

**Performance Audit Report
on the Agro-Livestock
Development Loan
Scheme and Interest
Subsidy Granted Thereon**

**Implementation by Central
Bank of Sri Lanka
2010**



**Performance and Environment
Audit Unit**

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1. Executive Summary

The Agro- Livestock Development Loan Scheme (ALDL) was introduced by the Government in 2008 to empower small farmers by financing their agro and dairy development projects and to assist developing liquid milk processing and crop processing industries in Sri Lanka. Simultaneously, the Monetary Board of the Central Bank of Sri Lanka had also decided at its meeting held on 08 February 2008 to offer an interest subsidy on loans granted under the ALDL Scheme.

The performance audit was carried out by the Auditor General's Department to determine the economy, efficiency and effectiveness of the ALDL Scheme. The audit process will include meetings with various officials of the institutions participating in the ALDL Scheme and ultimate beneficiaries at the grass roots level.

The objectives of the audit are to assess the new employment opportunities generated, the progress of the medium term loans granted for milk and crop processing activities, the avenues opened for the dairy farmers to adopt new technology to make their businesses sustainable and evaluate cost effectiveness and the opportunities provided by the loan scheme to the farmers to move away from subsistence level farming to commercial level farming. It will also assess the improvements of the productivity of farming activities under the Loan Scheme and the progress of the Subsidy Scheme on loan interest and its contribution to the success of the ALDL.

The observations made during the course of audit are summarized below.

- (a) The milk production of the country had increased during previous years. However, the import volume of the powdered milk had dropped marginally with the introduction of ALDL Scheme.
- (b) Only 21.45 percent of the total allocation amounting to Rs 5,000 million had been utilized during the first one and half year of the three year period of the ALDL Scheme thus indicating that the Scheme had not been effective as planned.
- (c) New job opportunities expected to be generated through the ALDL Scheme had remained at a minimum level.
- (d) The technical knowledge on new farming practices which was one of the intended benefits of the Scheme had not been transferred to the farmers effectively.
- (e) Co-ordination between monitoring and participating institutions had not taken place as planned and as a result of this, the ALDL Scheme activities had not been popularized among the dairy farmers for effective utilization of funds allocated .

The efforts taken by the Government to increase the milk production of the country, as proposed by the Budget – 2008 had been supported by the ALDL Scheme implemented by the Ministry of Finance and Planning (MOFP) and the CBSL.

However, it was observed that ALDL Scheme had not made its contribution at the optimum level to increase the milk production and the sustainability of the small scale dairy industry of the country due to lack of institutional support to enable the economical use of the funds allocated and efficiency of implementation and effectiveness of the Scheme.

Conclusion

The effect on implementation of the ALDL to enhance the liquid milk production of the country could not be reliably determined in audit due to the other simultaneous projects implemented by the various other organizations at national and regional level. Further, the ALDL Scheme had been properly implemented in some Districts by several PCIs whilst the objectives of ALDL Scheme had not been achieved in several other districts by the other PCIs. It is concluded that a proper mechanism should be established to coordinate all the organization of the livestock sector providing more opportunities to understand the real problems at regional level and share the experiences of the officers engaged in the implementation process of the ALDL.

2. Introduction

The Agro-Livestock Development Loan Scheme was introduced by the Government in 2008 to empower small farmers finance their agro and dairy development projects and to assist the development of liquid milk processing and crop processing industries in Sri Lanka simultaneously. The Monetary Board of the Central Bank of Sri Lanka had also decided at its meeting held on 08 February 2008 to offer an interest subsidy on loans granted under the ALDL Scheme. Further, a Policy Stimulus Fund had also been established by the CBSL for a two year pay to pay incentive allowance to the Extension Officers of the Ministry of Livestock Development actively engaged in livestock development activities. The CBSL had taken action to select 14 Licensed Banks as Participating Credit Institutions to implement the Loan Scheme.

2.1 Objectives

The objectives of this performance audit included the following

- (a) To assess the new employment opportunities generated through the Loan Scheme,
- (b) To assess the progress of the medium term loans granted for milk and crop processing activities,
- (c) To assess the avenues open for the dairy farmers to adopt new technology to make their businesses sustainable and cost effective,
- (d) To assess the opportunities provided by the Loan Scheme to the farmers to move away from subsistence level farming to commercial level farming,
- (e) To assess the improvements of the productivity of farming activities under the Loan Scheme and
- (f) To assess the progress of the Subsidy Scheme on Loan Interest and its contribution to the success of the ALDL.

