



## Grant Assistance Report

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Project Number: 41680  
November 2007

Proposed Grant Assistance  
Democratic Socialist Republic of Sri Lanka:  
Improvement of Rural Access Roads and Livelihood  
Development for the Poor  
(Financed by the Japan Fund for Poverty Reduction)

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 31 October 2007)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.01
\$1.00	=	SLRs110

## ABBREVIATIONS

ADB	–	Asian Development Bank
CBO	–	community-based organization
EA	–	executing agency
IA	–	implementing agency
JFPR	–	Japan Fund for Poverty Reduction
MOLGPC	–	Ministry of Local Government and Provincial Councils
NGO	–	nongovernment organization
PCC	–	project coordinating committee
PIU	–	project implementation unit
RAR	–	rural access road
SLRM	–	Sri Lanka Resident Mission

## NOTE

In this report, "\$" refers to US dollars

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# SRI LANKA IMPROVEMENT OF RURAL ACCESS ROADS AND LIVELIHOOD DEVELOPMENT FOR THE POOR



## JAPAN FUND FOR POVERTY REDUCTION (JFPR)

### JFPR Grant Proposal

<b>I. Basic Data</b>	
<b>Name of Proposed Activity</b>	Improvement of Rural Access Roads and Livelihood Development for the Poor
<b>Country</b>	Sri Lanka
<b>Grant Amount Requested</b>	\$2 million
<b>Project Duration</b>	30 months
<b>Regional Grant</b>	No
<b>Grant Type</b>	Project

### **II. Grant Development Objectives and Expected Key Performance Indicators**

<p><b>Grant Development Objectives:</b>                      The primary objective of the Project is to improve the quality of life of rural poor people through a livelihood development program linked to the improvement of rural access roads. The Project will (i) create a mechanism for generating incomes and making savings to lay the foundation for sustainable livelihood; and (ii) rehabilitate and/or improve rural access roads, thereby improving markets and sustainable access of public services, and enhancing social development.</p> <p>The Project will be implemented taking into account the Government's ongoing development programs and approaches for poverty reduction in the targeted areas.</p>
<p><b>Expected Key Performance Indicators:</b></p> <ul style="list-style-type: none"> <li>(i) Rehabilitate and/or improve about 200 kilometers of rural access roads that serve the selected poor communities.</li> <li>(ii) Provide direct income opportunities for about 2,500 rural poor families who remain isolated in backward locations due to lack of proper access.</li> <li>(iii) Provide self-employment training for up to 2,000 unemployed family members (either direct beneficiaries or an alternative family member).</li> </ul>

### **III. Grant Categories of Expenditure, Amounts, and Percentage of Expenditures**

<b>Category</b>	<b>Amount of Grant Allocated in \$</b>	<b>Percentage of Expenditures</b>
1. Civil Works Payments	1,500,000	75.0
2. Equipment, Hardware, and Materials	300,000	15.0
3. Training, Workshops, and Public Campaigns	30,000	1.5
4. Consulting Services	10,000	0.5
5. Project Management	120,000	6.0
6. Contingencies	40,000	2.0
<b>Total</b>	<b>2,000,000</b>	<b>100.0</b>
Incremental Cost		

## JAPAN FUND FOR POVERTY REDUCTION

**JFPR Grant Proposal  
Background Information**

<b>A. Other Data</b>	
<b>Date of Submission of Application</b>	7 September 2007
<b>Project Officer</b>	K. M. Tilakaratne, Implementation/Programs Officer
<b>Project Officer's Division, E-mail, Phone</b>	Sri Lanka Resident Mission (SLRM) of the Asian Development Bank (ADB) <a href="mailto:ktilakartne@adb.org">ktilakartne@adb.org</a>
<b>Other Staff Who Will Need Access to Edit/Review the Report</b>	Richard Vokes, Country Director Amarasena Gamaathige, Social Development Specialist
<b>Sector</b>	Multisector (transport and communication; health, nutrition, and social protection)
<b>Subsector(s)</b>	Roads and highways, social protection
<b>Theme</b>	Sustainable economic growth
<b>Targeting Classification</b>	Targeted Intervention
<b>Was JFPR seed money used to prepare this grant proposal?</b>	Yes [ X ]    No [   ]
<b>Have Staff Review Committee comments been reflected in the proposal?</b>	Yes [ X ]    No [   ]
<b>Name of Associated ADB Financed Operation(s)</b>	None
<b>Executing Agency</b>	Ministry of Local Government and Provincial Councils (MOLGPC)
<b>Grant Implementing Agencies</b>	Mr. H. P. C. Herath, Secretary, MOLGPC (Tel. 94-11-2329725, Fax. 94-11-2421130) M. K. W. Wickramaratne, Chief Secretary, Sabaragamuwa Provincial Council, Rathnapura (Tel. +94 45 222 2143) P. B. Amarasinghe, Chief Secretary, Uva Provincial Council, Badulla (Tel. + 94 55 222 2810)

**B. Details of the Proposed Grant**

**1. Description of the Components, Monitorable Deliverables/Outcomes, and Implementation Timetable**

<b>Component A</b>	
<b>Component Name</b>	Improvement of Rural Access Roads (RARs) through Cash for Work Program (Cost for civil works)
<b>Cost (\$)</b>	1,700,000

