

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK**Project Title: COnnecting Regional Economies (CORE) Program****1. INTRODUCTION**

The United States Agency for International Development's (USAID) Mission in Sri Lanka intends to support an integrated conflict response strategy to address the escalating conflict in Sri Lanka. The program will utilize humanitarian, peace building, democracy and governance, as well as economic growth strategies to address the most deleterious symptoms of the increased violence. In the medium term, USAID will continue to support objectives that promote a resumption of the peace process to resolve Sri Lanka's long standing conflict.

2. BACKGROUND

Building on the Mission's successful economic growth and humanitarian assistance portfolios, CORE seeks to address Sri Lanka's current economic growth issues through the lens of the deteriorating conflict environment in the country. While recognizing that the solution to Sri Lanka's conflict lies clearly in the political realm, USAID believes that economic growth programming can contribute to building social and economic security to help establish conditions conducive to a political solution.

Recent USAID assessments¹ conclude that inequitable distribution of economic development benefits have helped fuel the current conflict. To address these disparities and make a positive contribution to creating space for a political solution, the CORE project will seek to expand economic activity in and around the conflicted areas in Sri Lanka's North and East, and in conflict-strategic areas on the border of the conflict, such as Moneragala district and North-Central Province.

Over the past fifteen years USAID/Sri Lanka has assisted in the development of the country's agribusiness and services sectors through three main initiatives: TIPS, AgEnt (FY1992-2000) and The Competitiveness Program (FY 2001-2006). Each of these programs resulted in several successes, laying the groundwork for increased competitiveness of Sri Lanka's private sector.

AgEnt was a collaborative effort between USAID and Oregon State University with the purpose of generating employment and income growth through the development and expansion of private agro-based enterprises. The program resulted in:

- Increased capacity and production of over 400 agriculture-based enterprises through a series of capacity building training programs focused on new production technology, innovation, market development and business management.
- Stronger, more unified private agribusiness sector through the formation of the National Agribusiness Council, an organization comprised of 20 associations covering every sphere of agribusiness in the country.
- Introduction of over 300 new technologies, some of which include: protected (greenhouse) agro-production, vanilla production, and hybrid maize production

¹ USAID/Sri Lanka: Economic Growth and Conflict Assessment, 2006. It is attached in Section J for reference.

- Increased export sales by \$373 million per year through establishing 190 new markets for Sri Lankan commodities abroad
- Policy reform in trade and tariff fiscal policy, seed production and certification, importing new genetics for the livestock sector, and several other side policy issues

Building on these accomplishments, The Competitiveness Program (TCP) focused its efforts on eight main clusters: coir, rubber, gems and jewelry, ceramics, tourism, tea, spices and ICT. The project worked through Apex bodies made up of representatives from all sectors of the industry value chain. The accomplishments made in each cluster are outlined on the project's website <http://www.competitiveness.lk>; some of the highlights include:

- Initiating the Moneragala Rubber Development Program which, it is estimated, will increase rubber production by US\$70m per annum
- Establishing the Model Rainforest Ecolodge through mobilizing US\$2m in private funds to construct the Ecolodge.²
- Enabling the ceramics industry to negotiate energy cost discounts for bulk energy usage with Shell Gas leading to a savings of US\$500,000 per annum
- Developing a local color separator to upgrade the quality of Tea supplied to tea auctions
- Branding Ceylon Sapphire and mobilizing an investment of US\$1.35m to establish the Ceylon Sapphire Council
- Establishing a model Coir Research & Development Centre
- Promoting exports of Cinnamon by separating HS codes with Cassia and developing market linkages with U.S. and Mexican buyers
- Launching a Rapid IT Conversion Program

Since 2003, USAID Sri Lanka has also managed a Humanitarian Assistance (HA) Portfolio which provides improved social assistance to targeted vulnerable populations. Target groups under this strategy have included disabled citizens, children at risk of violence and negative impacts of institutionalization, torture survivors, people most at risk of HIV-AIDS and disaster/conflict-affected. Many of the programs under the HA Portfolio have been funded through the USAID Washington office which manages targeted congressional earmark funds, such as the Leahy War Victims Fund, Displaced Children and Orphan's Fund, and Victims of Torture Fund.

USAID Sri Lanka is currently in a transition between the prior strategy and a new strategy. In the new strategy, Humanitarian Assistance as a standalone portfolio will not exist, though the USAID Mission will continue to support vulnerable disaster and conflict affected populations through support from USAID's Office of Foreign Disaster Assistance.

A "household livelihoods" component (Component 1) below will be funded with funds from the prior Humanitarian Assistance (HA) portfolio, and represents the effective closeout of that programming platform. It is important for the contractor to note that while that a portion of funds contributing to Component 1 are unearmarked Developmental Assistance funds, there is a sizeable portion of funding (as quantified in Section L.9, b. "General," 5) from the Displaced Children and Orphans Fund – and as such there is a requirement for addressing support to children affected by conflict. Building on the Mission's HA activities to date Component 1 at page C-7 seeks to address Sri Lanka's critical negative impacts on the livelihoods of people living in conflict-affected regions of the country.

² This has since been spun off into its own project called the Alliance to Support Environment and Community through Ecotourism (SENCE)

Through CORE, the Mission envisions building on its long experience and comparative advantage gained by these three programs by continuing our humanitarian work to assist vulnerable households to establish viable livelihoods and our economic growth successes in private sector competitiveness, workforce development, economic revitalization via microenterprise, Global Development Alliances, and financial sector services such as credit guarantees utilizing USAID's Development Credit Authority.

To promote peace and equitable economic growth, USAID/Sri Lanka will pursue an approach that includes: (1) reaching out to vulnerable populations (i.e., children affected by conflict) in less developed regions; (2) building linkages between the center and the periphery to open lines of constructive communication and build economic ties between private sector actors; and (3) improving the competitiveness of economic sectors while ensuring benefits to groups in conflict-affected and –strategic areas which have been traditionally neglected. Addressing inequities has political implications and will require sensitivity to the tangible and intangible sources of conflict.

The policy environment in Sri Lanka plays a key role in constraining the prospects for economic growth in the north and eastern regions of the country, due to lagged reform in the key economic sectors (primarily agriculture) of those regions. The limited scope of market reform in key sectors, such as agriculture, has played a significant role in the sharp gaps in regional growth. Therefore, progress in reducing regional disparities will be enhanced if misperceptions that reforms will hurt the poor are addressed.

The economic development of Sri Lanka reflects the differential implementation of market reforms.³ The Western region has cut its poverty rate in half; meanwhile, lagging reforms in other sectors have kept the rest of the country predominantly rural, with stagnating incomes. Reforms in paddy cultivation, as well as policies to improve the marketability of agricultural products have been almost absent. Lack of reforms in land markets are also a key barrier, but are beyond the scope of this activity.

The geographic differential in the impact of growth is also notable. While growth in the western province has been pro-poor, growth in other regions has had much less of an impact on poverty, and in some areas, poverty has even increased, with low rates of growth. The differential cannot be explained solely by differentials in literacy or education. Differences in infrastructure, while also significant, are also not sufficient to explain such significant differentials. Remittances have also been a significant factor in easing the impact of the conflict on populations in the North and East, resulting in incomes that have remained roughly similar to those elsewhere outside the Western province.

Reforms, which have spurred development of the Western province, include those in manufacturing, trade, transport, telecom and financial services. By contrast, agricultural reforms that would have benefited the East and North have largely been absent. The Government's continued role in agricultural commodities, factor markets (land, labor), and the provision of economic infrastructure are a legacy of Sri Lanka's socialist traditions, and undermine the efficient functioning of those markets. Policies that distort the market include paddy land provision, fertilizer subsidies, and frequent changes in agricultural tariffs. Protectionist tariffs on rice keep farmers in low value crops, and farmers granted land under the Land Development Ordinance cannot use the land for collateral, lease or sell it. Sri Lanka has the most restrictive labor laws in Asia. They restrict firm growth, since they only apply to firms with more than 15 employees and make firing (and hence hiring) virtually impossible

Yet, beyond the Western province, there are significant opportunities for growth and investment if a reasonable policy environment supports them. Sri Lanka can build on its 25-year experience in tapping

³ Sri Lanka Development Forum: The Economy, Regional Disparities, and Global Opportunities. World Bank, January 12, 2007.

emerging global markets. The Government's development framework emphasizes the importance of the knowledge economy. For example, Sri Lanka has a welcoming business environment for off shoring business. Sri Lanka has a world class legal framework for ICT development and e-commerce that protects copyright and intellectual property. Cell phone growth has rapidly outpaced internet usage, but still remains underutilized in the conflict areas in the North and East (see <http://ppc.usaid.gov/esds/economy.cfm>). The significant weaknesses of the ICT sector include the relatively low level of English language skills, lack of connectivity outside the capital and the ongoing conflict. Long delays and complexity in the business registration process is also a significant factor.

