheme is already being observed, including: i) the upgrading of standards in the food processing industry; ii) achieving transformation change in specific sub-sectors (such as shrimp and ornamental fish) through addressing sector-wide challenges; iii) creating more and better quality jobs; and iv) creating competitiveness and new markets through clustering and scale.

16. Component 2 Implementation Status and results: The design of the component involved the recruitment of an International Service Provide (ISP) to provide direct technical support for the identification, preparation and delivery of the ATDPs. Due to a prolonged procurement process for the ISP, it was agreed for the MoA to proceed with the implementation of 48 pilot schemes, plus 100+ small-scale infrastructure projects. The ISP was eventually mobilized in October 2019, given fresh impetus to the component. The ISP has completed its Feasibility Study and Cluster Development Plans for establishing ATDPs are finalized and implementation initiated. Benefits are already observable from the 48 pilots under implementation and the completed infrastructure works including for irrigation and feeder roads.

17. The ATDPs/clusters under the existing seven districts will focus on tropical fruits for export. Pineapple, papaya, banana, mango, guava have been prioritized for export. These high-value crops, with integration of vegetables through intercropping, will enhance the farmers' production, profitability, and net saleable product. The rationale for selecting tropical fruits is as follows:

- a) High demand in international markets in proximity to Sri Lanka – Several of the tropical fruits produced in Sri Lanka are in the top 12 fruits consumed around the world. In addition, they meet consumers preferences for healthy and high-quality foods, as well as convenience foods. They are also available all year around and their production by-products have a very high acceptance as specialty products in modern niche markets.
- b) Sri Lanka has comparative and competitive advantages in the production of tropical fruits. Its geographical location in the middle of the shipping lanes bringing trade east and west is a strong comparative advantage for the country. Also, bananas, mango, papaya, pineapple, among other fruits, are competitively produced by local farmers in Sri Lanka all year around.



- c) Because of the large number of farmer organizations already producing tropical fruits, dimension and economies of scale are relatively easy to achieve, including the targeted number of project beneficiaries participating in the ISP's clusters.
- d) There are several ASMP pilot projects already successfully producing tropical fruits such as mango, pineapples and papayas.

18. **Results:** With respect to the PDO level indicators, the project is broadly on track to achieve the end of project targets, though behind on the target for overall beneficiaries, due primarily the delays in commencing the ATDPs.

Indicator	Cumulative Target Values		
	YR3		End of Project
	Target	Achievement (Oct 2020)	
Direct project beneficiaries (Number)	55000	48046	110000
Of which Female	14000	21646	33000
Clients who have adopted an improved agriculture technology	15000	37399	80000
Of which, female	3000	14147	24000
Increase in average value of sales of agriculture products (%)	10	10	25
New Jobs generated through investments in agribusiness organizations	2500	1546 (Female 719)	10000

D. Project Description

19. AF is proposed to geographically scale-up the project's investment activities under Component 2 for greater transformational impact and for reaching a larger number of project beneficiaries in five districts of Kandy (Central Province), Badulla (Uva Province), Ampara (Eastern Province), and Killinochchi and Vavuniya (Northern Province), which are located in existing participating project provinces. These are all districts or sub-districts which meet the criteria for selection as they are characterized by high poverty headcounts and high absolute numbers of poor. Killinochi and Vavuniya are post-conflict districts which are still recovering from the social and economic impacts of Sri Lanka's prolonged civil war. The scale up will therefore contribute to greater livelihood transformational impact and for reaching a significantly larger number of project beneficiaries. It is expected that a total of 6,000 additional farmers would be supported.

20. The AF will support the same PDO and follow the design and implementation arrangements of the parent project. The scale-up and replication of the ATDP concept, combined with investments in supporting agriculture production infrastructure, would bring the envisaged benefits of the parent project of: (a) better organizing a large number of smallholder producers into independent and capable market participants through organizational and technology innovations; (b) upgrading of agricultural product and quality standards through a value chain approach; (c) accessing new employment opportunities and improved infrastructure; and (d) access to new markets, including export markets, to these new project districts. The AF will not include a scale-up of the Component 1.

21. **Consistency of changes with the Country Partnership Framework (CPF):** The project remains relevant for



the implementation of the CPF. The Performance Learning Review completed in FY19 reaffirmed the Bank and GoSL commitment to modernizing the agriculture sector through crowding in private finance, improving farmer linkages into value chains and increasing the access of producers and processors to technology.