Component Description	<p>The Project has identified about 200 kilometers (km) of existing rural gravel roads from the 11 poorest divisions of the three project districts and will improve them in consultation with beneficiaries, Government agencies, and local authorities. There are more than 2,500 poor families who have been isolated from the rest of the society and who are extremely poor due to the poor quality of RARs to their villages. Most of these families are chiefly dependent upon the Government's welfare program (Samurdi program) which is hardly sufficient to meet their daily needs. All of them could undertake fruitful income-generating activities utilizing the abundant land and other natural resources available in their neighborhood, but they have been hindered from any such development activities due to the prevailing poor accessibility. These families will get direct benefit from the Project</p> <p>Item</p> <ul style="list-style-type: none"> <li>• Improve about 200 km of the selected existing RARs which are in poor condition.</li> <li>• Select about 2,500 male and female workers from targeted poor families below the poverty line as direct beneficiaries.</li> <li>• Provide tools, equipment, and materials for rehabilitation of the RARs.</li> </ul> <p>Location</p> <ul style="list-style-type: none"> <li>• The selection of workers will be from 11 poor divisional secretariats from Ratnapura district of Sabaragamuwa province and Badulla and Monaragala districts of Uva province, which are the poorest districts in Sri Lanka. The Project will not be implemented in conflict areas.</li> </ul> <p>Component Details</p> <ul style="list-style-type: none"> <li>• The RARs to be selected must (i) be located in the poorest villages which have predominantly poor families, including Samurdi recipients; (ii) traverse land that has been officially reserved for RARs; (iii) be demarcated clearly in the authenticated Final Village Plan and in the Consolidated Village Development Plan prepared by the people through participatory rural appraisal; (iv) be the main route used by the majority of the residents for all livelihood-development activities; (v) not presently be in motorable condition by land vehicles used for agricultural production and marketing; (vi) not have been assigned for development under any other source of funding currently or in the future; (vii) involve labor-intensive construction activities; (viii) not involve construction tasks with a high degree of technology, design, and machinery use; (ix) not be a new road for improvement; (x) not require any land acquisition or voluntary land donation, or entail any site impacts to nonland assets (structures, crops, and trees); and (xi) not have significant environmental impact or pass through environmentally sensitive areas.</li> </ul>
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	<ul style="list-style-type: none"> <li>• The workers (one from each family) to be selected will (i) be from the list of poor families under the poverty line certified by the relevant district secretary based on the latest data on the poverty profile of the district, (ii) participate in construction tasks on a cash payment basis and agree to save 50% of that income for generating self-employment, (iii) agree to participate in the project's training and enterprise development program, and (iv) provide required labor voluntarily for the maintenance of the rehabilitated RARs through the proposed community-based organizations (CBOs). Local authorities will provide the necessary materials and equipment for maintenance.</li> <li>• The target workers, selected on criteria given in Appendix 3, will be organized and trained by the nongovernment organizations (NGOs) appointed by the project implementation unit (PIU).</li> <li>• NGOs will provide on-the-job training by executing approved construction tasks on a sample section of each RAR. In addition, necessary technical support will be provided by the NGOs and local authorities during implementation. Through the NGOs, the PIU will pay the labor cost for the beneficiaries on an attendance basis.</li> <li>• All machinery, equipment, and materials required for construction will be provided, and will be procured locally. All hand tools such as hoes, wheelbarrows, bush knives, and concrete pans will be procured and issued to the workers during construction. On completion of all approved construction tasks, these hand tools and equipment will be handed over to the local authorities to be used on maintenance works of the rehabilitated RARs by the local authorities and CBOs.</li> </ul> <p>Operation and Management Staff</p> <ul style="list-style-type: none"> <li>• The existing PIU for JFPR 9076<sup>1</sup> and 9077<sup>2</sup> under the administration of MOLGPC will be responsible for project implementation. The PIU will pay the NGOs directly for implementing the project, and the NGOs will pay the beneficiaries. The PIU will conduct all procurement under the Project and monitor the progress of implementation. Operation costs of the PIU will be funded by the Project.</li> <li>• NGOs will implement the Project at field level with the assistance of the district secretariats and local authorities.</li> <li>• Procurement, delivery, and supply of all hand tools and construction materials will be handled by the PIU. The hiring of machinery and equipment with Government funds will be</li> </ul>
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<sup>1</sup> ADB, 2005. Grant Assistance to Sri Lanka for the Public Works Restoration of Line Drainage System of Tsunami-Affected Local Government Roads, Manila.

<sup>2</sup> ADB, 2005. Grant Assistance to Sri Lanka for Post Tsunami Utility Connections for the Poor, Manila.

	handled by the local authorities and NGOs in consultation with the PIU.
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>• Improvement of 200 km of RARs is completed, achieving targets.</li> <li>• About 2,500 poor male and female workers are engaged in construction activities.</li> <li>• Self-employment training is effectively provided for up to 2,000 people to establish income opportunities utilizing the savings generated during construction.</li> <li>• The Project is efficiently managed by the PIU, setting up a coordinating network with provincial councils, district secretariats, and local authorities, and ensuring project resources are allocated in a timely manner.</li> <li>• Audits confirm efficient and effective management of the Project through an unqualified opinion expressed in the management letter.</li> </ul>
Implementation of Major Activities	One person (either male or female) selected from each qualified poor family from project area for 12 months of employment.
Number of Months for Grant Activities	24 months
<b>Component B</b>	
Component Name	Training, Workshops, and Implementation through NGOs
Cost (\$)	130,000
Component Description	<p>The Project will be implemented at field level by NGOs coordinating with the Government agencies and local authorities in the project area.</p> <p>Item</p> <ul style="list-style-type: none"> <li>• Selection of 3–4 local and Japanese NGOs that possess (i) a constitution with office bearers and permanent staff, (ii) clear audited accounts for the past 5 years, (iii) physical and financial resources, (iv) recent experience in execution of small-scale rural infrastructure construction through social mobilization and community participation, and (v) capability and in-house capacity to promote small-scale enterprise development involving rural poor, particularly women.</li> </ul> <p>Location</p> <ul style="list-style-type: none"> <li>• All prospective NGOs will be selected through local competitive bidding from Sri Lanka and Japanese NGOs working in Sri Lanka.</li> </ul> <p>Component Details</p> <ul style="list-style-type: none"> <li>• NGOs are required for the implementation of the cash-for-work program and self-employment development activities. These tasks involve training and capacity building of poor people, and related aspects. NGOs will identify and train the</li> </ul>

	<p>beneficiaries to carry out civil works and organize self-employment training programs in collaboration with the relevant training agencies. The training will be implemented through workshops or group training. Selection of NGOs will be carried out by the PIU in consultation with the relevant provincial councils.</p> <p>Operation</p> <ul style="list-style-type: none"> <li>• NGOs will identify and select the beneficiary workers in consultation with district secretariats.</li> <li>• NGOs, with the assistance of the local authorities, will organize workshops and training programs to train the workers and guide them in executing the different construction tasks and project activities.</li> <li>• While the construction tasks are being implemented, the NGOs will arrange training for the beneficiary workers or family members in starting and managing self-employment activities in suitable locations.</li> <li>• NGOs and beneficiaries will jointly identify the locally available natural resources which could be utilized for establishment of self-employment activities.</li> <li>• NGOs will organize 2–3 weeks of skills training programs for potential self-employment activities (such as carpentry, electrical works, and food processing). Training modules will be finalized by the selected training agencies or resources people supervised by the NGOs and the PIU.</li> <li>• NGOs will assist and facilitate the beneficiary workers to open bank accounts for savings and educate them about the benefits of saving small amounts from their daily earnings.</li> <li>• The Project will pay the NGOs' administration cost directly for implementing the Project in the field.</li> <li>• NGOs will make payments to the beneficiaries directly and credit the amount to be saved to the bank accounts of the beneficiary workers.</li> <li>• NGOs will organize CBOs for road maintenance, and improve their capacity building.</li> <li>• NGOs will provide monthly progress reports to the PIU and MOLGPC.</li> <li>• NGOs will have an agreement with the Government regarding their roles and responsibilities.</li> </ul> <p>Supervision</p> <ul style="list-style-type: none"> <li>• PIU district supervisors and technical officers of the local authorities and district secretariats will oversee the activities of the NGOs.</li> </ul>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> <li>1. Appointment of 3–4 NGOs and identification of 2,500 beneficiaries for targeted civil works.</li> <li>2. Implementation of effective self-employment training programs for about 2,000 family members or beneficiaries.</li> </ol>
Implementation of Major Activities	<ol style="list-style-type: none"> <li>1. Selection of NGOs and beneficiary workers, identification of natural and exploitable resources in each village, and</li> </ol>

	capacity building for enterprise development. 2. Training of men and/or women who are able to establish income-generating activities.
Number of Months for Grant Activities	24 months