The audit covered the period from the inception on 01 March 2008 to 30 June 2010 which covered only 50 percent of the project period.

2 Reasons for Selection of the Audit

In order to assess the effectiveness of the ALDL Scheme and to evaluate the efficiency with which funds have been utilized by the Scheme economically, the ALDL was selected as an area for carrying out an audit under performance audit perspectives.

2.3 Scope of the Audit

This performance audit had been carried out in accordance with Performance Auditing Guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI). Those Standards require that the auditor shall obtain the understanding of the entity, its operations and internal control systems to the extent necessary as a basis to determine the achievement of the objectives of the loan scheme, the risk related to achievement of such objectives, conclude on the findings and make recommendations thereon. The nature and the extent of the audit procedure had been varied depending on the result of the audit risk assessment. Our procedures also included examination and collection of evidence to support the findings and conclusions. We had obtained the appropriate audit evidence as we consider sufficient to enable us to draw reasonable conclusions. The provisions of the Article 154 of the Constitution give powers to the Auditor General to carry out such an audit.

2.4 Audit Criteria

- Determine the number of employment opportunities that prevailed in the selected area/district before and during the implementation of the ALDL.
- Determine the number of the loans expected to be granted and the achievement made as at 30 June 2010.
- Determine the number of beneficiaries who use new technologies for milking, chilling and food processing activities
- Determine the number of farmers who constructed cowsheds, purchased cows / heifers and machinery for milking, chilling, etc.
- Determine the amount of milk produced before and after the implementation of ALDL
- Determine the amount of interest claimed by the PFIs/ CBSL from the General Treasury

3. Detailed Audit Findings and Recommendations

3.1 General Observations

3.1.1. Issues on Milk Production

According to the information of the Department of Census and Statistics, the domestic milk production in Sri Lanka had improved in the recent past. The import of milk powder had only decreased marginally. Details are given below.

Year	Total Annual Production ('000 liters)	Milk Powdered milk	
		Local Production ('000 MT)	Imports ('000MT)
2007	202,009	7.00	68.1
2008	208,093	7.24	61.6
2009	233,316	7.53	61.51

There are a number of programmes being implemented by various types of organizations to improve productivity of the Agro Livestock Sector, in addition to the ALDL Scheme. The details of such programmes which operated concurrently with the Scheme and observed during the course of the audit are given below:

- The Department of Animal Production and Health had implemented the Cattle Farmers' Villages Program (KIRIGОВI Gammana) for the purpose of increasing milk production of the country and providing high- bred animals to dairy farmers;
- The North Western Provincial Council had implemented a Loan Scheme to generate self- employment opportunities in the North Western Province through dairy farming; and
- The Coconut Cultivation Board had launched a Subsidy Scheme in 2008 to reimburse the cost of construction of cattle sheds in Kurunegala, Puttalm, Gampaha and Matale Districts to encourage coconut growers for cattle farming activities and use of organic manure effectively for coconut gardens.

The sale of liquid milk was not a major problem for the cattle farmers. The large scale milk processing companies are competing with each other to win the hearts of the farmers and as a result, farmers received reasonable prices for their milk production. According to the audit observations, it was revealed that MILCO Ltd, the Government owned company which provides a helping hand to establish societies for cattle farmers and provide other facilities such as extension services, fodder and medicine on credit basis etc, has acquired a large customer base. Even though the other private companies including a multi- national company offer a marginally higher price than MILCO Ltd, to attract farmers but do not provide other facilities.

Implication

Even though the milk production of the country had increased remarkably in the recent past, it is difficult to determine the influence made by the ALDL Scheme for such increase. There were similar credit and subsidy schemes in operation and several Government and other organizations had made contributions to increase the milk production. Due to the absence of coordination between the institutions providing similar subsidies and readily available statistics on such Programmes/ Schemes implemented any assessment of the impact of the ALDL Scheme on the livestock development of the country was not effective.

Recommendation

- (a) Link the ALDL activities with other programs implemented by the other institutions in State Sector including Provincial Councils for the purpose of development of cattle farming of the country. This will save costs incurred and effort on cattle farming such as provision of subsidies and facilities to the same farmer different sources and individual organisation can be avoided.***

- (b) Obtain the support of the milk processing companies to spread ALDL activities among their clients as the Field Officers of the milk processing companies including MILCO are actively engaged in milk collection activity and it will be an effective mode of communication to popularize the activities under the ALDL Scheme on a wider scale and minimize the costs thereon to all parties concerned.***

Agency Response:

According to the response made by the CBSL, it was agreed that ALDL activities should be linked with other institutions in order to extend the facilities effectively.

