

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE**

Report No.: PIDISDSA17494

Date Prepared/Updated: 26-Apr-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Sri Lanka	Project ID:	P156019
		Parent Project ID (if any):	
Project Name:	Sri Lanka Agriculture Sector Modernization Project (P156019)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	25-Apr-2016	Estimated Board Date:	15-Jun-2016
Practice Area (Lead):	Agriculture	Lending Instrument:	Investment Project Financing
Sector(s):	Agricultural extension and research (20%), Crops (20%), Agro-industry, marketing, and trade (20%), Irrigation and drainage (20%), General agriculture, fishing and forestry sector (20%)		
Theme(s):	Rural markets (20%), Water resource management (20%), Rural policies and institutions (20%), Rural services and infrastructure (20%), Nutrition and food security (20%)		
Borrower(s):	Ministry of Finance		
Implementing Agency:	Ministry of Agriculture, Ministry Primary Industries, Provincial Councils of Northern, Eastern, North-Central, Central and Uva Provinces		
Financing (in USD Million)			
Financing Source			Amount
BORROWER/RECIPIENT			0.74
International Development Association (IDA)			125.00
Local Communities			0.00
Local Farmer Organizations			44.10
Financing Gap			0.00
Total Project Cost			169.84
Environmental Category:	B - Partial Assessment		
Appraisal Review Decision (from	The review did authorize the team to appraise and negotiate		

Decision Note):	
Other Decision:	.
Is this a Repeater project?	No

B. Introduction and Context

Country Context

Sri Lanka is a lower-middle-income country of 20.5 million people and a per capita GDP of US\$ 3,811 (2014). Growth over the past decade has been strong, averaging 6-7% per year. Absolute poverty declined from 22.7 to 6.7% from 2002 to 2012. Despite this progress, roughly one quarter of the Sri Lankans remain nearly poor, as defined by living above the national poverty line (about US\$ 1.5 but below US\$ 2.50 per day (2005 PPP terms). Sri Lanka has comfortably surpassed most of the Millennium Development Goals. Primary school enrollment is near universal, while secondary and tertiary enrollment has substantially increased. Maternal and infant mortality rates are at very low levels, and life expectancy at 74 years has been above its regional peers for over a decade.

With the end of the civil war in 2009, reconstruction, infrastructure investment, and increased consumption have delivered a strong economic peace dividend, driven by the non-tradable sectors and public sector investments. Sri Lanka is also undergoing a structural transformation away from agriculture, which now accounts for 10% of GDP towards industry (32.5%) and services (57.5%) with associated productivity growth and accelerating urbanization. However, this transformation is progressing relatively slowly with 30% of the labor force remaining in agriculture. Notwithstanding the post-conflict environment, Sri Lanka's economic policies over last ten years have been inward-looking with an increasing degree of protectionism and anti-export bias. This has prevented the country from capitalizing on comparative advantage and exports; attracting domestic and foreign investments to foster technology transfer; and generating new sources of innovation driven growth and employment.

The country's fiscal landscape is challenging. In 2014, a widened deficit and a slowdown in growth increased the fiscal deficit to 5.7% and the public debt 71.8%, as share of GDP, marking a slight reversal of the fiscal consolidation path of the post-conflict period. The fiscal budget for 2016 presented to Parliament projected a deficit of 6.0% of GDP for the years 2015 and 2016. The government presented its economic policy in November 2015 that includes as priorities the generation of one million job opportunities, enhancing income levels, developing the rural economy, and creating a wide and a strong middle class. It proposed fiscal consolidation through increasing revenue collection, reforms of state owned enterprises, and enhanced trade and foreign investment.