<b>Component C</b>	
Component Name	Project Administration, Implementation Support, Monitoring, and Auditing
Cost (\$)	130,000
Component Description	<ul style="list-style-type: none"> <li>• Support project implementation costs for the PIU.</li> <li>• Purchase replacement office equipment (computers and scanner).</li> <li>• Provide cost of project supervision and/or coordination by the provinces, including divisions.</li> <li>• Coordinate with local authorities with regard to the hiring of equipment with Government funds for the civil works.</li> <li>• Supervise the performance of the NGOs.</li> <li>• Provide necessary materials and equipment for the civil works.</li> <li>• Carry out annual auditing of the project accounts.</li> <li>• Prepare and submit monthly progress reports and annual audit report to ADB and MOLGPC.</li> <li>• Conduct project coordinating committee (PCC) meetings.</li> <li>• Carry out all procurements, project monitoring, and supervision.</li> </ul>
Monitorable Deliverables/Outputs	<ul style="list-style-type: none"> <li>• Fully fledged PIU is made operational with required staff and equipment.</li> <li>• Completed all procurement according to the procurement plan.</li> <li>• Set up a coordination system by appointing coordinators in the provinces, district secretariats, and local authorities.</li> <li>• Submitted annual audit and progress reports to ADB.</li> </ul>
Implementation of Major Activities	Support project administration for the duration of the project
Number of Months for Grant Activities	30 months

## 2. Financing Plan for Proposed Grant to be Supported by JFPR

Funding Source	Amount (\$)
JFPR	2,000,000
Government	70,000
Beneficiaries (part of labor contribution)	175,000
<b>Total</b>	<b>2,245,000</b>

### **3. Background**

1. Based on recent studies on poverty in Sri Lanka, it is quite evident that there are several villages in Badulla, Monaragala, and Ratnapura districts which have been suffering from abject poverty for many years. Many agencies (both local and foreign) have undertaken measures to alleviate poverty in these villages in several ways. However, some of the villages could not receive even the minimum degree of attention due to very poor RARs.

2. Isolation is one of the fundamental causes of poverty, and is reflected in the lack of access to goods and services for the poor village communities. Roads are the only transport mode available in these villages. When the community has restricted access to basic services such as common wells for drinking water, health services centers, and educational services (schools) due to poor quality of roads, they are unable to satisfactorily meet their basic needs. Moreover, lack of access to information and to available government services means that the population is cut off from the mainstream economic and social development of the district. Improving accessibility to the above-mentioned basic needs will reduce the degree of poverty to a great extent. If appropriate strategies are taken to integrate economic development activities along with development of the RARs, the poorest of poor people could create more income opportunities in their villages. Improved RARs guarantee access throughout the year, so that those villages are able to invest time and resources in new activities which increase village income.

3. Accordingly, the Government requested ADB to formulate an innovative project on a pilot basis to address the present poverty in these three districts by improving RARs of the poorest villages,. Although ADB finances the improvement of national and provincial roads, it has not yet financed improvement of RARs in Sri Lanka by generating income opportunities for poor village people. The Government and other major donors have also not implemented this type of project. Lessons learned from the Project could be applied to other districts in rural community development programs implemented by the Government and other donors. According to the experience gathered from JFPR 9076 (footnote 1), as many rural poor people as possible should be engaged in the rehabilitation and construction activities of the selected RARs in order to enable all of them to access income opportunities. Since 90% of the project cost will be invested in the project area, more income opportunities will be generated than from other projects implemented in the area. Under the Project, the target population will be guided and facilitated to invest a part of the income generated for the establishment of self-employment opportunities. The Project will provide skills training for the target beneficiaries in order for them to initiate regular income opportunities. Thus the Project will provide a sustainable livelihood to a considerable number of poor people through income-generating activities on successful completion of rehabilitation of the RARs.

### **4. Innovation**

4. The proposed Project is innovative as it will
- (i) develop a most cost-effective mechanism for improving RARs by investing about 90% of the Project cost for income opportunities in the selected villages;
  - (ii) guide and facilitate the target beneficiaries to invest a part of the income generated during construction to establish and manage self-employment initiatives that are relevant to the locality; and
  - (iii) develop a community participatory maintenance mechanism by establishing a maintenance fund through CBOs.

## 5. Sustainability

5. Availability of good access facilities in rural areas should rapidly assist in the commencement and continuation of many beneficial economic activities. Agricultural production is expected to expand considerably and this will lead to an increase in the net income of vulnerable communities by (i) reducing the cost of production, (ii) improving the quality of production, and (iii) getting higher prices for agricultural products. Consequently, the target communities will have an incentive to maintain the project-created RARs through voluntary group work programs under the established CBOs. During the project implementation period of this aspect, the NGOs, relevant local authority personnel, and the CBOs will establish a community fund for road maintenance to ensure sustainability of access.

6. The proposed Project will train the beneficiaries who will provide the voluntary labor contribution to maintaining the access roads. Technical support, materials, and tools will be provided by the local authorities. The Project will hand over the tools and equipment used by the Project to the local authorities for their continued use in road maintenance by CBOs. This is an innovative approach to rural road maintenance by communities in Sri Lanka.

7. The Project will provide income opportunities for poor people who will improve their capacity by working in the Project. According to a lesson learned from JFPR 9076 (footnote 1), the potential benefit of a linked training program was identified by the poor beneficiaries. Therefore, the Project will not pay the total amount in cash to the beneficiaries, but will bank 50% of their payment as investment. Since the beneficiaries will save 50% of their income during the implementation period, the Project will also provide short-term training (in areas such as carpentry, masonry, and electrical works) for selected family members to establish self-employment activities using their savings as capital. The NGOs will identify suitable employment training for the beneficiaries according to available resources in the project area. The Project will provide a good opportunity for the beneficiaries to participate in the Government's poverty reduction programs. This will help the Government to reduce the number of welfare recipients.

## 6. Participatory Approach

8. At the project design stage all communities in the selected villages were consulted by a consultant through group discussions and individual meetings, and the RARs to be improved under the Project were selected from the village development plans prepared by communities. Full community participation and management are increasingly recognized as important for the long-term sustainability of rural infrastructure investment. The communities should be involved in the assessment of needs and decisions regarding maintenance of the RARs. Local political authorities and local government agencies also contributed to identifying the community needs for project designs.

<b>Primary Beneficiaries and Other Affected Groups and Relevant Description</b>	<b>Other Key Stakeholders and Brief Description</b>
1. Beneficiary families. More than 2,500 families remain isolated in undeveloped locations; the primary beneficiaries will be selected from them. One member from each qualified family will be entitled to be engaged in the cash-for-work program. In general, the Project will benefit all communities in the project areas.	1. Provincial councils and district secretaries. The Sabaragamuwa and Uwa provincial councils will be coordinating agencies assisted by the district secretaries of Badulla, Monaragala, and Ratnapura districts. They will provide assistance in selecting the most deserving target villages and the RARs.

<p>2. Local authorities and district secretariats. The local authorities and district secretariats of the target project areas facilitated identification of eligible RARs, and will participate in monitoring and implementation, including maintenance of the rehabilitated RARs.</p>	<p>2. MOLGPC. MOLGPC will be the Executing Agency for the Project. It will coordinate the project activities at the national level and continue to provide logistics support to the PIU and local authorities.</p>
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## **7. Coordination**

9. The SLRM, which is responsible for the preparation of the proposed Project, consulted; (i) Mr. Yasuhiro Watanabe, Second Secretary, the Embassy of Japan; (ii) Mr. Sakata Hideki, Deputy Director, Japan International Cooperation Agency; and (iii) Mr. Keiju Mitsuhashi, Representative, Japan Bank for International Cooperation, and briefed them on the project objectives and implementation arrangements.