At the initial level the CBSL received the support of MILCO to popularize the ALDL Scheme among the farmers. However at present MILCO independently promotes livestock development among their members and farmers and also promote the ALDL scheme also.

3.1.2 Issues on Progress of the ALDL Scheme Activities

Even though a financial target of Rs 5,000 million is expected to be disbursed by the Government under the ALDL Scheme to the dairy farmers over a three year period with effect from 01 March 2008, the total volume of the loans granted as at 30 June 2010 amounted to Rs 1,072.85 million only. The details of the progress of disbursement under the ALDL Scheme is shown below.

Purpose	Up to 30 June 2010	
	Number of Loans	Rs. millions
Livestock Development	6,765	633.91
- LCBs		
State owned	2,971	289.87
Private	898	84.95
- LSBs		
State owned	2,826	252.11
Private	70	6.98
Liquid Milk Processing	197	388.79
- LCBs		
State owned	178	360.28
Private	14	25.83
- LSB		
State owned	5	2.68
Private	Nil	Nil
Agro- Processing	45	50.15
- LCBs		
State owned	41	11.57
Private	4	38.58
- LSBs		
State owned	Nil	Nil
Private	Nil	Ni

According to the above information most of State owned LCBs and LSBs had granted loans to the small farmers for livestock development purposes, whilst private LCBs and LSBs had granted loans for liquid milk and agro- processing purposes under commercial basis.

Implication

The success of the ALDL Scheme in some district of the country had depended on the commitment of the PCIs. Some of the Developments Banks had paid special attention on granting loans for individual dairy farmers who had been conducting businesses in small scale whilst the Commercial Banks had been compelled to grant loans for large scale agro - processing projects. The volume of funds disbursed by the end of 07 months of the 28 months period indicated that the Scheme had not utilized the allocated funds effectively thus depriving the livestock farmers of the intended benefits of the Scheme.

Recommendation

It will be effective to divide the ALDL activities into Livestock Development purposes and Milk / Agro - Processing purposes and grant such loans through the Development banks and Commercial Banks respectively ensuring disbursement of allocated fund systematically.

Agency Response

According to the CBSL, the position as at 30 June 2012 was as follows.

<i>Purpose</i> -----	<i>No of loans</i> -----	<i>Amount granted</i> ----- <i>Rs million</i>
<i>Livestock Development</i>	<i>13,686</i>	<i>1,688</i>
<i>Liquid Milk Processing</i>	<i>451</i>	<i>594</i>
<i>Agro Processing</i>	<i>56</i>	<i>105</i>
<i>Total</i>	<i>14,193</i>	<i>2,386</i>

According to the CBSL it is difficult to separate the projects to Commercial Banks and development banks as it is important to give the opportunity to the borrowers to select their own Banks. The cumulative data do not support the argument that only Development Banks have catered to the small farmers.

3.1.3 Creation of New Job Opportunities and Transfer of New Technology

It was observed that physical targets for new job opportunities had not been stipulated under the ALDL Scheme initially. In collecting information on the Scheme through a standard questionnaire during the field visits, a question regarding the purpose of applying ALDL Scheme was asked and 61 out of 67 cattle farmers replied that the loan proceeds were used for the expansion of existing business instead of starting new businesses, thus indicating that new job opportunities had not been generated through the ALDL Scheme as expected.

(b) The questionnaire completed at the audit field visits indicated that assistance taken by the farmers for the preparation of feasibility reports and cash flows etc was limited to 44, out of 67 cattle farmers interviewed. Rest of farmers had not obtained any assistance from experts to start the business but obtained Bank loans. Thus it proved that new technology had not been transferred/ considered by the farmers to enable to operate their businesses effectively and in a sustainable manner.

Implication

Factors influencing for the success of the ALDL Scheme had varied in the different geographical regions. The farmers in the North Central Province had faced problems relating to acquiring high quality breeding stock, propagation of fodder in drought seasons, etc. whilst farmers in the Kurunegala District had faced difficulties in relation to use of new technology and farming practices. Therefore, the farmers may not consider cattle farming as a permanent source of a stable income without solving such problems and therefore not be encouraged to obtain loans under ALDL Scheme.