22. Components and Activities under AF: The proposed AF would support the scale-up of the investment activities under Component B: Productivity Enhancement and Diversification Demonstration, plus provide some additional support for project management under Component C. Since the parent project was approved, the concept of ATDPs / clusters has developed considerably based on the learnings from the pilots implemented by the MoA and on the approved Feasibility Study of the ISP. A summary of the approach is provided in Annex 2. The key principles remain: i) forming farmers into viable and sustainable producer organizations; ii) providing field level technology to enable farmers to diversify production into high value, market oriented crops; iii) identifying and facilitating contract and buying arrangements with agro-processors and retailers, including in export markets; and iv) providing supporting infrastructure as required, including public infrastructure for roads and irrigation.

23. The specific sub-components to be supported are as follows:

- a) **Farmer Training and Capacity Building** (EU funding US\$2.0 million) - corresponds to sub-component 2.1 of the parent project. Targeting the farmers who will be members of producer organizations under the ATDPs, this sub-component would train farmers in the operation and management of commercially oriented farm businesses and the application of modern technologies for on-farm cultivation and post-harvest operations. It is expected to build capacity of 6000 farmers of twelve ATDPs / clusters in the five new districts.
- b) **Modern Agriculture Technology Parks in additional districts (EU-funding US\$16.5 million).** *This component corresponds to sub-component 2.2 of the parent project.* It would support the introduction, demonstration, and scale-up of innovative agriculture technology packages not yet available or practiced widely by smallholder farmers and producer organizations to support productivity improvements, diversification, commercialization, more sustainable and climate resilient production patterns. It would support the establishment of ATDPs and agriculture clusters in the five new project districts. Funds would be used for provision of technology packages, including drip and sprinkler irrigation systems, planting material, equipment for land preparation, harvesting and post-harvest handling and processing, as required. The ISP contract would be amended to include support for the new districts. In the five new districts, twelve new clusters would be supported with approximately 500 farmers in each cluster.
- c) **Production and Marketing Infrastructure (EU-funding US\$8.0 million).** *This component corresponds to sub-component 2.3 of the parent project.* It would support the construction of public agriculture production infrastructure, including: (a) Upgrading and rehabilitation of small-scale irrigation infrastructure and existing water tanks and irrigation systems including lift irrigation systems in the selected priority project areas and linked to the cluster; (b) Construction of village level storage and product handling facilities including sheds, composting facilities of crop residues, storage facilities linked to the cluster; and, (c) Improvement of selected production and market access road and construction of new field access tracks to improve transportation, access to market and accessibility for agriculture machinery. The infrastructure investment would complement investments in the agriculture technology demonstration parks / clusters.



- d) **Analytical and Policy Advisory Support (EU-funding US\$0.5 million):** *This component corresponds to sub-component 2.4 of the parent project.* Additional studies will be conducted for (i) strategic market analysis for promoting new and high value exports, including changes needed in the policy, regulatory and institutional framework, or public investments needed to address the binding constraints to the evolution of high impact value chains; (ii) improve coordination across various parts of the GoSL on economic policies and regulations affecting the enabling environment for private investment in the agriculture and food sector; and (iii) formulate sector and sub-sectoral strategies to provide the suitable enabling environment for a sustainable and competitive modern agriculture and food system.
- e) **Project Management, Monitoring and Evaluation (EU funding US\$1.0m):** *This component corresponds to Component 3 of the parent project.* Additional funds for the implementation of the clusters under the above five new districts considering the required expenditure on the project management, monitoring and evaluation and also for the proposed extended period of the project duration by an additional 18 months.