10. The SLRM also discussed the Project with the Ministry of Finance and Planning (Department of National Planning and Department of External Resources), MOLGPC, provincial council authorities, and district authorities. As soon as ADB's approval is received, a PCC will be established, with representatives from key stakeholder bodies. The exact composition of the PCC will be finalized at the inception of the Project.

## **8. Detailed Cost Table**

11. JFPR will finance \$2 million (89.1%) and the Government will finance \$70,000 (3.1%). The beneficiaries' contribution is \$175,000 (7.8%). Please refer to Appendix 1 for the detailed cost estimates, and Appendix 2 for the Fund Flow Arrangement.

## **C. Link to ADB Strategy and ADB-Financed Operations**

### **1. Link to ADB Strategy**

12. The existing country strategy is to reduce poverty through reducing regional income inequality, and ensuring economic growth in rural areas. Although a new country strategy is being prepared to assist lagging region and reduce inequality in line with the Government development strategy, ADB has identified lack of access to social and economic activities as a major impediment to poverty reduction. ADB has also carried out extensive research and analysis into the poverty dimensions of its operations. Improvement of rural roads guarantees access for social and economic activities throughout the year. Therefore, poor villagers are able to invest time and resources in income-generation opportunities. The link with outside villages assures a wider variety of transport services.

13. An ongoing country poverty analysis for Sri Lanka has also identified access to social and economic activities as a key factor in poverty reduction.

Document	Document Number	Date of Last Discussion	Objective(s)
SRI: Country Strategy and Program	CSP:SRI 2005-14	August 2005	ADB operation will focus on (i) upgrading roads access by developing the network, (ii) improving agriculture productivity, and (iii) promoting small- and medium-sized enterprise and microfinance.
Do Rural Roads Benefit the Poor (ADB Study)	ISBN:971-561-601-1	2006	The study focused only on rural roads and on how they relate to poverty reduction.

#### D. Implementation of the Proposed Grant

<b>1. Provide the Name of the Implementing Agency</b>	MOLGPC, Executing and Implementing Agency; Sabaragamuwa and Uva provincial councils (subimplementing agencies)
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14. The main project implementing agency is MOLGPC. The present PIU established for the JFPR 9076 (footnote 1) and JFPR 9077 (footnote 2) Projects will be responsible for implementation of the new project on completion of its current activities in November 2007. The experience of the existing PIU staff— which consists of the project director, accountant, project engineer, and project analyst and secretary—will help immensely to efficiently steer implementation of the new project. The PIU will report regularly to MOLGPC and ADB on project progress and all implementation issues. The two subimplementing agencies, the Sabaragamuwa and Uva provincial councils, will implement the Project at the provincial level.

15. Under MOLGPC, the two provinces and three district secretariats will appoint five coordinators who will coordinate project implementation with the NGOs. Technical auditing and supervision will be provided by the technical staff of the PIU, district secretariats, and local authorities.

16. The proposed PPC will review the progress of the Project with participation from ADB, MOLGPC, and the Embassy of Japan. The PCC will meet monthly to review implementation issues and assist MOLGPC and the PIU to implement the Project effectively. The committee will be required to review and approve the work program and budget, and provide the SLRM's support to the Government, whenever deemed necessary, for project implementation.

17. The Project will be implemented for 30 months from November 2007 to May 2010 by NGOs which possess experience in execution of civil construction works under cash-for-work programs. The project activities will be supervised by the PIU as well as technical officers from the district secretariats and the local authorities.

18. Procurement related to project management of the JFPR Project will be conducted by the PIU in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Procurement of materials and equipment, and labor required to implement the Project under components A and C of the Project, will be conducted with community participation in accordance with ADB's *Procurement Guidelines*. Consultants will be selected in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

## 2. Risks Affecting Grant Implementation

Type of Risk	Brief Description	Measure to Mitigate the Risk
Governance	The Government adopts the data on the Samurdi program for identifying the poorer category of people, but not all poor people receive Samurdi benefits due to political considerations and other such personal matters. As such, selection of actual poor people for the Project would involve risks.	Identification of actual poor people must be entrusted to the relevant district secretaries based on the most reliable and recent data available. The services of the Samurdi development officers should be obtained to minimize the risks of engaging unqualified poor people who are above the poverty line. The PIU will obtain an independent assessment on the selected beneficiaries from the NGOs.
Institutional	Due to the prevailing high demand, good NGOs try to accept all assignments and engage inexperienced staff who are not properly remunerated.  Lack of supervision from district secretariats and local authorities.	This risk could be averted if the NGOs are shortlisted in consultation with the provincial authorities and district secretariats. The services of active CBOs, where available, will also be engaged to support the NGOs. This arrangement could minimize any deficiency in quality.  Conducting review meetings with district secretariats and local authorities and paying a small administration cost for transport of the technical officers for their supervision.
Infrastructure	Reduction of scope of civil works due to price escalation for materials	Develop a unit cost database that includes market rates of materials.  Discuss options with the communities to find materials from their villages.

## 3. Monitoring and Evaluation

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
200 km of RARs have been improved	Progress reports	Monthly reports from PIU, Quarterly mission review by ADB
About 2,500 poor people are engaged in cash-for-work programs	Progress reports	Monthly reports from PIU and NGOs, Quarterly mission review by ADB, Monthly progress review by the PCC
3–4 NGOs have been appointed for implementation	Progress reports	Monthly reports from PIU, Quarterly mission review by ADB
About 2,000 beneficiaries trained on income generation	Progress reports	Monthly reports from PIU, Quarterly mission review by ADB

**4. Estimated Disbursement Schedule**

<b>Fiscal Year (FY)</b>	<b>Amount (\$)</b>
FY2008	1,000,000
FY2009	900,000
FY2010	100,000
<b>Total Disbursements</b>	<b>2,000,000</b>

## APPENDIXES

1. Summary Cost Table
2. Detailed Cost Estimates by Component
3. Fund Flow Arrangement
4. Implementation Arrangements
5. Terms of Reference for Audit Consultants

**SUMMARY COST TABLE**

(\$)