Recommendations

- (a) The Loan Officers /Field Officers of the PCIs should be advised to consider the matters such as creation of new job opportunities through the ALDL Scheme and their sustainability etc, when approving ALDL Scheme projects.*
- (b) The applicants of the ALDL Scheme should be encouraged to obtain expert assistance when preparing project proposals for ALDL Scheme as it will help to transfer technical knowledge to the dairy farmers and ensure effectiveness of the ALDL Scheme*

Agency Response

According the CBSL sources, it was instructed that the officers of PCIs and MLD to create awareness among the dairy farmers on the relevant areas. Further, the CBSL in consultation with two parties conducted a series of programmes with the selected farmer groups in the island.

3.2 *Performance of the PCIs*

3.2.1 Wayamba Development Bank (WDB)

The WDB was operating mainly in Northwestern Province and Gampaha District where the ALDL recovery ratio which remained at a satisfactory level of 98 per cent.

The success of the activities of WDB in relation to the ALDL Scheme was mainly based on the efficient field staff employed for promoting the development loan scheme. They had kept in touch with the small farmers who need financial assistance and maintained good relationship with the Milk Producer Societies (MPS). The WDB had granted loans under the personal guarantees made by the members of the MPS for each loan and it was easy for the borrowers instead of seeking other collateral.

The WDB had granted loans mainly for the purpose of purchasing cows. Loans had not been granted for other purposes of the ALDL Scheme such as milk processing and agro - based activities.

Most of the cattle farmers had not constructed or maintained cattle sheds in a proper manner. Instructions had not been issued by the WDB to the field officers to ensure that the borrowers had constructed cattle sheds before granting loans to purchase cows.

The proceeds of the loans granted for construction of cowsheds had not been effectively used by the farmers for intended purposes. Out of four farmers who had been granted loans by WDB Branches at Nittambuwa and Mirigama for constructing cowsheds, only one farmer had used the proceeds for the intended purpose.

Implication

(a) The success of the ALDL Scheme in Kurunegala and Gampaha Districts had depended on the commitments made by the PCIs. The WDB had paid grater attention on granting loans for individual dairy farmers who were conducting small- scale businesses whilst not considering to grant loans for large- scale agro - processing projects.

(b) The contribution of the Milk Producer Societies was exceptionally good in Kurunegala District. The PCIs in the district had granted loans and recovered the installments through such societies.

(c) The field officers of WDB had paid attention mainly on granting loans instead of focusing on the infrastructural facilities for the cows such as construction of cowsheds and maintenance to ensure the hygienic conditions. Accordingly only part of the objectives of the ALDL Scheme had been achieved.

Recommendation

(a) WDB should be encouraged to grant loans under the ALDL to the borrowers requiring funds for milk processing and other agro business activities..

(b) WDB should take action to instruct the Field Officers to inspect the availability of cowsheds according to the recommended standard before releasing loan proceeds

Agency Response:

CBSL Response: Both recommendations were accepted by the CBSL. Field Officers of previously WDB and now Regional Development Bank have been already instructed on the requirements under two items noted above and observed that they have delivered efficient services to the dairy farmers in the province. The CBSL is satisfied with the performance of WDB which is now Regional Development Bank (RDB).

3.2.2 Rajarata Development Bank (RDB)

RDB was operating with a shortage of field staff. Therefore, monitoring of activities under the ALDL Scheme had not been successful.

Most of the cattle farmers had not constructed or maintained cow sheds in a proper manner. Instructions had not been issued by the RDB to the Field Officers to ensure that the borrowers had constructed cowsheds before granting loans to purchase cows.

Borrowers had not utilized the proceeds of loans for the intended purposes. The sample survey revealed that one third of borrowers had used loan proceeds for other purposes. However, the RDB had not taken any action against them as they pay loan installments on time.

Implication

RDB had not been success in implementing ALDL Scheme for the achievement of the intended purposes.

Recommendation

(a) RDB should take action to expand its cadre of Field Officers and ensure implementing the ALDL Scheme for the achievement of the intended purposes.

(b) RDB should also take action to instruct the Field Offices to inspect the availability of cowshed in accordance with the recommended standards before releasing loan proceeds

Agency Response:

CBSL Response: The recommendations are accepted and employment of more Field Officers was also accepted. Regional Development Banks including Development Banks have also been merged to form the RDB. The RDB has been informed to issue instructions on requirements indicated under ALDL

3.2.3 Kandurata Development Bank (KDB)

The ALDL loan recovery ratio remained at satisfactory level of 98 per cent.

KDB had employed efficient Field Officers for promoting the Development Loan Scheme. They could keep in touch with the small-scale farmers who needed financial assistance. Further, they could maintain good relationship with Milk Collecting Societies and obtain their assistance to recover loan installments.