E. Implementation

Institutional and Implementation Arrangements

24. **Institutional Implementation Arrangements:** The Additional Financing would be implemented within the existing project implementation arrangements at the national and provincial levels. Additional implementation arrangements are not required as the relevant Project Management Unit (PMU) and Provincial Project Management Units (PPMUs) are already set up under the parent project and are fully functional.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project is national in scope and designed as framework approach. Specific project locations and their characteristics are not yet known and would be identified during implementation as part of the project's demand-driven Matching Grants Program approach. It is expected that project sites would be located in all three major agro-ecological zones, including the wet zone (average annual rainfall above 2500 mm); the intermediate zone (annual rainfall between 1750-2500 mm); and the dry zone (annual rainfall less than 1750 mm). The dry and intermediate zones cover about 66% of the agriculture land area and receive about 30% of the country's annual surface water yield. They are extensively used for agriculture and require irrigation water to be productive. The bulk of the country's irrigation infrastructure is hence located in the dry zone. The wet zone, on the other hand, comprises 34% of the agricultural land area and receives 70% of the country's annual surface water yield. The three major plantation crops, most other export crops and various types of fruits are grown here under rain-fed conditions. The project's proposed agriculture technology demonstrations parks included under Component 2 and the complementing production infrastructure investments will be located in the 7 priority districts of Jaffna, Mullaitivu, Anuradhapura, Batticaloa, Matale, Polonnaruwa, and Moneragala via the project restructuring 4 districts of Badulla,



Killinochi, Ampara and Vavuniya are also included. With the Additional Financing in November 2020, district of Kandy (Central Province) was also included. All project districts remain within the same project Provinces of Central, Northern, North Central, Eastern and Uva. While exact project sites are not yet known and will be determined as part of a detailed feasibility study process during implementation, the districts are located in the dry zone (except for Moneragala, which is located in the intermediate zone and Kandy and Matale are located in the wet zone in the central regions of the country). Project site identification will be based on high poverty rates and high absolute numbers of poor. The majority of these sites are located in the former conflict affected areas and are characterized by poor or dilapidated public infrastructure, lack of productive infrastructure at the farm level, and poor access to markets, as well as limited livelihood and employment opportunities.

G. Environmental and Social Safeguards Specialists on the Team

Bandita Sijapati, Social Specialist

Mokshana Nerandika Wijeyeratne, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	To mitigate potential environmental and social impacts that may be caused due to physical project interventions and ensure all negative impacts associated with project investments are avoided and/or mitigated, an Environmental Assessment and Management Framework (EAMF) and a Resettlement Policy Framework (RPF) have been prepared. These will provide detailed guidance on the specific due diligence requirements as well as on the specific environmental and social safeguards instruments required for sub-projects, including screening, environmental management plans, resettlement action plans etc.) to mitigate any potential negative project impacts including inclusion of vulnerable groups.
Performance Standards for Private Sector Activities OP/BP 4.03	No	The project does not include any activities that involve private sector entities.
Natural Habitats OP/BP 4.04	Yes	The project will support agriculture activities on existing farmland. Expansion of farmland into fragile



		habitats is not foreseen. The project will improve agricultural practices and is expected to reduce the pressure on farmland and surrounding natural habitats. Some activities might impact natural habitats because of their proximity to such habitats (construction and/or upgrading of rural infrastructure). The EAMF prescribes a due diligence mechanism under OP 4.01 to ensure impacts are mitigated. Preventive and mitigation measures will be included in sub-project EMPs, as needed.
Forests OP/BP 4.36	No	Project-supported agricultural activities will take place on existing agricultural areas and there will be no expansion into forest areas. No activities in commercial forests or in close proximity to forest areas are expected.
Pest Management OP 4.09	Yes	The project promotes Integrated Pest Management as a key thematic area, however, the intensification and diversification of agriculture could lead to changes in the application of pesticides for pest and disease control. A Pest Management Plans (PMP) has been prepared based on Integrated Pest Management (IPM) principles, describing the national regulatory framework, current status of pest and disease control, monitoring and supervision mechanism, major experience and problems, and lessons learned from past projects. It specifies a range of actions to strengthen integrated pest management practices and awareness and includes capacity building and monitoring program to facilitate implementation.
Physical Cultural Resources OP/BP 4.11	No	No project-support activities are expected in the vicinity of or to affect physical cultural resources, as defined by OP/BP4.11. Measures on safeguard chance finds are included as part of mitigation measures defined in EAMF OP/BP 4.01.
Indigenous Peoples OP/BP 4.10	No	No conclusive evidence or data exist yet on the possible presence of indigenous peoples communities in the country. In general, "forest dwellers" who live in remote locations and close to commercial forests and national forest reserves are considered native communities. Their livelihood is dependent on forest resources. Project supported agricultural activities will take place on existing agricultural areas and there will be no expansion into forest areas. No activities in commercial forests