Improving the skills, capacities and access to information of poor suppliers at the bottom of value chains is an important component of the CORE strategy. Workforce development activities are essential for youth and other vulnerable populations to even participate in economic activities. Research has shown that on-the-job training and training and technical assistance provided by value chain experts is most effective. CORE will use strategies for facilitating training by actors in the value chain.

3. OBJECTIVE

Building on earlier and ongoing Mission economic growth programs such as AgEnt, TIPS, Sri Lankan Tsunami Reconstruction Program, Accelerated Skills Acquisition Program (ASAP), The Competitive Initiative and its successor TCP, CORE seeks to address the disparity in economic development between the North and East and the rest of Sri Lanka. This disparity is a major driver of Sri Lanka's ongoing ethnic conflict. CORE can help establish conditions conducive to a political solution to the conflict by fostering economic growth that addresses regional and socio-cultural inequities.

To achieve this goal, CORE has five Components:

1. Support livelihood development for vulnerable populations at the household level, especially women and children in conflict-affected and –strategic areas. This component is envisioned as a first step in the process of restoring economic activity to war-torn populations, and will assist those most directly impacted by the escalating conflict in the north and east to participate in livelihood activities, such as creating their own small businesses, building towards their eventual participation in CORE value-chain development activities and access to new markets.
2. Promote the competitiveness of agriculturally based value chains⁴ that offer or have the potential to offer sources of income for traditionally neglected groups located in conflict-affected⁵ and –strategic areas⁶. The CORE proponents may also suggest other non-agricultural value chains.
3. Ensure that groups located in conflict-affected and -strategic areas benefit from participation in selected value chains. This will involve the promotion of win-win relationships between value chain actors. This will address power imbalances as well as equitable access to the resources needed to participate viably in selected value chains, i.e. finance, business services, infrastructure, and ICT (to improve access to markets, market information, business skills and other information on the “outside world.”)

⁴ Agri-based value chains include both farm and non-farm activities supporting a given value chain. Non-farm activities can include processing, transport, input suppliers, and service providers.

⁵ Conflict-affected areas are those places where populations have been directly affected by the ongoing ethnic conflict.

⁶ Conflict-strategic areas are typically on the border of active conflicts and/or harbor the conditions that led to the conflict in the first place, such as poverty and unemployment. These are areas such as North-Central Province and Moneragala district.

4. Implement a workforce development strategy that benefits groups located in rural, conflict-affected and -strategic areas and that is driven by the needs of selected value chains.
5. Promote a business enabling policy environment that will allow businesses in conflict-affected and -strategic areas to grow and become sustainable.

As an overarching program principle, CORE will strive to bring the three different ethnic groups (Singhalese, Tamil, Muslim) together to work on areas of common interest, ranging from joint training programs to business development opportunities. USAID has successfully implemented this type of practical peace-building through the ongoing Office of Transition Initiatives (OTI) program, particularly through the OTI field offices in Ampara and Trincomalee.

4. STATEMENT OF WORK

CORE will provide technical assistance and training to accomplish the objectives of the program. In addition, the CORE program will include a flexible small grants-under-contracts program of up to 10% of the contract award to support small-scale infrastructure, business development services, support to associations, chambers of commerce and others to promote peace-building economic growth activities. Small grants will be limited to no more than the equivalent of US\$100,000 per grant in order to ensure that a significant number of grant activities are funded by a variety of groups working in the target conflict-affected and –strategic areas.

USAID will provide the contractor the equivalent of US\$5 million in Sri Lankan Rupees from a PL 480 Title III Agreement local currency account held jointly with the Government of Sri Lanka to augment the U.S. dollar obligated in the contract. These local currency funds are within the U.S. Government's maximum estimated budget stated in Section L. It is not additional to the stated budget amount (funding to be made available). The local currency funds must be utilized by the contractor for small grants, micro-credit, local training and other closely related costs thereto. It will enhance the contractor's ability to improve food security and agricultural development, promote free and open markets, support micro-enterprise development, and provide small grants for infrastructure activities in rural areas.

CORE will build upon the achievements of previous and ongoing USAID economic growth programs, while bringing to the new program a strong emphasis on the more equitable distribution of benefits. The Mission activities to date offer a number of examples of interventions with impacts that CORE may want to develop further to the benefit of populations in conflict-affected and –strategic areas. (See Text Box 4.1 for illustrative examples.)

Text Box 4.1: A Value Chain Approach to Rural Development -- Examples from The Competitiveness Program (TCP)

USAID's main Economic Growth project in recent years, called The Competitiveness Program (TCP), has been working with eight industry clusters that account for 23 percent of the total workforce. Since the project's inception in 2000, export earnings of these sectors have grown at an average rate of 8.8 percent per year, and the value added component has increased by 50 percent; by comparison, the value added component for other sectors increased by only 27 percent. Four of the clusters -- Coir, Rubber, Spices and Tea -- involve activities with a strong rural out-reach. This text box cites three examples in which exporters

at the down-stream end of the value chain have invested in promoting rural up-stream development that will increase exports, enhance value added, create new job opportunities, and improve rural standards of living. While support to the current TCP programs will end in FY2007, it may make sense to continue support in the clusters identified above, and to apply lessons learned from TCP to agribusiness, non-farm activities and ICT.

Coir Research, Development and Training Center (Model Mill Project)

On August 24, 2005 the Coir cluster completed an agreement to establish a Coir Research, Development and Training Centre involving the Coir Council International (CCI), the Coconut Development Authority (CDA), the Coconut Research Institute (CRI) and the Industrial Technology Institute (ITI). The signing facilitated the release of a US\$480,373 grant from the Common Fund for Commodities (CFC). The full cost of this public-private partnership is US\$730,000, with Sri Lankan counterparts funding the balance. TCP supported the initiative through a long incubation period from concept to pre-implementation. The Centre is located on a small CDA coconut estate in Dunkannawa, 50 km north of Colombo. It will consist of a mill housing a full fiber processing line, and a small on-site fiber lab, plus meeting and training facilities. The focus is to develop technology and training programs to increase productivity and quality of coir mills in all suitable areas of Sri Lanka, to the benefit of rural entrepreneurs, their employees, and the coconut farmers.

Moneragala Rubber Development Program (MRDP)

This program was developed by the Rubber cluster to resolve a critical supply chain problem. Sri Lanka's rubber industry consumes more than 80,000 metric tons of raw rubber per year, with demand growing by 10 percent per year. An adequate and consistent supply of raw rubber for value addition is essential for sustaining rubber industry competitiveness. Yet raw rubber production in Sri Lanka has been on the decline since the 1980s, forcing rubber product manufacturers to import raw significant volumes at high cost to cover the shortfall. One leading manufacturer has expanded to Thailand to circumvent the scarcity of raw rubber in Sri Lanka. To alleviate these constraints, the Rubber Cluster recommended the expansion of rubber plantations to the Moneragala region. The cluster formed a coalition of companies to invest in plantations, and convinced the government of the value of the program. The Ministry of Plantation Industries has worked closely with the private sector. The ensuing partnership has been highly effective, and has drawn International Fund for Agricultural Development (IFAD) support for a joint investment of US\$35 million. This initiative will create over 700 jobs, with wide multiplier effects, in one of the poorest districts in Sri Lanka. USAID/Sri Lanka has committed to use local currency funds (separate and in addition to the \$5 million equivalent in local currency mentioned above) to establish a rubber cluster training center in Moneragala to support development of the area in coordination with the IFAD effort.