However, it was observed that out of the 1,208 farmers who had submitted loan applications to the KDB Branches, loans had been granted only for 610 farmers as at 08 September 2010.

Implication

The success of the ALDL Scheme in Kandy District had been due to the commitment made by the Field Officers. KDB had paid greater attention on granting loans for individual dairy farmers conducting small-scale businesses whilst it had granted only one loan for a large-scale milk-processing project. Thus the ALDL Scheme objectives had not been fully achieved.

Recommendation

The KDB should be encouraged to expand the ALDLs for milk processing projects in the area.

Agency Response

CBSL Response: The CBSL has also observed that Field Officers in KDB (which is now RDB) have taken great efforts to popularize the scheme and grant more facilities under the scheme.

3.2.4. Bank of Ceylon (BOC)

BOC had entered into a Memorandum of Understanding with the Agricultural and Agrarian Insurance Board to obtain insurance coverage for loan purposes. Nevertheless, many borrowers complained that they faced difficulties in the payment of loan installments as the insurance indemnity of dead animals had not been paid by the insurer.

When approving loans to purchase cows, availability of cowsheds had not been considered. The field inspections made in the Narammala and Weerambagedara area revealed that many of the

cowsheds were not up to the standards recommended by the Department of Animal Production and Health.

BOC Branch at Thambuttegama had granted loans only to the borrowers who lived in Nawagattegama.

BOC Branch at Eppawala was successful in granting loans and recovering arrears. The loans granted to the members of the Eppawala Milk Producers' Co-Operative Society had been successfully recovered through the Society.

Branches of BOC in Gampaha District had not disbursed any loan under ALDL Scheme during the period under review.

Implication

- (a) The contribution of the Milk Producers Societies was exceptionally favourable in the Anuradhapura District. The BOC Branches in the district had granted loans and recovered the installments through such societies.*
- (b) The borrowers were dissatisfied and demotivated due to the delays in receiving insurance claims.*
- (c) Slow progress had been shown by some of the Branches of the BOC.*

Recommendations

- (a) The BOC Branches should be further encouraged to grant loans under the ALDL to the borrowers through milk collecting societies / Milk Producers' Co-Operative Societies as it will be very effective for loan monitoring and installment recovery purposes.*
- (b) It will be useful to the borrowers to reconsider and amend the conditions of the MOU entered into with the Agricultural and Agrarian Insurance Board as the failure of the insurer to honour the legitimate claims of the borrower is a factor discouraging the farmers in obtaining loans under ALDL Scheme..*

Agency Response

CBSL Response: Performance of BOC Branches is satisfactory and further encouragement at branch level is also required under ALDL. Recommendation (b) is accepted.

3.2.5 People's Bank (PB)

The PB had entered into a Memorandum of Understanding with the Agricultural and Agrarian Insurance Board to obtain insurance coverage for loans granted. However, many of the borrowers complained that proceeds of insurance on dead animals had not been received and they have faced difficulties in paying loan installments.

Some Branches had not made fruitful attempts to expand the ALDL Scheme within the area of their operations. Limiting the grant of loans by the Narammala Branch to a single can be cited as an example. It was observed that interest of 14 per cent instead of 12 per cent had been charged on loans taken by seven borrowers from Daulagala Branch. Even though the interest rate had been changed to 8 per cent it had not been applied by the Branch as a result of unclear instructions issued by the PB Head Office to the Branch Managers.

The PB had just started ALDL Schemes in Gampaha District and the Branch at Mirigama had disbursed money for seven loans in October 2010.

Implication

- (a) *The borrowers were dissatisfied and demotivated by the delays in the settlement of insurance claims by the insurer.*
- (b) *Slow progress had been shown in the grant of loans for ALDL activities by some of the branches of the PB .*

Recommendation

- (a) *It will be useful to the borrowers to reconsider and amend the conditions of the MOU entered into with the Agricultural and Agrarian Insurance Board as the failure of the insurer to honor the legitimate claims of the borrower is a factor discouraging the farmers in obtaining loans under ALDL Scheme*
- (b) *The PB should take immediate action to revise the interest rate to 8 per cent in accordance with the instruction of the Central Bank of Sri Lanka.*

Agency Response:

CBSL Response: Recommendation (a) is accepted and the PB has already been instructed to apply relevant interest rate at (b)above according to the Operating Instruction issued by the CBSL.