		or in close proximity to forest areas are expected and therefore forest dweller communities will not be affected through proposed investments under the project.
Involuntary Resettlement OP/BP 4.12	Yes	The project will not involve involuntary resettlement or physical displacement. Small-scale land alignment or acquisition for village-level civil works may be necessary. Where the need for land acquisition may arise, the project's RPF will apply. The RPF provides the guidelines and procedures for land acquisition & donations; describes provisions for compensation and mitigation measures, includes a grievance redress mechanism, and set up safeguards monitoring and institutional arrangements in the event of land acquisition and livelihood losses.
Safety of Dams OP/BP 4.37	Yes	The project may include the up-grading and rehabilitation of small-scale irrigation facilities and water tanks. OP/BP4.37 applies because of the dependence on water conveyance and control via irrigation systems and the links of smaller tanks with the storage and operation of upstream medium/large dams, which is typical for Sri Lanka's cascading tank and irrigation infrastructure. The rehabilitation of small irrigation schemes and tanks will not include dams and embankments more than 15 meters high and will not include medium to large scale dams. The EAMF includes generic dam safety measures to be adopted in the design and implementation of rehabilitation/ improvement of irrigation structures. It also includes guidance on the preparation of operation and maintenance (O&M) plans and dam safety plans in accordance with OP/BP4.37.
Projects on International Waterways OP/BP 7.50	No	The proposed project activities do not have any impacts to the international waterways and therefore this policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	There are no disputed areas where project interventions are undertaken and therefore this policy is not triggered.

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT****A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project is expected to bring positive environmental benefits to the project areas through the introduction and expansion of modern technology applications that help improve current cropping patterns and farming methods, increase efficiency in the management of water resources, protect agriculture soils, and roll out integrated pest management. However, two components under the project may involve activities that could have significant environmental impacts if not mitigated properly, especially during the construction phase. Component 1 will support commercial agriculture and agro-products processing. Component 2 would finance the establishment of agriculture technology demonstration parks and improvements of rural infrastructure, including access roads and tracks, rehabilitation of small irrigation schemes, land preparation, market facilities, and others. The project's process-oriented and demand-driven framework approach does not allow to determine project investments and specific project locations for investments under these components at appraisal. However it is known that these will be conducted in existing agricultural areas.

Sub-component 1.2: Matching Grants to Producer Organizations and Agribusinesses:

The agricultural sector faces a number of challenges in managing land productivity which often results in encroachment of forest areas for search of new land for cultivation. Soil erosion, crop disease management, water use efficiency, water pollution from excessive use of chemicals, and cultivation of unsuitable crop varieties are among the key areas where focus in terms of environmental management are a priority.

Supporting the commercial agriculture and agro-products processing will require that stringent environmental screening, identification of potential environmental and impacts and management in terms of set up and operations of the activity. Among other best practices would be organic cultivation and at the same time careful soil management needs to be taken care of to prevent soil erosion and top soil degradation. As specific sites and nature of the agro-business activities are not yet known, best practices that need to be employed and general recommendations cannot be employed as the nature of the activity varies and depend upon the soil type, area of cultivation ,i.e. dry zone or wet zone, and topography, crop type and the specific agriculture sector. A site-specific Environmental Management Planning approach plays a key role and has been incorporated in to the Matching Grants Program. In addition, via strengthening technical knowledge and extension services focusing on the careful and minimal use of chemical fertilizer and pesticides/herbicides through good practices such as Integrated Pest Management and Integrated Plant Nutrition Management via the project's Pest Management Plan, activities that facilitate sustainable agricultural development should be essentially promoted.

Sub-component 2.2: Establishment of Modern Agriculture Technology Parks: The sub-component would support 7 agriculture technology demonstration parks in selected districts in the Northern, Eastern, Central, North-Central and Uva Provinces, which have been identified based on high poverty headcounts and agriculture potential. The exact location of where these interventions will be taking places will only be deduced during the project implementation stage. Environmental screening will be an essential part of the site selection process in order to ensure project-supported agriculture-related activities would take place on existing farmland and no expansion or creation of new farmland into fragile habitats is foreseen. The project will bring improvements to agricultural practices that are



expected to reduce the pressure on these areas and the likelihood of encroachment into sensitive natural habitats.