Spices -- Good Manufacturing Practices for Cinnamon Processing

The Spice Council (TSC), in collaboration with the Export Development Board (EDB), GTZ, the Cinnamon Association of Sri Lanka, and a private cinnamon grower/processor, set up a cinnamon-processing center using Good Manufacturing Practices (GMP) at Kosgoda, Balapitiya, in the Southern Province. The center opened on August 12, 2005. This is the first processing center of its kind in Sri Lanka, and is open for anyone in the industry to visit, observe, and replicate. SGS Lanka (Pvt.) Ltd, a member of TSC, carried out the evaluation and conferred the GMP certification to "Dasanayake Walauwa Cinnamon Plantation." The cost of the project was Rs. 3 million, of which Rs. 1 million was provided by the National Council for Economic Development (NCED) as a grant through the EDB.

Additionally, CORE will follow a value chain strategy developed through a conflict lens. While reducing the economic disparities between conflicting factions can contribute to peace building, Sri Lanka has also seen economic development efforts that have exacerbated conflict. CORE will need to develop models that satisfy several bottom lines: the creation of job and income opportunities and the reduction of tensions. The Mission has solid experience in the peace-building realm through the Office of Transition Initiatives (OTI) small grants program in the East, which seeks to bring ethnic communities together to plan and implement infrastructure and other projects that serve all communal interests. The OTI field offices in Ampara and Trincomalee provide a model for a CORE field presence and a strong experience base to build upon (see the OTI Final Evaluation Report at http://pdf.usaid.gov/pdf_docs/PDACJ115.pdf).

5. GEOGRAPHICAL COVERAGE

The CORE program will target three provinces: North Central, Eastern and Uva (Moneragala District) provinces. Within these three provinces, the programs should focus on 3-5 on districts.

The proposed geographic focus will enable USAID to:

- Maintain a presence in conflict affected districts;
- Obtain first hand information about the program needs in conflict affected districts;
- Implement a program strategy that demonstrates a balance between ethnic groups;
- Build on targeted elements of USAID’s current programs.

The Mission expects both CORE and the new Democracy and Governance “Sri Lanka Conflict Response Program” (SCRCP) field offices to be established in Ampara town and in Trincomalee. We expect both CORE and SCRCP contract staff to be posted in both offices and work together on integrated USAID programming in both areas of Economic Growth and Democracy and Governance. The local staffing mix in the field offices must be sensitive to ethnic issues fueling the conflict, and therefore should reflect the ethnic mix in those areas.

6. CORE PROGRAM COMPONENTS

Section C.6. is organized as follows:

- **COMPONENT** number and short description
 - Objectives list
 - **Objective description**
 - *Illustrative Activities*

Note that USAID does expect the contractor to implement the “Illustrative Activities”, but that the list may not be comprehensive and the contractor is encouraged to propose alternative or additional activities in their proposal. Furthermore, in some cases, the objective is described but illustrative activities are not listed, leaving it to the discretion of the contractor to propose a set of appropriate activities to achieve the objective.

COMPONENT 1:

Support livelihood development for vulnerable populations at the household level, especially women and children, in conflict-affected and –strategic areas.

Component 1 will achieve four objectives:

- a. **Identify and report on appropriate, effective and sustainable livelihood interventions for conflict-affected households;**
- b. **Enhance household food and economic security through a diversity of livelihood support strategies;**
- c. **Improve physical, educational, and psychological well-being of children and their families affected by conflict as part of an integrated household livelihood strategy.**
- d. **Improve horizontal and vertical networking, collaboration, and information sharing among communities and organizations involved in livelihood interventions.**

a. Identify and Report on appropriate, effective and sustainable livelihood interventions for conflict-affected populations

CORE will support action-oriented research into the current range of livelihood support strategies for impoverished and conflict-affected households ongoing in the target areas of the North and East⁷. The expected outputs of this research are: an assessment report documenting the diversity, effectiveness and impact of the various livelihood strategies currently being employed in the target areas; a mapping of organizations engaged in this work including a listing of contacts; a mapping of private sector interests in relevant livelihood issues for the target populations; and a set of concrete recommendations for the specific livelihood activity strategies to be implemented under CORE.

b. Enhance household food and economic security through a diversity of livelihood support strategies

Utilizing the action-oriented research and specific recommendations from the analysis/research work described above, the contractor will initiate and manage a set (or sets) of programmatic interventions designed to: stabilize households facing negative economic impacts and shocks from the conflict, support household food security and economic security through economic empowerment and support activities, and to support capable local organizations to extend the outreach of the program.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Identify effective local non-governmental organizations, community based organizations (NGOs/CBOs) and civil society groups (cooperative societies, *shramadana* societies) with experience, outreach to the household level, and capacity for programming – and provide financial and technical support to their livelihood initiatives through sub-grants.
- In collaboration with interested private sector parties, identify practical actions in market stimulation, awareness-creation, and/or governmental policy lobbying that may help to positively identify opportunities, reduce risks, and remove impediments or barriers to private sector investment and engagement with targeted beneficiary populations of CORE.
- Engage groups of households or communities in local economic improvement projects such as irrigation/drainage canal clearance, construction/improvement of access roads, rehabilitation of water dams, etc.

⁷ It is not anticipated that the research will cover every community in all the conflict-affected districts. It will be up to the discretion of the contractor (and in consultation with USAID Sri Lanka) how wide this should necessarily cover. The point here will be to capture the range of experience, opportunities and challenges impacting this sector of work.

- Supporting “value-addition” to agriculture, aquaculture, and micro-enterprise of conflict-affected households, through activities such as improving handling of produce and fish, improving transport of goods, training in processing (jarring, canning, jams), etc.
- Provide financial and technical support to effective and capable micro-finance institutions (MFIs) to promote their sustainability outreach to new customers, and professional operation according to international microfinance standards. This work may also be facilitated through designing new linkages with rural financial institutions such as the SANASA Rural Development Bank and/or a recently established initiative for microcredit leasing through Lanka Orix Leasing Corporation⁸.
- Support conflict-affected households through animal husbandry projects, such as revolving livestock schemes, dairy development, poultry raising, improving breeding, etc.
- Facilitate the sustainable return of Internally Displaced Peoples (IDPs) through assistance activities such as cash-for-work, cash grants, providing access to key resources (seeds, tools, equipment), linkages with microcredit to resume economic activities, etc.
- Support household food security through promotion and support of household vegetable gardens.
- Provide business development services to households and micro-entrepreneurs in business planning, budgeting, financing, etc.
- Increase the dissemination of information in local languages, about new technologies, new business opportunities and other relevant information.

c. Improve physical, educational, and psychological well-being of children and their families affected by conflict as part of an integrated household livelihood strategy

Although this objective in general targets the household as the beneficiary unit, given a significant contribution of funds by the Displaced Children and Orphans Fund to this program and in recognition of the considerable vulnerability of children in conflict environments, a third objective directly identifies and responds to the needs of children.

Under this objective, contractors are invited to address children’s and their families’ needs through two strategies: 1) Through household level support activities which can be shown through monitoring and evaluation to have positive impact for children; and 2) through targeted activities directed towards children themselves.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Supporting livelihood strategies similar as described above, from which a direct attribution to the betterment of children’s lives can be identified. Some of the positive impacts on children which might be identified are: indicators that reflect reductions in family dissolution, maintaining the key breadwinners within the household, improving attendance rates at school, improved nutritional status of children.

⁸ For more information on USAID’s Development Credit Authority partnership with Lanka Orix Leasing Corporation, please contact Jessica Wolfendale, jwolfendale@usaid.gov.