	Component A	Component B	Component C		
<b>Inputs/Expenditure Category</b>	<b>Improvement of Rural Access Roads through Cash for Work Program</b>	<b>Training, Workshops, and Implementation through NGOs</b>	<b>Project Administration, Implementation Support, Monitoring, and Auditing</b>	<b>Subtotal</b>	<b>%</b>
<b>1. Civil Works</b> (including cash payment for workers)	1,400,000	100,000		1,500,000	75.0
<b>2. Equipment, Hardware, and Material</b> (e.g., tools, construction materials, communications, office equipment, furniture, and vehicle)	300,000			300,000	15.0
<b>3. Training, Workshops, and Public Campaigns</b> (e.g., resource persons, technical and employment training for workers, awareness program for NGOs, and other related costs)		30,000		30,000	1.5
<b>5. Consulting Services</b> (e.g., for annual auditing)			10,000	10,000	0.5
<b>6. Project Management</b> (including management of the PIU and the specific components, wages for staff, per diem for government staff and local volunteers, rental, O&M, and recurrent costs)			120,000	120,000	6.0
<b>7. Contingencies (0–10% of total estimated grant fund)</b>	25,000	7,000	8,000	40,000	2.0
<b>Subtotal JFPR Grant-Financed</b>	<b>1,725,000</b>	<b>137,000</b>	<b>138,000</b>	<b>2,000,000</b>	<b>100.0</b>
<b>Government Contribution</b> (e.g., office building for PIU and supply of equipment)	50,000		20,000	70,000	
<b>Beneficiaries' Contribution</b> (labor)	175,000			175,000	
<b>Total Estimated Costs</b>	<b>1,950,000</b>	<b>137,000</b>	<b>158,000</b>	<b>2,245,000</b>	

JFPR = Japan Fund for Poverty Reduction, NGO = nongovernment organization, O&M = operation and maintenance. PIU = project implementation unit.

Note: Use of contingencies requires prior approval from the Asian Development Bank.

Source: Project Proposal for Improvement of Rural Access Roads and Livelihood Development for the Poor

**DETAILED COST ESTIMATES BY COMPONENT**  
(\$)

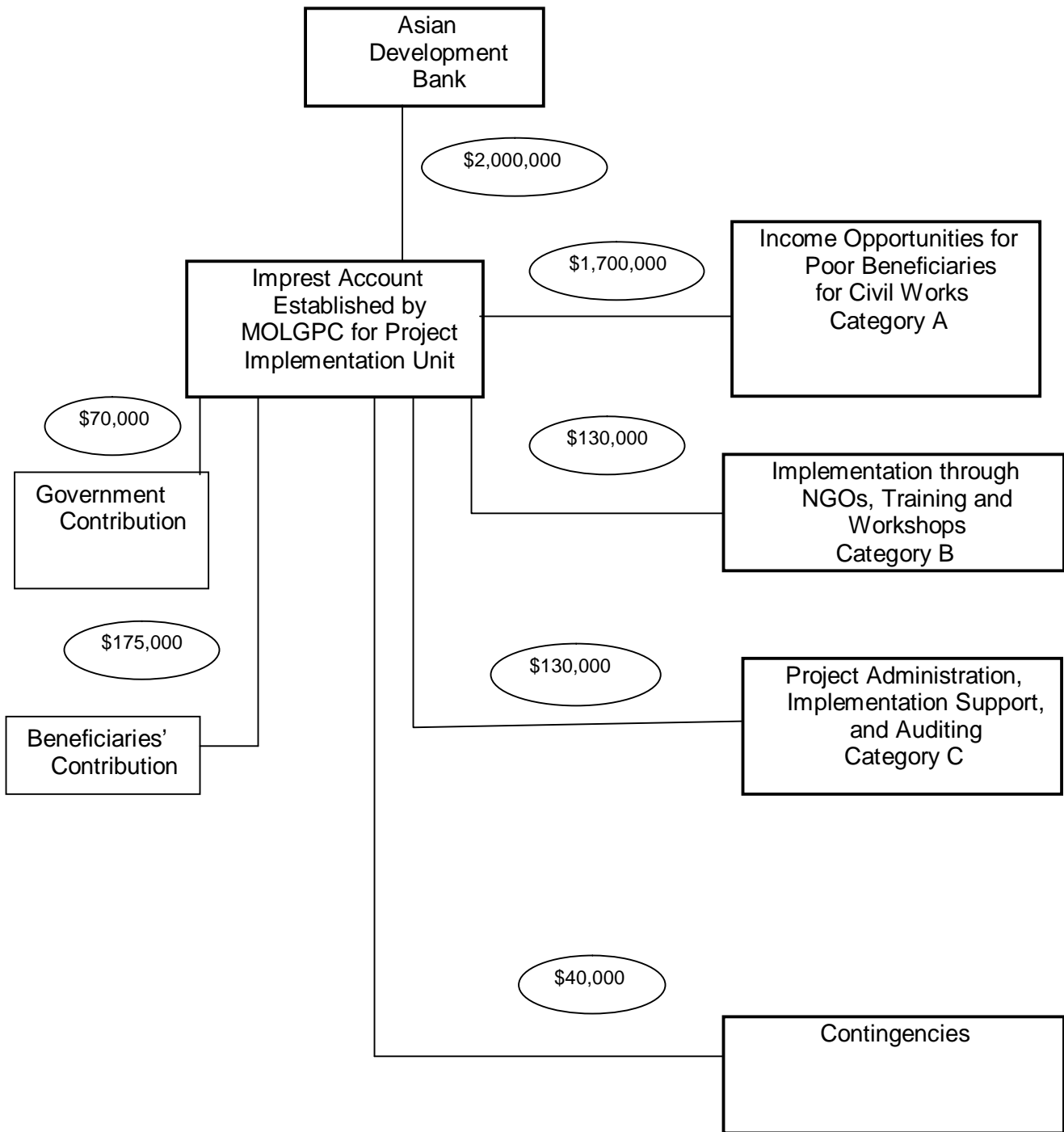
Supplies and Services Rendered	Costs				Contributions				
	Unit	Quantity	Cost Per Unit	Total	JFPR		Government	Other Donors	Communities
				Amount	Amount	Method of Procurement	Amount	Amount	Amount
<b>A. Component A. Improvement of Rural Access Roads (RARs) through Cash for Work Program</b>			<b>Subtotal (A)</b>	<b>1,925,000</b>	<b>1,700,000</b>		<b>50,000</b>	<b>0</b>	<b>175,000</b>
<b>1. Civil Works - Labor Cost for Beneficiaries</b>			<b>Subtotal</b>	<b>1,575,000</b>	<b>1,400,000</b>		<b>0</b>	<b>0</b>	<b>175,000</b>
a. Uva Province	Nos	2,025	7mx\$80/m	1,134,000	1,008,000	DP	0	0	126,000
b. Sabaragamuwa Province	Nos	787	7mx\$80/m	441,000	392,000	DP	0	0	49,000
							0	0	0
<b>2. Tools, Equipment, and Materials</b>			<b>Subtotal</b>	<b>350,000</b>	<b>300,000</b>		<b>50,000</b>	<b>0</b>	<b>0</b>
<b>a. Tools</b>			<b>Subtotal</b>	<b>30,000</b>	<b>30,000</b>		<b>0</b>	<b>0</b>	<b>0</b>
i. Hoe	Nos	1,500	10	15,000	15,000	LCB	0	0	0
ii. Axle	Nos	500	8	4,000	4,000	LCB	0	0	0
iii. Pans	Nos	750	6	4,500	4,500	LCB	0	0	0
iv. Wheelbarrows	Nos	100	20	2,000	2,000	LCB	0	0	0
v. Other				4,500	4,500	LCB	0	0	0
<b>b. Equipment</b>			<b>Subtotal</b>	<b>70,000</b>	<b>20,000</b>		<b>50,000</b>		
i. Hiring	Nos	700	100	70,000	20,000	LCB	50,000		
<b>c. Materials</b>			<b>Subtotal</b>	<b>250,000</b>	<b>250,000</b>		<b>0</b>	<b>0</b>	<b>0</b>
i. Sand	m <sup>3</sup>	2,500	7	17,500	17,500	LCB	0	0	0
ii. Metal	m <sup>3</sup>	3,000	15	45,000	45,000	LCB	0	0	0
iii. Cement	Bags	20,000	7	140,000	140,000	LCB	0	0	0
iv. Gravel	m <sup>3</sup>	13,000	3.5	45,500	45,500	LCB			
v. Other				2,000	2,000				
<b>B. Component B. Training, Workshops, and Implementation through NGOs</b>			<b>Subtotal (B)</b>	<b>130,000</b>	<b>130,000</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>1. Implementation through NGOs</b>			<b>Subtotal</b>	<b>100,000</b>	<b>100,000</b>				
a. Advertisement	Nos	2	200	400	400	DP	0	0	0
b. Administration charges	Nos	3	33,200	99,600	99,600	DP	0	0	0
<b>2. Training and Workshops</b>			<b>Subtotal</b>	<b>30,000</b>	<b>30,000</b>				
a. Self-Employment Training	Nos	2,500	10	25,000	25,000	DP			
b. Workshops for Beneficiaries	Nos	10	500	5,000	5,000	DP			

