ADB

Technical Assistance Report

Project Number: 37381
October 2006

Democratic Socialist Republic of Sri Lanka: Preparing the Small Towns and Rural Arid Areas Water Supply and Sanitation Project

(Cofinanced by the Japan Special Fund and the Cooperation Fund for the Water Sector)

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 10 October 2006)

Currency Unit	–	Sri Lankan rupee/s (SLRe/SLRs)
SLRe 1.00	=	$0.00955475
$1.00	=	SLRs 104.700

ABBREVIATIONS

ADB	–	Asian Development Bank
CBO	–	community-based organization
CSP	–	country strategy and program
NGO	–	nongovernment organization
MUDWS	–	Ministry of Urban Development and Water Supply
NWSDB	–	National Water Supply and Drainage Board
O&M	–	operation and maintenance
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	Targeted intervention
Sector	–	Water supply, sanitation, and waste management
Subsector	–	Water supply and sanitation
Themes	–	Inclusive social development, environmental sustainability, and capacity development
Subthemes	–	Human development, urban environmental improvement, and capacity development

GLOSSARY

pradeshiya sabha	–	smallest political unit created under the Pradeshiya Sabha Act

NOTE

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

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I. INTRODUCTION

1. In 2003, the Government of Sri Lanka requested technical assistance (TA) to prepare a project to provide basic water supply and sanitation services to disadvantaged small urban centers and rural areas. The Asian Development Bank's (ADB's) country strategy and program (CSP) 2004–2008 for Sri Lanka and its updates include provision for such TA, which is proposed for ADB financing in 2006. The ADB Fact-Finding Mission visited Sri Lanka from 11 to 19 July 2006 and reached preliminary understanding with the Government on the TA's goals, purpose, scope, implementation, financing arrangements, and terms of reference.[1] The TA supports the Government in its efforts to (i) promote regionally balanced development, and (ii) reduce poverty and promote equitable development. The TA is consistent with ADB's strategic priorities as outlined in its CSP (2004–2008), emphasizing support for (i) promoting pro-poor economic growth, (ii) advancing social development, and (iii) improving governance. The design and monitoring framework is in Appendix 1.

II. ISSUES

2. **Meeting the Millennium Development Goals**. Sri Lanka's continued efforts to improve its development indicators have placed the country ahead of most other South Asian countries.[2] Nevertheless, 22.7% of all Sri Lankans live below the national poverty line. Much of the country's economic activity and wealth is disproportionally concentrated in the western part of the country, and Sabaragamuwa and the North-East Provinces remain among the most disadvantaged in terms of access to economic opportunities, education, and general infrastructure. While recent reports[3] indicate that the country is expected to meet Millennium Development Goal target 10 by 2015 if adequate progress continues, major challenges include regional disparities and urban-rural differences, for example, between 1990 and 2002, access to improved water sources increased from 91% to 99% in urban areas and from 62% to 72% in rural areas. Similarly, 75% of the urban population is served by piped water, but only 14% of the rural population benefits from such a service. The proportion of the urban population that had access to improved sanitation increased from 89% to 98% during the same period, while rural coverage rose from 64% to 89%. Differences among provinces are even more prominent,[4] but cannot always be quantified. The provision of safe drinking water through the construction of new schemes and the augmentation of existing ones represents a major milestone in the Government's New Development Strategy. Consequently, in line with the 2001 national policy for rural water supply and sanitation, the Ministry of Urban Development and Water Supply (MUDWS) set a goal of providing access to safe drinking water and basic sanitation to all citizens by 2010, whereas the National Water Supply and Drainage Board (NWSDB)[5] aims to provide piped drinking water to 45% of the population by 2015. Supporting such goals and targets by means of a comprehensive policy and a regulatory framework is essential.

3. **Policy and Regulatory Framework**. Both the draft water supply and sanitation policy, first formulated in 2002, and the recently prepared draft national policy on sanitation and draft

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[1] The TA first appeared in *ADB Business Opportunities* on 30 September 2005.

[2] In 2005, Sri Lanka ranked 93rd out of 177 countries on the United Nations Development Programme's human development index. According to the index, Sri Lanka's urban population has remained approximately constant at 21 to 22% of the total population for the past 10 years. Details are provided in Appendix 2.

[3] ADB. 2006. *Asia Water Watch 2015*. Manila; National Council for Economic Development. 2005. *Millennium Development Goals Country Report 2005: Sri Lanka*. Colombo.

[4] According to National Water Supply and Drainage Board statistics, in districts such as Mannar, Puttalam, and Vavuniya, as few as 11.4%, 2.5%, and 6.7% of households, respectively, have piped water.

[5] NWSDB currently provides around 29% of the population with piped water, while about 10% of the population has access to hand pumped tube wells.

policy on rural sanitation, are expected to be submitted to the Cabinet before the end of 2006. These policies provide the necessary framework needed for the sustainable operation and management of sector-related assets. Even though commissioners were appointed soon after the creation of the Public Utilities Commission in 2002, its functions in relation to regulating the water sector have not been fully effected, partly because of delays in formulating and approving laws pertaining to the water industry. In this regard, the Government has recently proposed revising the existing legal framework to enable Public Utilities Commission to regulate service standards, tariffs, and customer satisfaction.