- Activities which directly target women heads of household, women entrepreneurs and mothers also have good likelihood of providing a more direct benefit to children, though documentation of the attribution of this through monitoring and evaluation of appropriate indicators would be necessary.
- Activities designed to address the emotional, psychological and social impacts of the conflict on children, including recreation, play and art, social and sports clubs, and supplementary educational support (especially for those children who may have missed school days/exam periods due to the conflict);
- Support/strengthen already-existing government/NGO initiatives for vulnerable children. For example, training for pre-school teachers and primary school teachers on child friendly teaching methods, child counseling, conflict resolution, etc.

d. Improve horizontal and vertical networking, collaboration, and information sharing among communities, organizations, and private sector firms involved in livelihood support activities.

Achievement of this objective will improve the extent, inclusiveness, and effectiveness of networking, information-sharing, and collaboration among the various communities and organizations involved in livelihood interventions.

The intention of these activities is to help end the economic and social isolation of conflict affected households and communities through fostering greater exchange of information and experiences, and where possible to strengthen their economic capacity through development of practical linkages for marketing, technical education, and awareness of opportunities and rights. This objective also intends to support an improvement from the current situation under which a large number of local and international NGOs operate narrowly-focused, small scale livelihood interventions in relative isolation from one another – often missing critical opportunities for collective support and action.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Building on the information-collection and mapping conducted during the analysis/research activities described above, to develop a Livelihoods Coordination Network of involved Government of Sri Lanka offices, private sector representatives, UN agencies, local and international NGOs.
- Promote regular coordination meetings on livelihoods at district level (and possibly Colombo national level) of involved parties.
- Promote information sharing, cross-training, and exchange among various community groups and farmer/fishermen associations intra-district or across districts.
- Support information sharing, cross-training, and exchange specifically among women’s associations and women-headed organizations.
- For “vertical” networking, coordinate regular meetings and exchanges between district level Chambers of Commerce and representatives of firms/industries with household leaders and heads of farmer/fisher associations. Where possible, seek to facilitate direct linkages or collaborations between these groups.

COMPONENT 2:

Improve the competitiveness of agriculturally-based (and possibly other) value chains, which benefit large numbers of traditionally underserved populations in conflict-affected and –strategic areas and which link them to growth opportunities, including domestic and/or export markets.

Component 2 will focus on improving small business access to national and export-oriented value-chains, moving beyond the household-level interventions described above in Component 1, but where possible providing upgrading support to household businesses to participate in identified value-chains.

Component 2 will achieve the following objectives:

- a. Select value chains using established criteria (see below)**
- b. Develop an end-market strategy for each value chain demonstrating how the chain will achieve competitiveness and meet the demands of the end market**
- c. Develop an upgrading strategy based on a value chain analysis that prioritizes constraints based on the above criteria**
- d. Identify priority interventions which address priority constraints**
- e. Implement priority interventions to develop competitive value chains using a conflict-sensitive lens.**

a. Select value chains using established criteria

The first step in value chain development is “sector selection.” To ensure that CORE objectives are met, selection criteria will need to include but not be limited to the following and the contractor can propose alternative or additional criteria:

- Potential for competitiveness and thus growth;
- Potential to benefit large numbers of micro and small firms or farmers/fishermen from conflict-affected and –strategic areas; and,
- Potential for constructive communication and economic linkage between those who have traditionally been left out of growth opportunities and those who have traditionally benefited from economic growth.

b. Develop an end-market strategy for each value chain demonstrating how the chain will achieve competitiveness and meet the demands of the end market

Growth is a prerequisite for the generation of all benefits up and down the chain; and competitiveness drives and underpins growth. Fostering the competitiveness of the value chain requires the development of a strategy for competing in the final market and meeting the needs of end-market buyers. The contractor will need to be familiar with key end markets in Sri Lanka and downstream buyers, and devise a strategy for linking producers upstream in the conflict-affected and –strategic regions with these markets and buyers.

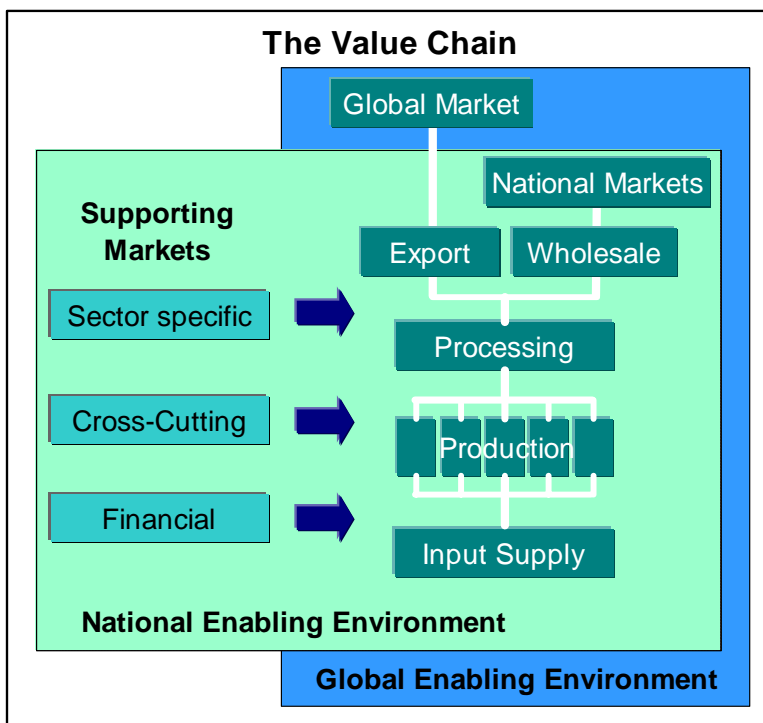
c. Develop an upgrading strategy based on a value chain analysis that prioritizes constraints based on the above criteria

CORE will need to identify value chains in which large numbers of populations in conflict-affected and –strategic areas currently or potentially participate and which have potential for growth (a strategy for competing in final markets). To ensure that populations in conflict-affected and –strategic areas benefit from this economic activity, CORE will need to develop an upgrading strategy based on an analysis of the constraints in the value chain and particularly those faced by those at the bottom, where the poorest suppliers tend to operate.

The upgrading strategy will be designed to address identified constraints as well as the incentives and/or disincentives of poor firms and/or farmers/fishermen to invest in upgrading.

d. Identify priority interventions which address priority constraints

The upgrading strategy will also include the identification of interventions needed to address value chain constraints. Interventions aimed at “upgrading” small firms and farmers/fishermen – as well as all actors in the chain – must be based on a constraint analysis and must address identified constraints. While



interventions suggested here may include technical assistance for agri-business projects, new product identification and post-harvest food storage, cold-chain management, ICT, finance, and business services, interventions must be driven by analyses of constraints. Moreover, not all constraints are equal. Constraints need to be prioritized based on: (1) demands of the end market, (2) impact on competitiveness, (3) impact on peace/conflict, and (4) impact on benefits for the population in conflict-affected and –strategic areas.

e. Implement priority interventions to develop competitive value chains using a conflict-sensitive lens.

Upgrading involves risks as well as investment capital. Vulnerable and poor populations in conflict-affected and strategic areas are least able to absorb risks and come up with capital

for investments. While upgrading is typically viewed through a private sector lens – that includes private providers of upgrading services and finance, CORE will need to be sensitive to the needs of the population in conflict-affected and –strategic areas. Additionally, USAID needs to demonstrate impact in the short and the long term. Thus CORE should look for short-term solutions to upgrading that can lay the groundwork for longer term solutions appropriate for the targeted populations.

Typically an upgrading strategy will involve interventions to strengthen vertical linkages between all actors in the chain. CORE will need to give special emphasis to links between farmers/fishermen or firms in conflict-affected and –strategic peripheral areas and buyers in more economically developed areas. USAID’s Global Development Alliance program can be particularly useful in this sense, and the Mission intends to develop GDA partnerships to bring important additional resources to the CORE program.

The technical assistance provided by the contractor will be designed to incorporate learning. As the project evolves, the contractor will – through learning – identify newer constraints and new interventions. Consequently, the workplan and budget will have the flexibility that will allow for a dynamic and cyclic process of learning through analysis, implementation and monitoring of performance.

COMPONENT 3:

Ensure that groups located in conflict-affected and -strategic areas benefit from participation in selected value chains.