Sub-component 2.3: Up-grading Production and Marketing Infrastructure: This component will entail physical interventions under the following purview; (i) the up-grading and rehabilitation of small-scale irrigation infrastructure and existing water tanks and irrigation systems in selected priority areas, linked to the agriculture technology demonstrations parks; (ii) the improvement of existing production and market access roads and construction of new field access tracks to improve transportation, access to markets and accessibility for agricultural machinery; and (iii) village level storage and product handling facilities, including drying platforms and sheds, composting facilities of crop residues, storage facilities and others. Infrastructure investment would focus on public infrastructure and would be linked to gaps identified under the technology parks development. Impacts to physical and ecological environments during the construction phase of physical interventions outlined under Sub-component will be predominantly during the construction phase and consist of impacts such as the stress of natural resources such as sand, water and spil, removal of productive topsoil, solid waste generation in the form of construction waste, localized dust and noise and safety and occupational health to laborers. These impacts will be management via mitigation measures that will be implements via sub-project specific environmental management plans.

The project is expected to generate positive social benefits and provide sustainable poverty reduction opportunities into lagging rural areas. Improved agriculture productivity and value chain development are expected to create additional economic returns for farmer households. Expected benefits include employment opportunities for poorer households, individual and collective empowerment through membership in formal farmer producer organizations and in partnership arrangements with agribusinesses, improved access to finance, technology, and markets, as well as technical and management skills. In terms of social risks or impacts, there could be risk of exclusion of poor and vulnerable groups from equitably benefiting from project interventions and the project will identify these risks during screening, take measures to ensure inclusion and equitable participation of vulnerable groups. Attention to more equitable sharing of economic gains from investments in commercial agriculture modernized value chains will be paid during the process of farmer producer organization establishment. Investments in local infrastructure will have positive impacts if infrastructure is targeted to serve both agricultural production needs and the needs of local communities. A mandatory social screening is specified in the Operations Manual and RPF and will allow for the detailed assessment of potential social impacts and risks and relevant mitigation measures of all sub-projects. For civil works, any need for additional land will be met through use of public lands or voluntary land donation, and acquisition of private land will be minimized to the extent possible. Thus, Land acquisition is expected to be small-scale and to be manageable through the RPF and Resettlement Action Plans.

During the November 2020 mission, the Social safeguards implementation rating was upgraded to moderately satisfactory as there has been significant progress made in terms of addressing issues identified during the MTR. Both PMUs have put systems in place to strengthen social risk management, community engagement and documentation of land related transactions in line with the procedures set forth in the Resettlement Policy Framework (RPF).

Via the restructuring in June 2020, the following changes will be made to the project. Component one will include a Farmer Outreach Program which would support smallholder farmers who are selling to the recipients of the Matching Grants, thereby helping to improve the quality of supply. These farmers would receive inputs, mostly seed, planting material, provisions for site level minor irrigation systems such as drip, sprinkler and rain water tanks as well as erosion control measures. This would allow the farmers to grow improved, more productive varieties that will generate increased income. This will also provide the opportunity to engage with farmers and provide capacity strengthening on good environmentally sensitive farming practices via the use of Environmental Codes of Practice.



Secondly, Component 2 would be expanded to four new districts - Badulla, Killinochi, Ampara and Vavuniya, which are within the original project provinces. The activities implemented here would remain the same as the parent operation and due diligence process and baseline conditions are covered comprehensively in the ESMF EAMF and RPF.

With the Additional Financing (EU-funding US\$16.19 million) in November 2020, the activities will be scaled up in districts of Badulla, Killinochi, Ampara, Vavuniya and in one additional new district, Kandy. It would support the introduction, demonstration, and scale-up of innovative agriculture technology packages not yet available or practiced widely by smallholder farmers and producer organizations to support productivity improvements, diversification, commercialization, more sustainable and climate resilient production patterns. It would support the establishment of ATDPs and agriculture clusters in the five new project districts. In addition, with the Additional Financing (EU-funding US\$7.0 million), the project would support the construction of public agriculture production infrastructure, including: (a) up-grading and rehabilitation of small-scale irrigation infrastructure and existing water tanks and irrigation systems in the new districts, linked to the agriculture technology demonstrations parks; (b) the improvement of selected production and market access roads and construction of new field access tracks to improve transportation, access to markets and accessibility for agricultural machinery; and (c) village level storage and product handling facilities, including drying platforms and sheds, composting facilities of crop residues, storage facilities and others. The infrastructure investment would complement investments in the agriculture technology demonstration parks under Component A.

The changes from the Additional Finance (AF) will not generate new risks or impacts because it is a geographical scaleup of the same activities under component 2. As a result, there is no change to the Environmental and social risks/impacts due to Additional Financing, hence measures already described in the EAMF and RPF will apply.