Sectoral and institutional Context

Sri Lanka's agriculture is characterized by a non-plantation sector and a plantation sector. Of the country's approximately 2.3 million hectares of agricultural land, 80% are used for non-plantation foods crops, comprising rice, maize, fruits, vegetables, and other crops that are primarily grown in small-holdings. About 1.65 million smallholder farmers operate on average less than 2 hectares and contribute 80% of the total annual food production. Commercial crops (minor export crops) include cinnamon, pepper, cocoa, and coffee and are grown on small and medium land holdings

as well. Plantation crops—coconut, rubber and tea—are cultivated in large estates and small and medium land holdings. Typically, non-plantation crops are grown under irrigated conditions while plantation and minor export crops are grown in the rain-fed areas. Monsoonal rainfall patterns shape the agricultural seasons and irrigation patterns. Two thirds of the agricultural area are located in the dry zone where the bulk of the country’s irrigation infrastructure is located.

Sri Lanka’s has successfully attained self-sufficiency in rice and recently also in maize production. Rice production has increased steadily from 2.9 million tons (2002) to 4.8 million tons in 2015, in part because previously inaccessible land was reopened for cultivation after the end of the war but also through introducing high-yielding varieties, expanding irrigation capacity, fertilizer subsidies, restrictions on crop choices, and import substitution. Achieving self-sufficiency has meant that the production structure has remained concentrated in the low value food crops. In 2013, about 45% of the cultivated area was under rice cultivation (up from 37% in 1980) but the share of rice in the overall value of crop production was only 18%. Furthermore, average rice yields of 4.06 tons/hectare are relatively low and agricultural productivity, as measured by total factor productivity, has only grown by an average of 0.6 percent per year since 1980, lagging behind other South and East Asian countries.

With rice self-sufficiency secured, there is a need to diversify the production structure out of the lower value food crops towards high-value agriculture. Sector policy to date, however, has neglected the domestic fruits and vegetable sectors, despite growing domestic demand and potential for export growth. Demand has instead been met by increased imports. A broad recognition has however emerged recently that the modernization of agriculture is needed if agriculture is to realize its potential for greater value generation and as a renewed source of rural growth for poverty reduction and job creation. Such modernization will require a structural shift towards a more high-value oriented agriculture production structure, agro-processing and value addition activities, and increased competitiveness. It will also involve aligning trade policies to become more consistent and conducive for high-value export agriculture; realigning and better targeting of public sector support, especially fertilizer subsidies; greater attention to R&D; and relaxing the rice self-sufficiency policy and allowing for more demand-driven and market oriented production. This will require differentiated strategies for different parts and production arrangements across the country. In the northern and eastern parts of the country, comprising primarily the dry zone, there is significant scope for agricultural productivity growth and potential for better linkages to domestic and export markets, including value-added production. In other parts of the country, more robust and scaled-up private commercial investment and innovation through agri-enterprises and agri-enterprise-farmer partnerships is needed for value addition and farmer integration into high value chains through scaling up and diversification into more commercial crops.

The proposed project provides a broad framework for Sri Lanka to experiment with innovative approaches to address the above mentioned sector issues, overcome the low productivity equilibrium, and strengthen agriculture’s contribution to the economy and employment creation. The strategic thrust reflected in the project design is to support overall agriculture sector development and addressing the longstanding constraints through: (a) developing an incentive structure for small, medium, and large enterprises, including farmer producer organizations, to invest in commercial agriculture and value chains; (b) promoting partnership arrangements between private sector partners and smallholder producers for better linkages; (c) demonstrating new agriculture technologies and innovations at sufficient scale to enhance productivity,

resilience, and diversification in selected prioritized lagging regions; (d) promoting technology diffusion through capacity building and training and new models for extension service delivery; and (e) supporting sector policy analysis and research for reform.

C. Proposed Development Objective(s)

Development Objective(s)

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.

Key Results

The achievement of the PDO will be measured using the following results indicators: (a) number of direct project beneficiaries, disaggregated by gender; (b) number and share of participating farm households adopting improved technology packages and production practices supported under the project; (c) number and share of project-supported farmer producer organizations and farmer – agribusiness partnerships making a profit; (d) percentage increase in average value of sales of agriculture products due to project interventions; and (e) the number of new jobs created through small and medium enterprise investments under the project.