Power dynamics are embedded in the vertical relationships between buyers and suppliers and can prevent small farmers/fishermen and firms from benefiting fairly from their participation in a value chain. When win-lose relationships prevail between supplier and intermediary or buyer – expressed in the form of predatory behavior on the part of intermediaries/buyers, unfair payment for product, and/or an unwillingness to share valuable market information with suppliers – the competitiveness of the entire value chain ultimately suffers. Thus addressing win-lose relationships is key not only to USAID’s objective related to ensuring benefits for populations in conflict-affected and –strategic areas but also to the overall growth potential of the value chain and the reduction of tensions. Skill sets from the Mission’s Democracy and Governance program may be particularly useful and provide an opportunity for integrated USAID programming, an important Mission goal. CORE proponents are encouraged to analyze such opportunities for inclusion in their proposals.

Horizontal linkages are also key to value chain development. Where lots of small producers are involved, a strategy is needed to reduce the transaction costs of working with so many suppliers, the costs of product consolidation, and service delivery. Moreover, horizontal linkages – in the form of producer groups, cooperatives, and associations (at any level of the chain) – represent a key means for improving the bargaining and advocacy power of small, disadvantaged farmers/fishermen or firms. Organized, small farmers/fishermen can achieve greater bargaining power in the marketplace, lobby for policy reforms, and access finance and market information.

Component 3 will achieve the following objectives:

a. Foster increased access (among entrepreneurs and small producers in conflict-affected and – strategic areas):

- i. to Finance**
- ii. to Business services**
- iii. to Infrastructure**
- iv. to ICT and**
- v. to Business skills (through workforce development)**

If small producers in conflict-affected and -strategic areas are to benefit from participation in selected value chains, interventions need to focus on the power relationships between firms and the extent to which they are win-lose or win-win. Unless suppliers at the bottom of chains benefit sufficiently, they will neither have the incentives to be good and loyal suppliers; nor will they have incentives to invest in upgrading needed to meet the demands of the end market.

Improving the skills, capacities and access to information of poor suppliers at the bottom of value chains can also be important to share power in the market place. Workforce development activities are essential for youth and other vulnerable populations to even participate in economic activities. For other populations in conflict-

affected and –strategic areas, training and technical assistance will likely be needed. Research has shown that on-the-job training and/or training and technical assistance provided by value chain experts is most effective. CORE will use strategies for facilitating training by actors in the value chain. In Cambodia, USAID’s Strengthening Micro, Small and Medium Enterprises project convinced input suppliers to provide training to farmers. The win-win result was highly technical training provided for free to farmers and for input suppliers the result was a three-fold increase in sales of inputs.

Moving inter-firm relationships from win-lose to win-win can also be achieved by improving the access of those on the “lose” side of the relationship to finance, market information, market options, and business services. Power dynamics can also be changed through organization – allowing very small firms to bargain in the marketplace like a larger firm.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- GDA partnerships can play an important role in terms of training (see Cambodia example above), and the contractor will be expected to identify and work with existing and new, potential GDA partners for the Mission, in order to help shape and target training and capacity building opportunities for beneficiaries at the upstream end of the value chain. GDA partnerships are between the Mission and private sector partners, but the CORE contractor can identify such partnership opportunities and assist the Mission as described above.
- The contractor will analyze the need for very small firms to join together to form or join larger, more effective and powerful organizations such as cooperatives, business associations, etc. The contractor may then provide technical assistance, training and small grants to help support these organizations, if warranted.

a.i. Value Chain Finance

To be able to upgrade, firms and/or farmers/fishermen may need access to finance. Analysis already conducted suggests that finance is a constraint – this finding will need to be verified through a constraint analysis of the value chain(s) (see discussion above).

Value chain finance involves analyzing the constraints of all actors in a value chain, identifying the types of financial institutions that might meet their financial needs, and identifying the types of products needed by the value chain actor. Using the value chain finance lens, finance can be provided by an actor who can access commercial finance and can on-lend this money to those who do not have access to financing. Credit guarantees provided to larger firms can thus improve access to small firms – to the extent that it is in the commercial interest of the larger firm to provide capital to its suppliers. See diagram below for depiction of value chain finance.

Illustrative activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

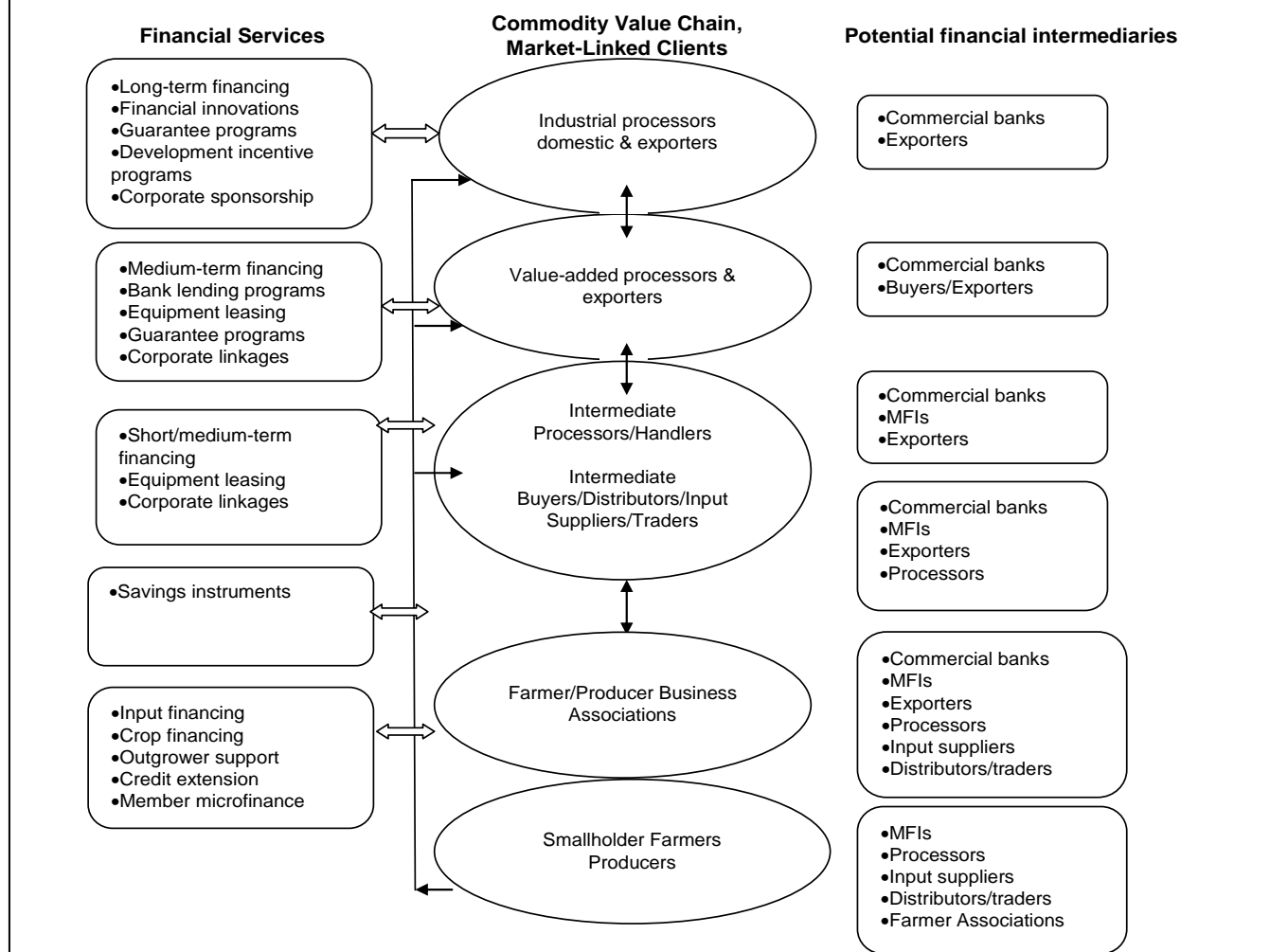
- Assess the selected value chains to identify the constraints and opportunities related to financial services;

- Where there are financial constraints, facilitate viable delivery of financial services whether through the value chain (i.e., value chain financing – see graphic below) and/or through a stand alone provider such as micro-finance institutions or banks;
- Facilitate new tailored financial products that will benefit farmers/fishermen and firms in conflict strategic areas and in competitive value chains (i.e., the financial service may not be directed at the small farmer/supplier/producer) – including leasing, warehouse receipts, insurance, guarantees, etc.
- Strengthen financial service providers that are active or could be active in financing farmers/fishermen and firms in conflict strategic areas and other actors in the selected value chains.
- Direct technical assistance and training support to the commercial lenders. Drawing on some of the lessons learned by The Competitiveness Project, one financial constraint faced by several value chains is the misperception of risk in certain lesser-banked sectors or due to lesser-known banking schemes. For example, gueda heat treaters in the gem industry have found it difficult to acquire the holding power to buy and heat treat rough gueda because banks in Sri Lanka are typically averse to lending against stock. In several instances businesses on all levels of the value-chains are prevented from accessing finance due to high collateral requirements. This is generally a consequence of a lender's unwillingness or inability to veer from asset-backed lending to more sophisticated cashflow-based lending models.