The project Pest Management Plan already covers the Provinces under which the new 4 Districts Badulla, Killinochi, Ampara, Vavuniya and only the Kandy District (Central Province) will be added as Additional Financing is proposed to geographically scale-up the project's investment activities under Component 2, and, as the project activities remain the same, there for the PMP prepared for the project will remain the same and applicable to all project activities.

Issues on pesticide/weedicide/fungicide and other associated issues duly are addressed in the Pest Management Plan and issue on treated seeds is not majorly apparent within the agriculture sector in Sri Lanka compared to other countries. On ornamental fisheries no local species and capture from the wild as per the Fauna and Flora Protection Ordinance is permitted as per the negative list. From project implementation experience, the fish species widely grown as ornamental fish in Sri Lanka and Koi and Goldfish which have been imported in for this purpose into the country over time.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: No potential indirect negative environmental or social impacts are expected under the project. It is worthwhile to note that women producer organizations will receive priority in the matching grant facility and other project-supported activities. However, a number of issues deserve attention and monitoring from a social development perspective during implementation: Women-headed and poor households may be especially vulnerable and their participation in project activities might be limited resulting in inequitable production arrangements within farmer producer organizations or in partnership arrangements with agribusinesses. Market risks will remain substantial, and timely access to market information will remain challenging. This may result in producer organizations not being able to assess market and demand conditions adequately. Modern agriculture requires more investment while some of the proposed commodities may provide returns only with some time lags. Poorer households may therefore face



increased risk of indebtedness because of their motivation to participate in the project. Producer arrangements will require the organization and streamlining of large numbers of smallholder producers under unified production and land management arrangements, requiring special attention to ensuring voluntary and fully informed participation. Complex land tenure and land ownership patterns in Sri Lanka's smallholder agriculture might hinder the introduction of modern agriculture practices and new technologies.

There are no specific safeguards related risks identified which require robust mitigation measures. Construction related impacts will be minor given the small-scale nature of the planned works which will be managed through the implementation of site-specific ESMPs. Works on irrigation sub-projects will be carried out during off season to minimize any livelihood impacts. Issues related to water use & sharing will be managed through consultations and as per the government procedures in place.

Most of the land requirements for agriculture technology demonstration and development activities will be met within the existing land areas of respective agencies and in the Government owned lands. Most project-supported physical interventions facilities are expected to be of relatively small scale at household or village levels on existing farmland of households that are participating in the selected sub-projects on a voluntary basis, following consultation. The Project will not encourage private land acquisitions. However, there might be some additional land requirements for access roads, market facilities, agriculture produce storages in certain locations which generate a land acquisition case (following the procedure prescribed in the LAA, if land is not donated voluntarily or can not be made available from State land).

The exposure of project beneficiaries and project staff to the COVID19 is a key risk to be highlighted. To mitigate these risks, the project will take necessary action and put system in place following the guidelines issued by the Sri Lankan Government, the Bank and WHO. These guidelines are annexed to the RPF and EAMF and have already been shared with the PMU. In addition, COVID 19 safety measures will be incorporated into contracts/procurement documents, ESMPs and contractors will be trained on safety measures before commencement of works with relevant monitoring systems put in place.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Alternative design consideration included a three pronged approach that included major investment components on climate smart agriculture, value chain development for higher value agricultural products, and on reforms to the country's research and development and extension systems. This scope was considered to broad and complex, including from an environmental and social safeguards perspective and the project design was simplified as described above.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

An Environmental Assessment and Management Framework (EAMF) in lieu of an overall project-specific Environmental Assessment (EA) and a Resettlement Policy Framework (RPF) have been prepared as details of specific sites and related activities and interventions are not yet available. The EAMF primarily includes an assessment of generic issues that are typically associated with anticipated interventions under the project, measures for environmental risk mitigation and institutional arrangements for conducting environmental assessment, instruction to the preparation of Environmental Management Plans (EMPs), implementation and monitoring. The RPF provides guidance on the land acquisition process and the preparation of site-specific Resettlement Action Plans where needed.



To ensure that project interventions supported under the Matching Grant Program are environmentally sound, the EAMF includes environmental screening and evaluation criteria which will be part of the screening process for matching grant applications under Component 1. MOP will be responsible for ensuring the environmental screening of all project concept notes and full proposals submitted by applicants to the matching grant program. The environmental screening process and evaluation criteria presented in the EAMF are reflected in the Operational Manuel of the Matching Grant Program as well and built in to the eligibility assessment criteria of matching grant applications.