D. Project Description

The project comprises four components, as follows:

Component 1: Agriculture Value Chain Development (Total US\$102.7 million; IDA US\$58.6 million). The component would promote commercial and export-oriented agriculture through attracting and leveraging investments from farmer producer organizations and agribusinesses for high value agriculture production and value addition. Component 1 comprises the following sub-components:

Sub-component 1.1: Investment Preparation Support, supporting: a training program on principles and procedures of the Matching Grants Program under sub-component 2; public advertisements and information workshops at national, provincial and district levels for prospective grant applicants; support to the project's Technical Review Group and Board; international advisory support to operationalize the Matching Grants Program; staffing support and equipment and operation cost for the Matching Grants Secretariat and three regional support offices; technical assistance support to assist applicants in the preparation of quality investment proposals; and technical assistance support to support the environmental and social safeguards requirements within the Matching Grants Program.

Sub-component 1.2: Matching Grants to Producer Organizations and Agribusinesses, supporting a Matching Grants Program to support investments from farmer producer organizations and agribusinesses in agriculture. Matching Grants would be provided under two windows. Matching Grants of US\$5,000 up to US\$75,000 would be provided for investments to be developed and implemented by farmer producer organizations. Eligibility criteria for farmer producer organizations to participate in the program would include: formal registration; appointment of an accountant; a cash contribution of 10 percent of the total investment; and availability of commercial financing of 40 percent of the total investment. Matching Grants of US\$75,000 up to US\$500,000 would be provided to agribusiness for agriculture value chain investments.

Applications for grant support would be evaluated on criteria, such as outreach and capacity building to smallholder farmers, including women headed producer groups; focus on lagging regions; as well as technical quality, innovation, business rationale and others.

Sub-component 1.3: Partial Credit Guarantee (PCG), supporting a PCG to share financial risk with participating financial institutions that have expressed interest in lending to beneficiaries of the Matching Grant Program. The PCG would be administered by the Central Bank of Sri Lanka (CBSL) and operate on the basis of the World Bank Group Principles on Partial Credit Guarantee Schemes, published in December 2014, covering the governance, management, administration, sustainability, and monitoring of PCG.

Component 2: Productivity Enhancement and Diversification Demonstrations (US\$ 58.63 million, IDA US\$ 58.63 million). The component would support smallholder farmers to produce competitive and marketable commodities, improve their ability to respond to market requirements, and move towards increased commercialization. Component 2 comprises three sub-components:

Sub-component 2.1: Farmer Training and Capacity Building, supporting knowledge building and capability improvements of smallholder farmers and the establishment of farmer organizations to help them to respond better to market opportunities. Individual farmer capacity building and farmer producer organization training will be implemented through training programs reaching out to approximately 600 villages and approximately 500 farmer producer groups. The trained and established farmer producer organizations would become eligible for participation in the Matching Grants Program under Component 1.

Sub-component 2.2: Modern Agriculture Technology Parks, supporting the introduction, demonstration, and scale-up of innovative agriculture technology packages to support productivity improvements, diversification, commercialization, more sustainable and climate resilient production patterns. The sub-component would support 7 agriculture technology demonstration parks in the selected districts of Jaffna, Mullaitivu, Anuradhapura (Northern Province), Batticaloa, (Eastern Province), Matale (North-Central Province), Moneragala (Uva Province), and Polonnaruwa (Central Province) which have been identified based on high poverty headcounts and agriculture potential. The agriculture parks would be established to demonstrate entire value chain approaches, involving farmer mobilization and training, production, post-harvest handling and/or processing, and marketing.

Sub-component 2.3: Up-grading Production and Marketing Infrastructure, supporting: (i) the up-grading and rehabilitation of small-scale irrigation infrastructure and existing water tanks in selected areas and 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 (sub-component 2.2).

Sub-component 2.4: Analytical and Policy Advisory Support, supporting the CPCU, MOPI and MOA in addressing knowledge gaps; developing an evidence-based policy, legal and regulatory

framework; and formulating sector and sub-sectoral strategies to provide an enabling environment for a sustainable and competitive modern agriculture and food system. The component would provide support to evaluate policies and regulations and recommend adjustments, reforms or new policies to promote competitiveness, responsiveness to market demand, sustainability, and resilience; undertake market analyses for new exports, and analyze policy, regulatory and institutional constraints, and identify public investments to address these constraints; and evaluate the social and economic impact of policies and public expenditures and make recommendations to improve the efficiency and effectiveness of public expenditures. The sub-component would also provide some technical support the MOA, including the design of a National Agriculture Information System and others.