3.3 Observations on Activities of Monitoring Agencies

3.3.1 Ministry of Finance and Planning

According to the Paragraph 17 of the Operating Instruction of the ALDL Scheme, timely payment of interest to the PCIs is a main function of the MOFP. The detail such as dates and the payments made on interest subsidy for the 04 past half years are given below.

Period	Amount of Interest Subsidy (Rs)	Date of Payment
Half year ended 31 December 2008	1,385,150	17 September 2009
Half year ended 30 June 2009	10,174,178	18 February 2010
Half year ended 31 December 2009	17,352,353	23 July 2010
Half year ended 30 June 2010	Not yet determined	Not paid

In addition, the officials of the MOFP had not carried out any field inspections as a part of a monitoring process of the ALDL Scheme.

Implication

- (a) *The small- scale PCIs will be discouraged due to delays in reimbursing the interest cost.*
- (b) *The MOFP will not be able to assess the actual progress of the ALDL Scheme if they do not carry out field inspections at least on random basis.*

Recommendation

- (a) ***The registration of loans of ALDL Scheme and reimbursement of interest subsidy thereon should be expedited by the MOFP.***
- (b) ***The Officers at the MOFP should carry out field inspection***

Agency Response

MOFP Response: The interest subsidy is calculated by the CBSL and payments are made by the Department of Development Finance based on the claims made by the CBSL. Therefore, it was taken one to three months to settle the claims from the date after the claims received from CBSL at the beginning. At present, the payments have been made within one month in average due to action that has been taken to expedite the process of payments. Further to time taken by the CBSL to prepare the claims had also been reduced from eight months to three months approximately. We may not be able to further expedite these payments since the funds are released by the Department of Treasury Operations on the priority basis due to cash flow issues and unavoidable accumulated delays of the preparation and payment process of the claims.

Field inspections have been carried out by the Department of Development Finance in collaboration with PFIs when deemed necessary. However, we may not be able to launch the field visit to cover the entire project area due to financial time and human capital constraints.

3.3.2 Ministry of Livestock Development (MOLD)

Even though the MOLD has agreed with CBSL to provide technical support for the ALDL Scheme, the VSs and LDOs who are involved in the livestock development activities at the grass roots level are directly administered by the Department of Animal Production and Health (DAPH) and the Provincial Councils. Therefore, the officers are required to adhere to the instructions issued by all three institutions to be involved in various development projects implemented by such institutions. Therefore less attention had been paid by the officers on recommending the required healthiness of the cows expected to be purchased out of loan proceeds .

It was also revealed that the adequate contribution had not been made by the LDOs for the activities of ALDL Scheme except in Gampaha District. 49 farmers out of 60 farmers living in Kurunegala, Anuradhapura and Kandy Districts who were interviewed at the field inspections stated that the LDOs do not visit their premises for ALDL monitoring purposes. According to the explanations made by the LDOs, their operational areas are so wide and therefore it had been difficult to attend on call duties or make regular visits to cattle farmers' premises.

According to the views expressed by the cattle farmers the LDOs charged cost of mileage to visit cattle farms for Artificial Insemination (AI) purposes at Rs. 300 per visit. Several attempts are required for the successful AI treatments and such cost is an additional burden for the farmers. According to the information received the DAPH has allowed the LDOs to recover cost of mileage from the farmers.

Implication

(a) It was observed that the farming habits of the dairy farmers in some areas had not changed. Field visits revealed that 60 cattle farmers out of 67 interviewed stated that they operate their farming activities without an adequate technical background. Therefore, the technical knowledge had not been transferred evenly to the local cattle farmers. As an example, the farmers living in the dry zone are not used to feed cows in sheds. Action had not been taken adequately by the officers involved in extension services to educate them about the benefits of keeping cows in the sheds to ensure higher yields. The Extension Officers should have strategies for giving instructions to conduct ALDL activities.

(b) The extension services for the dairy farming at the grass roots level is an essential factor for the success of the ALDL Scheme. The extension services provided by the institutions under the MOLD had not paid grater attention on ALDL activities due to administrative problems and lack of human resources for extension services. However, the contribution of Extension Officers in Gampaha District was exceptionally good on ALDL activities.

(c) The area of operation for each officer should be determined reasonably to enable them to provide good extension service to the cattle farmers

Recommendations

- (a) The MOLD should take action to reconsider the organization structure of the subordinate organizations and the flow of instructions to the officers operating at grass roots level.*
- (b) The MOLD should taken action to determine the amount of mileage charged by the LDO from the dairy farmers for their on call duties as it is an additional burden for the dairy farmers.*

Agency Response: The response from the MOLD had not been received.