Supplies and Services Rendered	Costs				Contributions				
	Unit	Quantity	Cost Per Unit	Total	JFPR		Government	Other Donors	Communities
				Amount	Amount	Method of Procurement	Amount	Amount	Amount
<b>C. Component C. Project Administration, Implementation Support, Monitoring, and Auditing</b>			<b>Subtotal (C)</b>	<b>150,000</b>	<b>130,000</b>		<b>20,000</b>	<b>0</b>	<b>0</b>
<b>1. Project Implementation Unit</b>			<b>Subtotal</b>	<b>22,800</b>	<b>2,800</b>		<b>20,000</b>		
a. Office Building and Services				20,000	0		20,000		
b. Equipment and Furniture for PIU			<b>Subtotal</b>	<b>2,800</b>	<b>2,800</b>			<b>0</b>	<b>0</b>
i. Desktop Computers	Nos	2	1,000	2,000	2,000	DP	0	0	0
ii. Furniture	Nos	3	100	300	300	DP	0	0	0
iii. Scanner	Nos	1	500	500	500	DP	0	0	0
<b>2. Supervision and Administration in the Provinces</b>			<b>Subtotal</b>	<b>17,000</b>	<b>17,000</b>		<b>0</b>	<b>0</b>	<b>0</b>
a. Technical Supervisors	Nos.	3	20m/\$250/m	15,000	15,000				
b. Provincial Coordinators	Nos	5	200	1,000	1,000	DP	0	0	0
c. Local Government Authorities' Coordinators	Nos	10	100	1,000	1,000	DP	0	0	0
<b>3. Management and Administration</b>			<b>Subtotal</b>	<b>100,200</b>	<b>100,200</b>		<b>0</b>	<b>0</b>	<b>0</b>
a. Staff Salary			<b>Subtotal</b>	<b>91,500</b>	<b>91,500</b>		0	0	0
i. Project Director	Nos.	1	30m/\$1,000/m	30,000	30,000	DP			
ii. Project Accountant	Nos.	1	30m/\$850/m	25,500	25,500	DP			
iii. Project Engineer	Nos.	1	30m/\$850/m	25,500	25,500	DP			
iv. Project Analyst/Secretary	Nos.	1	30m/\$350/m	10,500	10,500	DP			
b. Travel, per Diem				6,500	6,500		0	0	0
c. Operational Costs				2,000	2,000		0	0	0
d. Paper Advertisement	Nos	1	200	200	200	DP	0	0	0
<b>4. Audit Consultancy</b>			<b>Subtotal</b>	<b>10,000</b>	<b>10,000</b>				
a. Appointment Auditor				10,000	10,000	LCB			
<b>D. Contingency</b> (Maximum 4.6% of Total JFPR Contribution)				<b>40,000</b>	<b>40,000</b>		0	0	0
<b>Total Grant Cost (A+B+C+D)</b>				<b>2,245,000</b>	<b>2,000,000</b>		<b>70,000</b>	<b>0</b>	<b>175,000</b>

DP = direct purchase, JFPR = Japan Fund for Poverty Reduction, LCB = local competitive bidding, m = month, m<sup>3</sup> = cubic meter.

Source: Project Proposal for Improvement of Rural Access Roads and Livelihood Development for the Poor

**FUND FLOW ARRANGEMENT**



**MOLGPC** = Ministry of Local Government and Provincial Council,  
**NGO** = nongovernment organizations.

Source: Project Proposal for Improvement of Rural Access Roads and Livelihood Development for the Poor

## IMPLEMENTATION ARRANGEMENTS

### A. The Executing Agency and Implementing Agencies

1. **Executing and Implementing Agency.** The Ministry of Local Government and Provincial Councils (MOLGPC) will be the Executing Agency (EA) and the Implementing Agency (IA) for the Project. The Sabaragamuwa and Uva provincial councils will be sub-IAs for the Project. The sub-IAs will appoint project coordinators to implement the Project through district secretariats and the local authorities. The Project will finance the payment of allowances for the Project in sub-IAs, district secretariats, and the local authorities. The Project will be implemented through nongovernment organizations (NGOs). Improvement works for the rural access roads (RARs) and identification of poor beneficiaries will be undertaken by the NGOs with the overall supervision of local authorities, district secretariats, and the project implementation unit (PIU).

2. **Project Implementation Unit.** The Project will use the existing PIU of the ongoing JFPR-9076 and 9077 (footnote 1 and 2) projects for project implementation and support staff after completion of the ongoing projects. The PIU is already equipped with a vehicle and office equipment and is established under the direct administration of the Sri Lanka Resident Mission (SLRM). The vehicle and equipment will be handed over to MOLGPC for implementation of the Project. MOLGPC will extend the service of ongoing PIU staff for implementation of this project. The PIU will recruit three additional staff for project supervision in the three project districts. This implementation arrangement will reduce the project administration cost.

3. To implement the Project at the community level, the PIU will contract 3–4 NGOs with experience in implementing cash-for-works programs with community participation. The NGOs will enter into implementation agreements with the PIU.

4. A project coordinating committee (PCC), co-chaired by MOLGPC and SLRM, will be established under MOLGPC to oversee the PIU. It will comprise representatives from SLRM, project provinces, project districts, Ministry of Finance, and the relevant local authorities, and will meet monthly from the date of project effectiveness. Implementation progress and issues will be discussed and resolved at the PCC meetings.

5. **Management Support.** The Project will finance the same project staff positions (project director, accountant, project engineer, and project analyst and secretary) of the existing PIU to implement the Project. The cost of these staff and operational expenses will be provided for 30 months. The Project will also support the PIU's supervision staff and technical staff in the provincial councils (local government commission) and the local authorities to supervise the works. The Project will also finance independent annual audit reports. The Project assets will be handed over to MOLGPC after completion of the Project.