All interventions (excepting those that obviously are environmentally benign or low impact) under Component 2 will be subject to an environmental screening with the objective to: (a) determine the anticipated environmental impacts, risks and opportunities of sub-project; and (ii) determine if the anticipated impacts and public concern warrant further environmental analysis, and if so to recommend the appropriate type and extent of Environmental Assessment needed as per the set criteria in the EAMF.

The EAMF is taking the applicable safeguard policies into account as well as the national environmental requirements and will serve as a guide to the level of environmental analysis and mitigation required for all interventions supported by the project which will have the potential to trigger negative environmental impacts and thereby ensure compliance with the World Bank's environmental safeguard policies and the relevant national Environmental regulations during implementation. As a category B project, all physical activities financed under the project in general will be required to prepare an EMP and follow the World Banks Environmental Health and Safety Guidelines and agriculture sector guidelines as defined in the EAMF.

Interventions under Component 2, sub-component 2.3 may include the rehabilitation and up-grading of small-scale irrigation infrastructure and existing water tanks (managed by the Agrarian Services Departments) linked to the agriculture technology demonstrations parks under sub-component 2.2. OP/BP4.37 applies because of the dependence on water conveyance and control via the irrigation systems and the links of smaller tanks with the water storage and operation of upstream medium/large dams, which is typical for Sri Lanka's historical cascading tank and irrigation infrastructure. There is an ongoing and effective dam safety program in Sri Lanka targeting all large to medium scale dams (upstream of small irrigation structures) and smaller dams along cascading irrigation systems. Full-level inspections, dam safety assessments, and safety remedial measures have already been conducted and details are documented by the Government satisfactorily to the Bank and in compliance with the provisions of OP/BP4.37 on Dam Safety.

Typical interventions under this project would include repairs and improvements, such as protection of downstream slopes of dam embankments, providing toe-filters and toe drains to improve downstream drainage and arresting excessive seepage flows, upstream slope protection strengthening of the structural stability of spillways and sluice structures etc. The anticipated project activities will result in an overall enhancement of the safety of dams (tank bunds) against the risk of failure. The project, however, will not finance construction of new tanks (new dams/tank bunds). Small dams included under the project would be less than 5 meters in height.

All irrigation infrastructure related interventions will require a screening, as per the EAMF to verify whether upstream medium to large scale dams are present and connected hydrologically, and to assess their dam safety status and, if needed outline follow-up actions. If the presence of upstream and hydrologically connected dams is confirmed and these have not been rehabilitated or strengthened and thus have Dam Safety implications, the following will be conducted: an inspection and evaluation of the safety status of the dam, its appurtenances, and its performance



history; and a review and evaluation of the mandated dam owners operation and maintenance procedures. A report will be provided on the findings of the review, including recommendations for any remedial work or safety-related measures necessary to upgrade the existing dam to an acceptable standard of safety. Necessary additional dam safety measures or remedial work may be financed under the project. When substantial remedial work is needed, these will be undertaken using the following procedures: a competent professional will be recruited to design and supervise the work. Because the size of dams would be less than 5 meters in height, qualified professionals will be hired by MOA to design and supervise the work.

The MOA and MOP have limited prior experience with Bank-funded projects respectively and the capacity to manage environmental and social safeguards in project implementation is limited as well. MOP is a new entity. MOA has been long established, however, does not partake in the implementation of national level environmental regulations and institutional capacity is weak. MOA has however sufficient capacity and technical expertise in pest management because MOA is implementing national programs in pest control and pesticide management. To address capacity weaknesses, the PMUs under MOA and MOP will both recruit full-time qualified environmental and social specialists prior to the commencement of field implementation to be responsible for the implementation of the project's environmental and social regulations, including the EAMF, PMP, EMPs, and RPF and RAPs. In addition, the project will provide training in environmental management and on environmental and social management to improve institutional capacity. The cost for monitoring and supervising the implementation of environmental and social project regulations have been integrated into the overall project investment cost.