3.3.3. Central Bank of Sri Lanka (CBSL)

The CBSL had established a Policy Stimulus Fund (PSF) for a two year period to make incentive payments to the Extension Officers of the Ministry of Livestock Development who actively engage in livestock development activities. Introduction of farmers to the PCIs to obtain loan facilities is one of the main criteria that was introduced to make incentive payment to the LDOs under PSF. However, it was observed that 61 LDOs, out of 84 LDOs who were rewarded with incentive payments on the performance for ALDL Scheme activities in 2009 had not introduced any farmers to PCI Branches.

According to the operating instructions issued by the CBSL the loans should be registered at the RDD before releasing loan proceeds to the farmers. However, according to progress reports furnished by the RDD, it was revealed that the number of loans on which funds were disbursed had exceeded the number of loans registered thus indicating that the proceeds of loans had been disbursed on loans that had not being registered with the CBSL. According to the information collected PCIs had registered the loans with the ALDL at the CBSL after disbursement.

The Field Officers employed by certain Development Banks had made positive contribution for the success of ALDL activities in their service areas, especially in Kurunegala District. It was observed in field inspections that such field officers have regularly met farmers and encouraged them to continue cattle farming and maintain good relationships with the Bank.

Implication

- (a) The Policy Stimulus Fund established by the CBSL to encourage Extension Officers by granting incentives was not an overall effective tool to improve ALDL activities.*
- (b) Services of Field officers is essential for the success of the micro financing activities similar to the ALDL Scheme and therefore, if a proper system is not maintained to reward them it will reflect the poor performance of the Scheme..*
- (c) Monitoring by CBSL will not be effective if PCIs do not register loans granted under the ALDL Scheme.*

Recommendations

(a) The reward scheme should be extended to the field staff of the PCIs as well and should be monitored to ensure that rewards are granted only when criteria are met .

(b) The CBSL should strictly ensure that the PCI's comply with instructions and register the loans under ALDL Scheme before disbursement to become eligible for interest subsidy from the Ministry of Finance.

Agency Response:

The CBSL had not responded on above Recommendations.

4. Conclusion

The ALDL was treated as a major programme proposed by the Budget 2008 and implemented with the participation of various institutions in public and private sector to enhance the local milk production. The Government had allocated a sum of Rs 5,000 million for the programme with the expectation of increasing the liquid milk production in the country as enable to provide more employment opportunities and save the foreign exchange utilized to import powdered milk.

However, the effect on implementation of the ALDL to enhance the liquid milk production of the county could not be reliably determined in audit due to the other simultaneous projects implemented by the various other organizations at national and regional level.

It was further observed that the ALDL Scheme had been properly implemented in some Districts by several PCIs whilst the objectives of ALDL Scheme had not been achieved in several other districts by the other PCIs. The problems faced by the farmers in various regions in Sri Lanka had not been identified at the initial stage in order to address such problems properly. The officers employed at grass root level by several PCIs had performed well and achieved the targets satisfactorily.

As a conclusion, a proper mechanism should be established to coordinate all the organizations of the livestock sector providing more opportunities to understand the real problems at regional level and share the experiences of the officers engaged in the implementation process of the ALDL. Further, the officers of various institution who are working at grass root level should be encouraged by providing more financial gains for the achieving the target.

Appendix -01

About ALDL

1 Objectives of the ALDL Scheme

- (a) Formulate the agriculture credit programme to facilitate small farmers to purchase milk cows, agricultural and chilling equipment, services and construction of cattlesheds for enhancement of their income .
- (b) Assist private sector investors who are engaged in agriculture and related activities
- (c) Generate new employment opportunities in the agriculture sector and related fields
- (d) Grant medium term loans for agriculture and livestock development activities
- (e) Open avenues for small farmers to move towards new technology techniques and market opportunities
- (f) Provide opportunities for small farmers to move from subsistence level to commercial level
- (g) Improve productivity in the overall agriculture sector.

1.2 Participatory Institutions and their responsibilities

Main responsibilities of the Participatory Institutions are as follows.

(a) Regional Development Department of the CBSL

Implementation and supervision of the activities of the ALDL Scheme , Interest Subsidy Scheme and PSF.

(b) Development Finance Department of the MOFP

Review and monitor the progress of the ALDL Scheme and the Interest Subsidy Scheme and provide adequate budgetary provisions for the payment of interest subsidy.

(c) Ministry of Livestock Development

Providing technical assistance to the farmers and the PCIs engaged with the ALDL Scheme.