### B. Coordination with Other Donors

6. Other donors and NGOs which are implementing cash-for-works programs and projects in the project area have been consulted on possible areas of cooperation and coordination. The proposed project components and activities are intended to complement, not duplicate, the efforts of development partners.

### **C. Implementation Schedule**

7. The Project is to be implemented over a period of 30 months. The Project inception mission will (i) finalize the project administration memorandum, (ii) engage and mobilize NGOs, (iii) mobilize selected beneficiaries, and (iv) conduct training programs. The Project will commence by the end of November 2007 and will be completed by the end of April 2010.

### **D. Procurement**

8. Any procurement under the Project will be conducted in accordance with the Asian Development Bank's (ADB's) *Procurement Guidelines* (2007, as amended from time to time). Procurement will consist of civil works packages, NGOs, and equipment, including furniture, computers, and tools. The methods of procurement will utilize local competitive bidding and direct purchase. Beneficiaries will be selected by NGOs for civil works on the selection criteria in consultation with the government agencies.

9. Japan Fund for Poverty Reduction audit consultants and NGOs will be recruited according to ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The proposed consultants for annual auditing will be selected by December 2008 and December 2009. ADB will engage the consultant in accordance with ADB's *Guidelines on the Use of Consultants*. NGOs and auditors will be selected using quality and cost-based selection. The terms of reference for consulting services is given in Appendix 3.

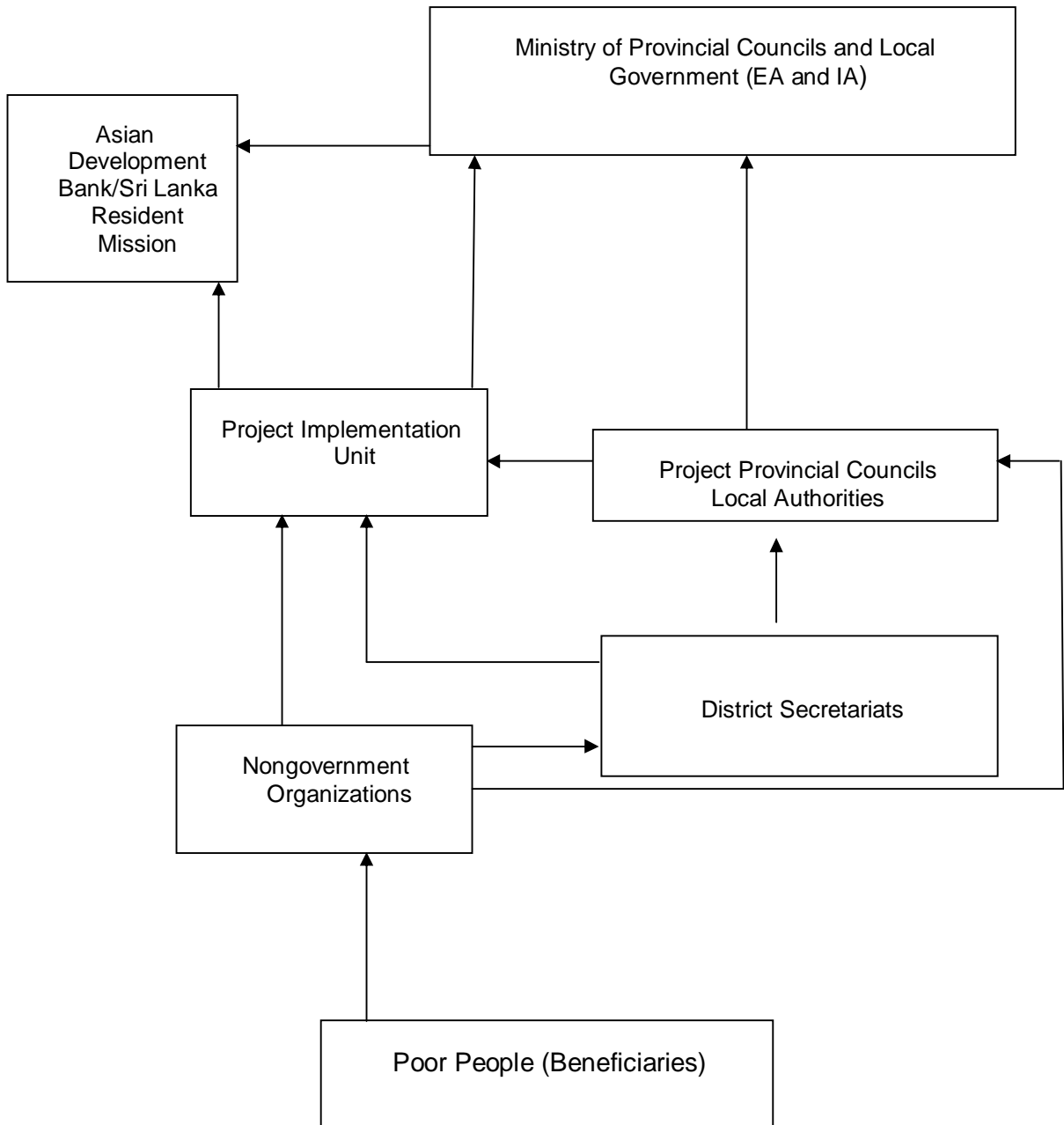
### **E. Disbursement**

10. An imprest account will be established by MOLGPC and will be managed by the PIU. All disbursements will be channeled through the PIU, for which a full-time accountant will be appointed. The imprest account will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time), and detailed arrangements agreed upon between the Government and ADB. The amount to be deposited into the imprest account will not exceed 10% of grant amount or 6 months estimated expenditures, whichever is less. The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, provided that each individual payment does not exceed the equivalent of \$10,000.

11. The following will be funded through the imprest account: (i) disbursements to civil works and NGOs for labor and implementation costs; (ii) disbursements to the local authorities and provincial councils for project coordination; and (iii) disbursement to the PIU for project management, supervision, and annual auditing costs.

12. The PIU will submit monthly progress reports, and annual audited projects accounts will be submitted to ADB within 6 months of the end of each fiscal year. The audit report should provide an opinion on the imprest account and statement of expenditure operations. A project completion report will be submitted by the PIU within 3 months of project completion.

**Figure A4: Schematic Implementation Arrangements**



Source: Project Proposal for Improvement of Rural Access Roads and Livelihood Development for the Poor

## **F. Selection Process**

13. MOLGPC will be the Executing Agency for the Project. It will appoint a coordinator to work with the implementing agencies and the PIU. The coordinator, with assistance from divisional secretaries and district secretaries, will initiate the process through an awareness campaign using mass media, workshops, and divisional and district development committees. The PIU will develop a pamphlet which will be disseminated in the Project area to inform and encourage communities, NGOs, and local government officials to submit applications for project support.

## **G. Selection Procedures**

14. The Project has already identified RARs which were initially proposed by beneficiaries, local authorities, and district secretariats arising from the need to improve RARs under their village development programs. The list of selected RARs was discussed with local political authorities and government agencies and agreed upon by them.