The PMU will also conduct Social Screening of subprojects for assessing their potential Involuntary Resettlement impacts. Based on the screening data on the extent of likely impacts, sub-project safeguard requirements will be only B and C category. The project will not support any A category subprojects. The screening and categorization of impact on involuntary resettlement will be initiated by implementing agencies, in this case PMU. Sub PMUs and provincial cells of the project management either with its own social specialists and other relevant staff or, if there are no such skills, with the help of external consultants. The social screening report will be prepared by the Social Development Specialist of the PMU, reviewed by the PMU and submitted to the Bank for clearance.

The Project does not support any subprojects involve physical displacement or resettlement of people. Nevertheless, in a situation any subproject that private land acquisition unavoidable and causing significant resettlement impacts will require a full scale Social Impact Assessment (SIA)/census survey and will require preparation necessary resettlement planning documents (Resettlement Action Plan (RAP), and/or Abbreviated RAPs). Social SSRs, abbreviated and full RAPs will be shared with the WB for review and clearance prior to the award of civil works contracts. Both full and abbreviated RAPs shall ensure that compensation, rehabilitation, and relocation arrangements are planned and budgeted, meeting the agreed resettlement policy requirements. Once finalized, the RAP must be approved by the PMU and cleared by the Bank. The RAP will be disclosed locally with translation and in the Bank's Infoshop. Table 3 summarizes safeguards documentation requirements.

In light of the restructuring the projects EAMF, PMP and RPF have been updated to include additional due diligence measures and added guidance for the implementation of Farmer Out Reach Programs in Component 1. The due diligence processes for Component 2 remain the same as the new Districts are already covered under the Provincial contexts presented in all three documents. The documents have been re disclosed on the 26th of June 2020 by the two implementing Ministries and the Bank.

As the Additional Finance (AF) will not generate new social risks or impacts, the RPF has mainly been updated with the



baseline data for the new district of Kandy and with guidance on COVID19 safety measures to be followed. Hence the existing safeguards due diligence measures will apply for all the activities scaled up in the additional districts as described in the RPF. The documents have been re disclosed on the 23 Nov 2020 by the two implementing Ministries and the Bank.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Consultations with direct and indirect project beneficiaries, government stakeholders at various administrative levels and farmers will be conducted as part of the participatory process for designing and implementing sub-projects.

Consultation will aim at: sharing information, listening to feedback, engaging citizens in decision making, and involving stakeholders in participation in the implementation process. Consultations will also enable the project team to hold joint discussions with the beneficiary communities, share ideas about planning and implementation, and benefit from local knowledge to take more informed decisions. Consultation will take place inform of public meetings, focus group discussions, sub-project specific community consultations as part of the social screening process and direct one-to-one consultations. A Public Information Booklet will be used as an information dissemination technique to promote competition and innovation in technology development and advocate for poor farmer groups, including women farmer groups, to take part in project activities. Following review by the Bank, the safeguards instruments including RAPs, EMPs have been disclosed through the Infoshop and locally on the ministries' websites, and through the PMUs and at Divisional Secretariats of project areas.

The project will adopt following as citizen engagement mechanisms: (a) continuous community consultations as social preparation and screening of subprojects; (b) social audit committees at local level to monitor subproject implementation; and (c) third party monitoring of project implementation to ensure projects benefits are distributed equally and efficiently across different social groups and geographical regions. The outcome of the citizen engagement exercises will be documented and reviewed during implementation support missions

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
12-Nov-2020	17-Nov-2020	

"In country" Disclosure

Sri Lanka

17-Nov-2020

Comments

**Resettlement Action Plan/Framework/Policy Process**

Date of receipt by the Bank 20-Nov-2020	Date of submission for disclosure 25-Nov-2020
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"In country" Disclosure

Sri Lanka
23-Nov-2020

Comments

Pest Management Plan

Was the document disclosed prior to appraisal? Yes	Date of receipt by the Bank 12-Nov-2020	Date of submission for disclosure 23-Nov-2020
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"In country" Disclosure

Sri Lanka
23-Dec-2020

Comments

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?



Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?

No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?

No

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?

NA

Is a separate PMP required?

Yes

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?

Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

Is physical displacement/relocation expected?

No

Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods)

TBD

OP/BP 4.37 - Safety of Dams

Have dam safety plans been prepared?

NA

Have the TORs as well as composition for the independent Panel of Experts (POE) been reviewed and approved by the Bank?

NA

Has an Emergency Preparedness Plan (EPP) been prepared and arrangements been made for public awareness and training?

NA

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

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APPROVAL

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The World Bank

Sri Lanka Agriculture Sector Modernization Project Additional Financing (P173297)