Financial Services Along a Value Chain

RFP# 383-07-EG1

SECTION C



- The Mission has an existing Development Credit Authority (DCA) program, mentioned previously. The Mission has put aside an additional \$200,000 (not included in the CORE contract) to fund a new DCA program; it is estimated that this \$200,000 will be able to leverage a portfolio amount of approximately US\$4 million⁹. The contractor, in consultation with the Mission, will help design the new DCA program. The contractor will also design targeted TA and training activities for the DCA partner/lender and beneficiaries, to strengthen the use of this new DCA guarantee, after the contractor conducts a more thorough analysis of financial services needs.
- In identifying financial constraints and possible interventions, the contractor can draw upon lessons learned by TCP as well as resources USAID/Sri Lanka already has in place, including the existing credit guarantee facility (DCA) with Lanka Orix Leasing Company (LOLC), a local leasing and non-bank finance company. The guarantee facility covers 50% of principle on loans and leases the company makes in agriculture, tourism, fishing, and alternative energy in tsunami-affected areas. LOLC is based in Colombo but has operations throughout the country.
- The mission also has a strong working relationship with several microfinance organizations, including Sarvodaya Economic Development Services project (SEEDS) and Agro Micro Finance, both of which have operations in conflict-affected areas in the East. Possible interventions could build upon current work that is being done by these microfinance institutions and support them in meeting the particular

⁹ This is a conservative estimate based on calculations done for USAID/Sri Lanka's current DCA. In actuality the \$200,000 could leverage anywhere from \$2 million to \$6 million depending on the risk associated with that particular guarantee.

needs of vulnerable populations through the design and use of the new planned DCA facility, in close coordination with the Mission and AID/W's Office of Development Credit.

a.ii. Business/agricultural services

Business/agricultural services – considered a supporting service or market - can be either sector-specific or cross-cutting. Sector-specific services can include ag-inputs and services related to the use of seeds, fertilizers, and small scale irrigation equipment; they can involve vet services, tractor services, and transport. Ideally, these services should be provided within a market context – either by actors in the chain or by stand-alone businesses - to assure not only sustainable delivery, but also to foster greater flows of information, knowledge, and skills regarding production (i.e., encourages innovation).

Generalized, non-sector specific business services such as how to run a business, management, and marketing tend to be less relevant to value chains that are dysfunctional or disconnected. Demand for these services typically follow the growth of demand for sector specific services. While in many instances, these services are more effective at the lead firm level (especially in export industries) where firms have to have competencies to compete in more mature markets, some of these services may be needed by the very vulnerable populations with no experience in an economic activity. Workforce development might be most appropriate to these populations.

First and foremost, CORE's supporting market activities will need to be based on a constraints analysis. Moreover, given the vulnerability of the populations that CORE is targeting, strategies will be needed that are sensitive to this population and their special needs as well as sensitive to USAID's needs for quick and tangible impacts.

USAID's Microenterprise Development office offers a case study (at http://www.microlinks.org/ev_en.php?ID=7095_201&ID2=DO_TOPIC) that tells the story of how one FINTRAC activity in Honduras worked in a post-disaster setting. The case study: (1) describes a “jumpstarting” approach to agricultural development that seeks to achieve immediate results while incorporating a plan for long-term sustainability; (2) articulates the conditions under which “jumpstarting” can be part of a long-term development strategy, and (3) presents some guiding principles for sustainability to ensure that the results of such efforts last beyond the life of the project. This case study might be useful to the contractor in balancing short-term impacts with longer-term sustainability goals.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Identify supporting market constraints and interventions based on the value chain analysis;
- Develop an intervention plan for supporting markets that prioritizes constraints and is sensitive to populations in conflict - affected and - strategic areas to USAID's needs for quick and tangible impacts;
- Where and if needed, facilitate viable sector-specific supporting markets that deliver new technology, inputs, and/or important output services (i.e., micro-irrigation, transport, cooling, etc.);
- Support agricultural innovation and improvement, through strategies such as alternatives to chemical inputs, pest management, development of collecting centers and/or collective transportation, providing training to government and NGO agriculture sector specialists in new methods and latest technology, etc.
- Where and if needed, facilitate viable non-sector specific supporting markets that deliver services or products (i.e., legal, accounting, management, marketing information, ICT, etc.);

- Facilitate innovations in payment mechanisms and/or product offers that are tailored for capacities of farmers/fishermen and firms in conflict-affected and -strategic areas;
- Facilitate increased flows of embedded services from providers of support services or products to farmers/fishermen and firms in conflict strategic areas; and,
- Complement facilitation activities with implementation activities that address the special needs of conflict-affected populations as well as being sensitive to USAID's needs for quick and tangible impacts. This may involve the creative use of subsidies or grants that avoid to the extent possible market distortions.

a.iii. Infrastructure

Enterprises and vulnerable populations in the conflict-affected and -strategic areas, in many instances, have either been de-capitalized or have never had access to the capital, technologies and equipment needed to upgrade and meet the demands of buyers. In the light of obvious market failures in these regions, it will be appropriate to consider measures to jump-start enterprises, particularly those necessary to the effective functioning of targeted value chains. While current financing mechanisms may address certain needs for capital equipment, there will be a number of firms and farmers/fishermen that have capital needs that exceed the limits of existing institutions. In that case, there is demonstrated experience that partial, directed (perhaps in-kind) grants can be a useful mechanism for jump-starting production and/or processing enterprises. The program would need to operate in concert with other programs and fill market failures, so that it does not distort the market.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Assess the needs of populations in conflict-affected and –strategic areas for capital equipment and/or other small infrastructure that address their constraints in participating effectively in selected value chains;
- Develop a plan for offering small infrastructure investments to populations in conflict-affected and –strategic areas without overly distorting markets; and,
- Implement this plan.

a.iv. Information and Communication Technologies (ICT)

ICT includes Internet access, cell phone networks, radios, and even digital cameras. All of these ICT's can be used – and combined -- to help address key constraints in value chains. Residents in both rural areas and conflict areas may have limited access or experience using computers and cell phones but in other areas where the Mission's Last Mile Initiative Centers (LMI) are established, access is available to the community. Given the importance of access in conflict areas to any intervention offered by CORE, special attention must be given to the accessibility and affordability of any ICT-enabled intervention introduced. Because cell phone use is growing in Sri Lanka, interventions that rely on cell phone usage may be promising. If an intervention depends on users' Internet broadband access, care must be taken to ensure access is available even in the conflict-areas. Dial up Internet access is more likely available for e-mail and small downloads since broadband has yet to reach the rural and conflict areas.