15. The PIU will further review each proposed RAR to confirm that it (i) addresses the overall scope of the Project, (ii) is eligible under the selection criteria, (iii) will not create any problems in the area, (iv) has been sufficiently justified, and (v) will attain the desired outputs and benefits. The PIU will also (i) perform a detailed review of the cost estimate and implementation schedule, (ii) confirm that land acquisition and resettlement is avoided, (iii) investigate any gender-related and social concerns, and (iv) complete the initial environmental examination checklist before beginning civil works. Once the PIU finds that the selected roads satisfy all the criteria, the PCC will give final approval through the PIU to start civil works.

16. Beneficiaries from poor families (Samurdi<sup>1</sup> recipients) under the poverty line will be selected by the divisional secretaries who have all the information about poor people in the project area. District secretaries will certify the list of beneficiaries and submit it to the PIU. NGOs will identify the selected beneficiaries and train them for civil works. According to the wage rate for unskilled laborers recommended by the International Labour Organization, the minimum wage rate is about SLRs450.00 per day. Therefore, the estimated labor cost for each worker is about SLRs450.00. The Project will pay SLRs400.00 per day for each worker. The balance of SLRs50.00 will cover the beneficiary's contribution to the labor cost. The Project will pay only SLRs200.00 to beneficiaries in cash, and will deposit the balance of SLRs200.00 in the Samurdi and rural banks available in villages for investments.

## **H. Selection Criteria**

17. In order to be selected, the RARs must
- (i) be located in the poorest villages which have predominantly poor families including Samurdi recipients;
  - (ii) traverse land that has been officially reserved for rural roads;
  - (iii) be demarcated clearly in the authenticated final village plan and in the consolidated village development plan prepared by the people through participatory rural appraisal;
  - (iv) be connected to the main route used by the majority of the residents for all livelihood development activities;
  - (v) not currently be in motorable condition by land vehicles used for agricultural production and marketing;

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<sup>1</sup> The Government's Welfare Program

- (vi) not be assigned for development under any other source of funding currently or in the future;
  - (vii) involve major construction activities that are chiefly labor intensive;
  - (viii) not involve construction tasks with a high degree of technology, design, and machinery use;
  - (ix) not require any land acquisition or voluntary land donation, or entail any site impacts to nonland assets (structures, crops, and trees);
  - (x) not have significant environmental impact or pass through environmentally sensitive areas; and
  - (xi) provide villagers better accessibility to improve their livelihood.
18. Beneficiaries will be selected from poor families and will
- (i) be under the poverty line certified by the relevant district secretariats based on the latest data on the poverty profile of the district,
  - (ii) agree to participate in construction tasks on a cash payment basis,
  - (iii) agree to participate in the Project's training and enterprise development program,
  - (iv) agree to participate in maintenance of the rehabilitated RARs, and
  - (v) be of working age (18–55 years).

19. NGOs with experience in implementing cash-for-work programs in rural areas will be selected using the quality and cost-based selection process through local competitive bidding by the PIU in consultation with district and provincial authorities. The roles of NGOs will range from capacity building to project implementation, including identifying, selecting, managing, and paying beneficiary workers. The local authorities and district secretariats will need to invest considerable effort in enhancing the quality of NGOs through sharing knowledge of best practices and establishing a minimum threshold of quality performance. Ensuring that NGOs provide the best possible services demands that their service contracts be performance-based with clear terms of reference and deliverables. Terms of reference for NGOs will be finalized at the Inception Mission. Payments will be based on simple measurable milestones and community feedback on NGO performance.

## **I. Policy Development**

20. The Project additionally aims to develop a regulatory and institutional framework ensuring that (i) projects like this provide jobs exclusively to the poor, (ii) improvement of rural connectivity improves economic activities in rural areas, (iii) maintenance of road infrastructure in poor areas will be prioritized, and (iv) the local authorities and the beneficiaries will sustain a maintenance mechanism by establishing a community fund for the periodic maintenance of the improved RARs.

## **J. Environmental and Social Safeguard**

21. The proposed RARs will involve cleaning and earthworks for improvement of gravel roads in order to improve accessibility for poor villages. In accordance with the Government's Guidance for Implementing the Environmental Impact Assessment 1998, all such subprojects are exempted from the environmental clearance requirement. The Project will only improve preexisting RARs that are not in a motorable condition. Works on the identified roads are unlikely to have adverse environmental impacts. In accordance with ADB's Environmental Assessment Guidelines 2003<sup>2</sup>, the proposed Project for the improvement of rural gravel roads is a category B project. An initial environmental examination for the JFPR Project as a whole,

<sup>2</sup> ADB. 2003. *Environmental Assessment Guidelines*. Manila.

together with an environmental assessment and review framework for future RARs and an environment management plan, was prepared for the Project, and initial environmental examinations for individual RARs will be completed based on the environmental assessment and review framework before the commencement of civil works.

22. All identified roads will be improved within the existing right-of-way; therefore, no land acquisition is required for road improvement. Since the Project is not implemented in the traditional villages of indigenous people, no indigenous people will be particularly affected by the Project. The Project will also benefit all communities in the selected villages. The Project will have no negative gender impact and both male and female beneficiaries can participate in the project implementation.

#### **K. Monitoring and Supervision**

23. The PIU will play a key role in the monitoring and supervision by appointing three officers for this task. In addition to the PIU's supervision, district secretariats and the local authorities will also supervise implementation of the Project in the field. Technical officers from these agencies will submit a report on implementation progress.

24. The PCC will monitor the project progress on a monthly basis. The PIU will monitor and review the technical aspects, social aspects, impacts on beneficiaries, and financial progress.

## TERMS OF REFERENCE FOR AUDIT CONSULTANTS

1. A public accounting firm will be engaged to conduct an annual internal audit of project accounts covering all operations at all levels. The key internal audit functions will be to ascertain (i) whether the operating systems of internal checks and controls are effective, (ii) the reliability of financial and physical reports, (iii) the extent to which the systems in place prevent misuse of project assets, and (iv) the financial rules and procedures of the Asian Development Bank (ADB) are followed. The auditors will be required to provide a report to the project implementation unit highlighting findings of the audit. The audit will be conducted in accordance with internationally accepted accounting and auditing standards and financial reporting systems.

2. **Description of Services.** The scope of annual auditing should encompass the examination and evaluation of the adequacy and effectiveness of the internal control system and the quality of performance in carrying out assigned responsibilities. Annual auditors should do the following.

- (i) Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- (ii) Review the project accounts and procurement procedures to check compliance with ADB and Government guidelines.
- (iii) Review the means of safeguarding the assets, including civil works, goods, equipment, consultancy services, and other aspects procured under the Project, and, as appropriate, verify the existence of such assets.
- (iv) Appraise the economy and efficiency with which project resources are employed.
- (v) Review the project activities to ascertain whether results are consistent with established objectives and targets and whether the project activities are being carried out as planned.

3. **Reporting Requirements.** The public accounting firm should submit reports annually, within 1 month after completion of the audit at the end of each financial year, to the project director in the project implementation unit, secretary of the Ministry of Local Government and provincial councils, and ADB's Sri Lanka Resident Mission. The report should contain a letter indicating the purpose, scope, results, and major findings of the audit, and an expression of the audit opinion.