(d) Participating Credit Institutions - Head Offices

Administration of all the activities of the Scheme under a senior officer

Participating Credit Institutions - Branches

Selection of target beneficiaries, disbursement of the proceeds of the loans and reporting the progress of the Loan Scheme to the Head Office of the PCI

Following PCIs had been selected by the CBSL to implement the ALDL Scheme

Bank of Ceylon
People's Bank
Hatton National Bank
Commercial Bank of Ceylon
Sampath Bank
Lankaputra Development Bank
Sanasa Development Bank
Uva Development Bank
Ruhuna Development Bank*
Wayamba Development Bank*
Kandurata Development Bank*
Rajarata Development Bank*
Sabaragamuwa Development Bank*

*These Banks had been amalgamated with effect from 25 July 2010 under the Pradeshiya Sanwardhana Bank Act No-41 of 2008

1.3. Targets

It was expected to disburse loans valued at Rs.5,000 million during the three year period by the and to provide 5 per cent of interest subsidy thereon by the CBSL.

Appendix 2

More about Audit

1. Field Inspections

Field inspections were carried out by the audit team to ensure that the benefits of the ALDL had been reaped by the beneficiaries at the grass root level. Prior to carrying field inspections, several discussions were held with the officers of the CBSL, MOFP and the senior officers of the PCIs. Based on the information collected from the Corporate Branches of the PCIs, the Audit Team members visited to 67 cattle farms in Kurunegala, Kandy, Gampaha, and Anuradhapura districts. A questionnaire was used for collecting information from the cattle farmers and PCIs.

2. Selection of Samples for Field Inspections.

The field inspections were carried out based on the samples selected out of the population of the ALDL Scheme beneficiaries.

The following factors were considered for the selection of the sample.

- (a) The agro- livestock activities in Sri Lanka is varied according to the agro-climatic conditions of the Island. Therefore, selection of the districts was made in the districts situated in the agro-climatic zones such as Low Country, Wet Zone, Dry Zone and Coconut Triangle Zone. Further, the districts, which implemented the ALDL Scheme since its inception too were considered and selected for field inspections.
- (b) The PCIs which had the most number of in registrations and loans granted were selected as the sample. However, the state owned PCIs had granted higher number of loans than other PCIs.
- (c) The Branches of the PCIs located in the selected districts were selected on the basis of number of loans granted under ALDL Scheme. Priority was given for the Branches that had granted higher number of loans.
- (d) The cattle farmers to be interviewed were selected by examining the loan files maintained by the Branches of the respective PCIs. The cattle farms of such farmers were physically inspected by the Audit Team.
- (e) The LDOs for interviews were selected based on the information collected from the CBSL for granting incentives under the PSF of the CBSL.

Appendix -3

Limitations in Conducting the Performance Audit

The following limitations during the course of this performance audit are stated for the benefit of the readers/ responsible institutions which are expected to respond to the recommendations made in this Report.

- (a) Several institutions such as MOFP, MOLD, CBSL, and PCIs had participated for the implementation and monitoring of ALDL Scheme activities in various stages and statistics and information provided by each institution had not been tallied with the corroborative evidence collected in the field inspections. Therefore, additional hours were needed to reconcile the statistics and information provided by the individual institutions.
- (b) It was difficult to identify the milk cows/ heifers purchased by the farmers out of the loan proceeds due to lack of records maintained by some PCIs in the respective ALDL files such as photographs, ear tag numbers etc to enable to identify the animals in the field inspections. There was no practice to register the cows before obtaining loans and attach ear tags by the farmers for proper identification purposes.
- (c) Variations to the sample of borrowers had to be made in several instances due to inability to meet some of the borrowers at their residencies due to traveling difficulties faced during the field inspections.
- (d) The evidence to corroborate some of the information such as the amount of milk production (milk sale records) documents relating to transfer of the ownership of the animals etc, was not made available by the borrowers.

Abbreviations

ALDL - Agro - Livesock Development Loan
BOC – Bank of Ceylon
CBSL - Central Bank of Sri Lanka
KDB – Kandurata Development Bank
LCB - Licensed Commercial Bank
LDOs- Livestock Development Officers
LSB - Licensed Specialized Bank
MOFP- Ministry of Finance and Planning
MOLD- Ministry of Livestock Development
PB - People's Bank
PCI - Participating Credit Institutions
PSF – Policy Stimulus Fund
RDB – Rajarata Development Bank
RDD - Regional Development Department of CBSL
VSs - Veterinary Surgeons
WDB- Wayabma Development Bank