ICT can enhance a wide range of interventions to address key constraints and power imbalances. For example, ICT can improve *access to information* to small farmers/fishermen in the value chain – information regarding market prices, supply chain management, availability and pricing of inputs; weather; and technical information about agriculture techniques and pests. With support from USAID's TCP, the Government of Sri Lanka's Govi

Gnana Seva (GGS) initiative in Dambulla has been a successful model. GGS is a simple solution that collects and disseminates live information on market prices electronically via a number of large 8 by 6 feet screens hung at the Dambulla market to increase the bargaining power of farmers/fishermen coming in to the market with their produce. These screens provide the daily high and low prices for all produce sold along with the price trend and the current ‘going price’ for farmers/fishermen to decide how much to bargain for. From having no independent information at all, now increasing numbers of farmers/fishermen and collectors are beginning to ask for the best prices they could obtain based on the live price feeds. More importantly this information is being relayed live via the Internet to anyone with access to a network connection.

ICT can also enable *applications* that can enable small hold farmers/fishermen to work together virtually, making it easier for large, end-market buyers to deal with them efficiently or enable small farmers/fishermen to use data gathered for others’ purposes (e.g., to meet end-market traceability requirements) to more precisely time and manage steps in their farming production cycle (e.g., planting of seedlings or applications of expensive inputs) to increase export yields with no increase in inputs.

Other examples of ICT-enabled services:

- ICT-enabled farm extension applications can help farmers/fishermen find answers to their farming questions fast or, when needed, have the questions routed to experts who can answer them.
- ICT-enabled business services such as ways for farmers/fishermen to learn prices – or deals on – inputs needed or aggregate their purchases and delivery of inputs to save money.
- ICT-enabled financial services such as m-banking (using cell phones) capabilities to make loan payments or deposits or withdrawals from savings accounts and allow MFI’s reduce transaction costs; increase repayment rates; and increase their customer reach.
- ICT-enhanced workforce development services using DVD’s; radio or even the Internet to extend access to services; monitor quality of services; or inform potential clients of service availability and its benefits.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Assess the selected interventions (e.g., related to finance; infrastructure; power imbalances; improvements to horizontal and vertical linkages) to identify where ICT may be incorporated to enhance results;
- Integrate the design, development, testing, and implementation of the ICT-enabled component into a community centered group, ensuring the ICT component is sustainable and scalable without further donor assistance;
- When designing any ICT-enhanced intervention, design – prior to development and testing -- the technical and training approach *as well as* the business approach to operate the intervention in a sustainable way;
- Define and, where needed, address the power requirements for the ICT intervention by selecting low power ICT devices as well as sustainable sources of power with shared usage where possible;
- To the extent practical, design and develop any ICT interventions so they can be adapted and re-used elsewhere;
- Identify, where feasible, public-private partnerships (including GDAs and other donor’s funds) to leverage project funds and sustain activities;

- Leverage, where practical, the ICT access requirements of other large ICT users in the target area in order to increase sustainability of the ICT-enabled interventions and, possibly, increase the commercial viability of private sector expansion of telecommunications to the target area. Building on and coordination with the ongoing LMI project will be particularly important in this regard; and,
- Take special care not to “re-invent the wheel”: build on related lessons learned and best practices by sharing plans and direction with the Mission and USAID/Washington EGAT/I&E/ICT team in Washington, DC.
- Learning to use supply chain management software enabling large wholesale buyers to receive the *quantity*, *quality* and *type* of produce they need *when* they need it and enabling small hold farmers/fishermen to better manage their portions of the chain.

a.v. Implement a workforce development program that develops the skills needed by youth and others at risk of becoming involved in conflict to participate effectively in selected value chains.

Workforce skills are generally weak among youth and other vulnerable populations in conflict-affected and – strategic areas. Yet these populations may be most at risk for becoming involved in conflict. CORE may be able to offer these populations a workforce development program that is tailored to the needs of selected value chains and takes into consideration some of the labor market policies that make hiring this population unattractive. USAID/Sri Lanka currently has a work force development under way (ASAP) which ends in September 2008. The CORE work force development program will build on ASAP, to the extent possible. The Mission anticipates that the CORE contractor will focus on the value chain component in year one, and plan for the workforce component of CORE to start on/about October 2008 following and building on the ASAP program. Likewise, through the Sri Lankan Tsunami Reconstruction Program (SLTRP) the Mission is currently constructing and outfitting vocational education centers, including five in the East, due for completion by March 2008. The CORE program will seek opportunities to strengthen these five eastern centers through the workforce development program. Contractors will need to become familiar with the SLTRP and develop a plan to fill gaps in curricula, teacher training needs, sustainability planning and career placement for graduates following completion of SLTRP in order to ensure the centers fulfill their potential for sustainable workforce skills development in eastern Sri Lanka. Likewise, the CORE contractor will assist in the development of the planned Moneragala rubber cluster training center to be built with Mission PL-480 local currency funds.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Assess the potential demand of the selected value chains for skilled employees, and their ability to offer apprenticeship training;
- Assess available sources of training for the skills needed by the value chains and explore ways to extend these training resources to target areas using ICT (e.g., radio, computers, DVD’s; Internet; even cell phones) or other means;
- Assess which components of ASAP are relevant for the CORE workforce development program and identify any lessons learned and best practices ASAP offers regarding conducting workforce development activities in conflict-affected areas;
- Understand lessons learned and best practices from workforce development efforts in areas with similar characteristics;
- Coordinate with and leverage other donor, NGO, and Government of Sri Lanka (Ministry of Education and others) workforce development, English language, ICT and workplace skill development programs;

- Assess the gaps in the demands of the private sector job market and applicants so that participating workforce development programs can address;
- Develop a CORE Workforce Development Program, including types of technical assistance to be provided; public private partnerships (see discussion of SLTRP and Moneragala training center above); other types of interventions to be implemented; resource and work plans; and results indicators. This program should be flexible and adaptable to opportunities identified during the development and implementation phases;
- Implement CORE Workforce Development Plan; and,
- Possible interventions might include an apprenticeship program that provides youth and other vulnerable populations with on-the-job training or work-study programs. All workforce programs will be directly relevant to the local demands of employers for specific skills. As a result, workplaces will be visited, speakers will be invited, and practical on-the-job type tasks will be incorporated into all activities. A voucher program might offer employers incentives for hiring this at risk population.

COMPONENT 5:

Foster an enabling environment that facilitates economic growth and reduces inequities and conflict.

The Government of Sri Lanka has identified the development of the agricultural sector in critical geographic areas as a priority for the Government. The ten-year development framework issued by the Government last year, the *Mahinda Chintana: Vision for a New Sri Lanka* (<http://www.adb.org/Documents/Reports/SRI-Development-Forum/IN22-07.pdf>) targets growth in Agriculture as one of the main drivers of the economy, along with tourism. The vision for agriculture emphasizes achieving food security and raising incomes of small farmers. The strategies include (i) increasing competitiveness through modern technology, (ii) shifting to commercial agriculture; and (iii) promoting diversification into higher value products (fruits, vegetables, livestock, and fisheries). However, it isn't clear whether the agenda includes efforts in policy reform.

The Government already has plans to implement a program of improved agricultural services, under its *Mahinda Chintana: Vision for a new Sri Lanka*. Under this ten-year program, the government is envisioned to fill many roles that might be better filled by the private sector, including production and distributing of improved seeds, land use and planning, and subsidies for non-plantation agriculture. While this has the potential to support the development of higher value agricultural production, the program may also be implemented in a manner that undermines the goals of this program.

The *Vision for a New Sri Lanka* provides an opening for serious policy dialogue, since the objectives of the ten year program are worthwhile, but the proposed means are inconsistent with internationally accepted best practice. The planned interventions of the government could have significant implications for achieving USAID's objectives.

Therefore, the CORE contractor will provide technical assistance to the government to shape its agricultural support program, since the proposed policies could easily undermine programs hoping to shift the agricultural sector to higher value commodities linked to export markets. This may involve support for local technical institutions and think tanks to develop analyses that can support a thoughtful process of debate that will include serious discussion of the long-term impacts of these policies. However, while think tanks and other sources of analysis are key to a successful advocacy process, the advocacy process should be led, where at all possible, by representatives of the sectors in question. The National Agribusiness Council is an example of the type of institution that has the capacity to play a key role in representing a more global perspective in the discussion.