Component 3: Project Management, Monitoring and Evaluation (Total Cost US\$ 7.74 million, US \$ 7.7 million IDA). The component would support the PMOs at MOPI and MOA at the central, provincial and district levels in project management and coordination, technical supervision, financial management, procurement, social and environmental safeguards, and monitoring and evaluation (M&E).

Component Name

Agriculture Value Chain Development

Comments (optional)

Component Name

Productivity Enhancement and Diversification Demonstrations

Comments (optional)

Component Name

Project Management, Monitoring and Evaluation

Comments (optional)

E. 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. 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 have been identified based on high poverty rates and high absolute numbers of poor. The majority of these districts 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.

F. Environmental and Social Safeguards Specialists

Mohamed Ghani Razaak (GSU06)

Mokshana Nerandika Wijeyeratne (GEN06)

II. Implementation

Institutional and Implementation Arrangements

Institutional responsibilities and arrangements for project implementation will be established, as follows:

A Central Project Coordination Unit (CPCU) will be set up in the Ministry of National Policies and Economic Affairs with representation from other government stakeholders. The CPCU has the mandate to ensure effective coordination and communication between the Ministry of National Policies and Economic Affairs, Ministry of Finance, Central Bank, Ministry of Primary Industries, Ministry of Agriculture, and Provincial Councils; provide overall policy guidance and support to the implementing ministries; mobilize and ensure coordination with public and private sector stakeholders; and oversee the project's regular internal auditing/ third party-monitoring of the two main investment components to ensure adherence to project principles and transparency.

Ministry of Primary Industries (MOPI). MOPI will be responsible for implementing Component 1, sub-components 1.1 and 1.2, and will oversee the following project-relevant units and entities:

A Project Management Unit (PMU) in MOPI is responsible for the management of Component 1, sub-components 1.1 and 1.2, including annual work and budget planning, coordination of the Department of Export Agriculture in Kandy and the three regional offices (Kilinochchi, Ampara, Matara); coordination with the three Provincial Councils and Provincial Ministries of Agriculture; procurement; fund withdrawal and financial reporting; technical and institutional aspects of implementation; general oversight, field supervision and acceptance checks; and training and capacity building, and the periodic progress reporting to the Bank. A separate Secretariat would be set up in the PMU of MOPI to manage the day-to-day implementation of the matching grants program.

A Board of Directors will be set up to oversee and govern the application process and approval of matching grants under sub-component 1.2. The Board will be chaired by the Secretary of MOPI and include representatives from MOF, Board of Investment, Ceylon Export Board, Central Bank, Chamber of Commerce, Ministry of Agriculture, Ministry of Fisheries and the Provincial Councils

and Provincial Ministries of Agriculture. The Board would be responsible for reviewing and approving applications for matching grants that have passed the technical, institutional and business reviews, ensuring that proposals are in accordance with government policy directions and objectives, especially outreach and integration of farmers and female entrepreneurs; make good business sense; and are in compliance with project regulations, including safeguards.

A Technical Review Group (TRG) will be appointed, comprising representatives from government technical departments, academia/ research, industry-related enterprises, and other stakeholders. The TRG would provide guidance to farmer producer organizations and agribusinesses that have expressed interest in applying to the matching grants program on technical and business-related aspects of investment proposals, such as crop/ product selection, technology innovation, production organization and processing, marketing research, partnership arrangements, investment costing, and other elements of investment planning process. The TRG would review finalized investment plans for farmer producer organizations and agribusinesses for technical and economic soundness and compliance with project regulations and recommend such proposals for approval to the Board.

The Regional Development Department of the Central Bank of Sri Lanka would be responsible for administering the Partial Credit Guarantee (PCG) under Component 1, sub-components 1.3. The Department would also maintain the PCG Operational Manual, develop a business plan and pricing model, continuously review the eligibility criteria for loans, establish a registration system for loans to be covered under the PCG, and manage the claims processing system under the project.

Under the Ministry of Agriculture (MOA) the following project-relevant units and entities would be set up or would be set up for the management of Component 2.

A Coordinating Committee will be set up in MOA to be responsible for the regular coordination between MOA and the Provincial Councils of the participating provinces, based on the principles of the Wadduwa Declaration of the National and Provincial Ministers of Agriculture, signed on September 30, 2015. The Coordinating Committee would ensure that project's sub-components 2.2 (Agriculture Technology Demonstration Parks) and 2.3 (Upgrading Production and Marketing Infrastructure) are fully coordinated with the Provincial Councils based on the devolved provincial mandates for agriculture and rural development

A Project Management Unit (PMU) in MOA will be responsible for overall day-to-day coordination and management of Component 2 in coordination with the five Provincial Councils and Provincial Ministries of Agriculture. The PMU would be responsible for annual work and budget planning; coordination with provinces/ districts in public outreach and community mobilization, procurement and contract management, fund withdrawal and financial management, including and financial reporting; technical and institutional implementation aspects, field supervision and acceptance checks; and training and capacity building. It would also be responsible for reporting on project progress and implementation issues to the Bank, including the relevant project M&E indicators and safeguards implementation performance.

The Sri Lanka Council for Agriculture Research Policy (CARP) under MOA, would be responsible for implementation of sub-component 2.4. Day to day activities under the component will be managed by a small Policy Analysis Unit, housed in CARP with project support and reporting to the Chairman of CARP. The primary responsibility of the Unit would be to support policy level discussions of the CPCU, Ministry Finance, MOPI and MOA; monitor consistency of economic

policies across various parts of the government; develop an annual program of studies and analytical work, and monitor implementation during the year through periodic activity progress updates.

III. 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.
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; 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.

IV. 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. 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. Land acquisition is expected to be small-scale and to be manageable through the RPF and Resettlement Action Plans.

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.

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 be 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. MOPI 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 Manual 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 MOPI 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. MOPI 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 MOPI 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.

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

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	20-Apr-2016
Date of submission to InfoShop	21-Apr-2016
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	

Sri Lanka	21-Apr-2016
<i>Comments:</i> An EAMF has been prepared.	
Resettlement Action Plan/Framework/Policy Process	
Date of receipt by the Bank	21-Apr-2016
Date of submission to InfoShop	27-Apr-2016
"In country" Disclosure	
<i>Comments:</i>	
Pest Management Plan	
Was the document disclosed prior to appraisal?	Yes
Date of receipt by the Bank	20-Apr-2016
Date of submission to InfoShop	21-Apr-2016
"In country" Disclosure	
<i>Comments:</i>	
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

OP/BP/GP 4.01 - Environment Assessment			
Does the project require a stand-alone EA (including EMP) report?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
OP/BP 4.04 - Natural Habitats			
Would the project result in any significant conversion or degradation of critical natural habitats?	Yes [<input type="checkbox"/>]	No [<input checked="" type="checkbox"/>]	NA [<input type="checkbox"/>]
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?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
OP 4.09 - Pest Management			
Does the EA adequately address the pest management issues?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Is a separate PMP required?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
If yes, has the PMP been reviewed and approved by a	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]

safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	
OP/BP 4.12 - Involuntary Resettlement	
Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Is physical displacement/relocation expected? Provided estimated number of people to be affected	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] TBD [<input type="checkbox"/>]
Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods) Provided estimated number of people to be affected	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] TBD [<input checked="" type="checkbox"/>]
OP/BP 4.37 - Safety of Dams	
Have dam safety plans been prepared?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Have the TORs as well as composition for the independent Panel of Experts (POE) been reviewed and approved by the Bank?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Has an Emergency Preparedness Plan (EPP) been prepared and arrangements been made for public awareness and training?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
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 [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

V. Contact point

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VI. For more information contact:

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VII. Approval

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Approved By		
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