Even beyond the agricultural sector, policy advocacy should be led, where, possible, by business advocacy groups. Where possible, private sector actors (for example, the Federation of Commerce and Industry Sri Lanka (FCCISL) and its eastern Chamber partners) involved in the debate should be supported in engaging local think tanks and universities that can provide substantive input into discussions with the government. The CORE contractor should consult with TCP for their perspective on required policy reforms for sustainable economic growth.

Policy dialogue should include, and where needed, focus on the local and regional enabling environment. Local and regional regulations, or their implementation, may often pose more significant barriers to enterprises than the national environment. In developing a policy agenda, the program should be guided by a thoughtful dialogue with enterprises in the targeted sectors. In other words, the development of the policy agenda should be guided by the defined enabling environment barriers that are prioritized by the targeted sectors.

Given that some local and regional barriers may be priorities, the program should be prepared to engage with local and regional institutions to achieve its objectives. It will be critical that the program builds, to the extent possible, on existing experience and structures that have been developed through other USAID programs. Coordination with other USAID programs (including SCRIP) in institution building, transparency and responsive governance could be an important factor in the ultimate success of policy and regulatory reform initiatives under CORE.

The policy program should be oriented towards maximizing the total impact of the USAID program. CORE should engage in an explicit cost-benefit analysis to identify the reforms that are most pressing and that are also achievable given the program's resources. This should be accomplished through dialogue with businesses in the sector and relevant government counterparts.

Illustrative Activities:

To achieve this objective, USAID expects the contractor to implement the illustrative activities below, but the list is not necessarily comprehensive and the contractor may propose alternative or additional activities.

- Ensure that the enabling environment is considered as a factor in selecting sectors so as to avoid surprises at a later date that a particular policy prevents progress and is too difficult to change;
- Given the environment in Sri Lanka, trade policy may be an important consideration. Value chain analysis should also consider local and regional laws, policies and institutions that may play a significant role in the normal operation of enterprises; and,
- Implement a rapid assessment of the particular policy and regulatory barriers that may impede the success of selected value chains and identify priority reforms (e.g. security and infrastructure-related transport bottlenecks in moving farmer produce out of Trincomalee to national markets in a timely manner).
- Develop a strategy for reform. The strategy should include: (1) the identification of local institutions or associations which will lead the process (including those which may be started or strengthened by the program), and key participants in the process who are necessary for successful reform; (2) approaches to getting reform onto the national or local agenda; (3) the role of local think tanks, universities or other institutions in developing concrete analysis which will inform the policy debate and provide advocates with substantial basis to support arguments for reform; (4) a framework of the proposed coalitions for reform; and (5) an identification of key vulnerabilities and challenges and address how those will be met;
- Identify how CORE will build on other USAID and other donor programs operating within institutions that are relevant to policy reform objectives – so as to ensure the efficient use of resources;

- It is very important that the program utilize its resources efficiently. Based on dialogue with the other donor programs and the donor itself, the consultant will determine how it will collaborate with other programs to best meet its objectives; and,
- Integrate the business environment reform strategy into the program workplan.

6. INTEGRATED PROGRAMMING

The CORE program is one of two key components in USAID's strategy designed to respond to the conflict in Sri Lanka, the other program (Sri Lanka Conflict Response Program or SCRCP -- RFP at www.fbo.gov) focusing on peace-building, democracy and governance, and a participatory small grants component.

The USAID strategy cannot be viewed through a narrow technical lens; at the community level, USAID's response to perceived economic, humanitarian and development needs can serve as a platform to promote co-existence and mitigate conflict.

Cross Cutting Issues:

CORE offerors will conduct an analysis of possible linkages between the CORE and SCRCP programs. Based on this analysis, the CORE offerors will propose a set of activities that could be implemented in close coordination with the SCRCP contractor. This set of coordinated activities will be finalized post-award in consultation with USAID during the annual work planning processes for CORE and SCRCP.

Illustrative examples of such CORE-SCRCP activities include:

- Community consultative mechanisms that develop local action plans that may identify small scale economic growth; work force development, and small grants projects to be funded by CORE, that can simultaneously serve as platforms for conflict mitigation and peace building objectives under the SCRCP program.
- The SCRCP program will support local government capacity building, with an emphasis on: financial management, service delivery, and participatory planning to increase accountability and transparency. In all these areas, linkages with citizen groups, traders associations, regional chambers of commerce serve to ground these technical assistance and training programs in the reality of the local economy. Many of these groups are also potential CORE partners.
- The SCRCP program, in coordination with CORE, may support a national alliance of regional Chambers of Commerce to engage the private sector; promoting the role of the business community in supporting the peaceful resolution of the conflict. Many of these regional chambers suffer from a lack of capacity to engage with national institutions, both within the government, civil society and the private sector. Beyond the world of non governmental organizations, many civil society organizations such as the chambers and the cooperative societies often suffer from a lack of inclusivity. Promoting inter-ethnic linkages and collaboration between such civil society organizations can begin a process of reconciliation. The CORE contractor should consider these and other organizations and networks for support under the small grants component of the CORE program. The SCRCP contractor may also provide small grants under SCRCP, and both contractors will need to coordinate to avoid duplication of effort and funding.

- Public – Private partnerships are an important element of USAID’s conflict response strategy. Such partnerships are often more obvious within the scope of economic growth programming. Nevertheless, awareness-raising within the private sector both at the regional and national level should be part of the SCRCP program’s strategy to sustain support for conflict response programs.

More specific examples of joint CORE-SCRCP programming may include:

- Work with local Chambers of Commerce on district and provincial private sector policy issues;
- Work with People’s Forums supported under SCRCP to identify and prioritize local development needs and private sector policy issues;
- Incorporate peace building, mediation, human rights and civic education in the workforce program;
- Target workforce program to conflict affected, disaffected, unemployed youth of different ethnic groups and seek ways to bring them together through exchange visits, training, etc.;
- Engage business leaders and owners on political reform and advocacy;
- Utilize participatory, community-based approach to program implementation; and,
- Share lessons learned from past and ongoing DG, OTI, SLTRP and TCP activities.

7. CRISIS MODIFIER

Given political and security developments in Sri Lanka as well the country's vulnerability to natural and man-made disaster, USAID/Sri Lanka is developing a scenario-based crisis modifier.

This proposed scenario-based plan is an outgrowth of USAID/Sri Lanka’s experience and lessons-learned from implementing programs in Sri Lanka during the periods of conflict and natural disaster. Described below are the critical assumptions and the triggers that will cause movement to a crisis modifier strategy.

In Sri Lanka there is potential for increased violence and conflict resulting in a restrictive enabling environment caused by:

- Increased military or LTTE strikes resulting in a deteriorating human security environment;
- Increased in humanitarian crises caused by man made or natural disasters;
- Increased human rights violations;
- Shrinking space for public political discourse and dialogue and targeting of media professionals;
- Worsening economic indices leading to political instability and increased conflict; and
- Localized conflict and grievances associated with increased internal displacement of civilian populations.

Given the proposed program’s field based approach, USAID anticipates an enabling environment characterized by: (a) the ability of USAID’s primary implementing partners to work in the designated regional programming areas, and (b) the safety of those who implement and participate in projects.

The Crisis Scenario:

This anticipates the need to redirect resources in the event of a humanitarian crisis or a worsening security environment. USAID, in collaboration with the broader United States Government Mission and our partners will develop a description of "trigger events" that will necessitate a special review of the program and if

appropriate, a revision of the program strategy. The offeror in coordination with USAID/Sri Lanka will monitor these indicators. The decision to trigger a change in scenario will be done in consultation with the United States Country Team in Sri Lanka, including the Ambassador, USAID, Washington and the Director of Foreign Assistance's Core Country Team for Sri Lanka.

The contractor has a budget line item of no more than US\$ 300,000 in unit price as a contract line item to respond to a future crisis. The decision to access funds from this contract line item will require prior written approval of the Contracting Officer for this award.

Illustrative activities to be funded by the Crisis Modifier line item might include costs for immediate response needs of IDPs for livelihood development; costs associated with program redesign and work planning; costs associated with the need to provide for transport of trainees from the East to training venues in North Central or Uva, etc. Offerors should price the Crisis Modifier line item according to these or similar activity sub-elements during the Crisis Modifier planning process.