4. **Water Quantity and Quality**. Water resources are scarce, particularly in dry zone, low-lying areas of the country, where annual rainfall can be as little as 750 millimeters, creating high dependence on groundwater and on reservoir storage. Groundwater sources in such areas often contain unacceptable levels of fluoride or iron or are excessively saline and require treatment prior to distribution. Water quality in irrigation tanks and canals can be poor from a microbiological and/or a physico-chemical perspective, with pollution often resulting from upstream activities and from man-induced and livestock activities in the catchment area. Despite ongoing efforts, the scope for improving water quality remains significant. In coordination with provincial irrigation departments, this should include improving source protection and catchment management and enhancing monitoring at treatment sites and throughout transmission and delivery points.

5. **Sewerage and Sanitation**. Throughout the country, pour-flush systems are rapidly replacing dry toilets. While septic tanks and on-site sanitation systems are gradually being adopted, surface and groundwater resources, particularly around urban centers, are at risk of bacterial contamination from effluent leakages from poorly constructed and maintained pit latrines and discharges from septic tanks and other disposal facilities. Except in a few areas in Colombo,[6] in Hikaduwa, and in the near future, possibly in Jaffna, Kandy and Nuwara Eliya, Sri Lanka has no areas covered by sewerage systems, and of those areas with such systems, Colombo has only basic facilities for primary treatment of sewage. In Colombo, sewers are often silted and in need of maintenance. In towns, storm water drainage facilities are generally in poor condition, as they are rarely cleaned and rehabilitated, but the situation is even worse in poor and informal areas, because of the lack of overall planning, inadequate maintenance, and encroachment on drainage channels. Poor maintenance and rehabilitation are often associated with insufficient allocation of financial resources.

6. **Operational Performance and Financial Management**. NWSDB, through its corporate plan,[7] aims to improve its operational and financial performance.[8] Continuous efforts have yielded such improvements as (i) annual increases in service connections that have averaged 11% for the last 10 years, (ii) reductions in the number of staff per connection from a relatively high 27.60 staff per 1,000 connections in the 1980s to 8.92 in 2005, and (iii) introduction of a computerized and decentralized billing and collection system with an average collection efficiency of 97.6% over the past 10 years. However, the scope for further improvements

[6] NWSDB is responsible for the operation and maintenance of sewerage systems in Dehiwala and Kolonnawa, in seven housing schemes in Greater Colombo and two outside Colombo, and in three industrial promotion zones, or for some 50,000 connections.

[7] NWSDB is in the process of preparing a revised corporate plan for the next 5 years.

[8] Despite satisfactory performance up to 2002, NWSDB's financial performance has declined over the past 3 years. NWSDB's nationwide water tariff was last revised in March 2005. Continued tariff increases are necessary to accommodate, among other things, substantial levels of inflation. NWSDB aims to recover at least operation and maintenance costs, debt-service costs, and depreciation. It derives about two thirds of its revenues in Greater Colombo, with an effective cross-subsidy of 5:1 from nondomestic to domestic water supplies. In addition, the introduction of a sewerage tariff in 2006 remains critical, as sewerage activities contribute to total losses.

remains significant. The main problems in relation to the delivery of water and sanitation include low self-financing ratios, insufficient tariff recovery, and high production costs. Even for those with access to piped water, delivery standards are often inadequate. Despite the consistent useof bulk and household meters, nonrevenue water levels remain high (currently exceeding 33%); water pressure is, in many cases, low; and supply is intermittent, which in itself increases nonrevenue water. Systems are almost invariably extended beyond their design capacities which further exacerbates operation and maintenance problems.[9]

7. **Community Participation**. In addition to NWSDB, local authorities, nongovernment organizations (NGOs), and community-based organizations (CBOs) are responsible for operating a number of smaller schemes.[10] Community involvement in planning, design, implementation, and operation and maintenance, often facilitated by NGOs, has increased schemes' sustainability. However, if long-term sustainability is to be secured, critical activities to be institutionalized include (i) introducing a suitable legal and regulatory framework, (ii) providing communities with access to credit and resources for maintenance and repairs, and (iii) organizing replicable financial and accounting capacity development programs for CBOs.

8. **Lessons**. Previous projects (Supplementary Appendix A) have highlighted the need to (i) incorporate greater consultation, participatory processes, and local government involvement; (ii) avoid conflicts among water users and secure adequate rights; (iii) conduct adequate costing, minimizing inaccuracies in cost estimates that may lead to significant cost overruns; (iv) increase water and sewerage tariffs on an annual basis, taking inflation and tariff objectives into consideration; (v) promote sustainable water resource development and establish frameworks for water resource management; and (vii) develop capacity targeting all levels of influence.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The impact of this project preparatory TA will be to facilitate sustainable development in disadvantaged districts in Sri Lanka. Its outcome will be to improve basic water supply and sanitation infrastructure and services in dry zone districts of Sri Lanka. Project preparatory TA outputs will consist of (i) a feasibility study suitable for ADB financing that emphasizes poverty reduction and responds to locally expressed needs regarding priority water supply and sanitation infrastructure, and (ii) capacity development assistance for institutionalizing mechanisms for sustainable community-based infrastructure development.

B. Methodology and Key Activities

10. While keeping in line with integrated assistance to urban and rural areas, the TA will emphasize the importance of targeting those areas in the North-East and North West Provinces of Sri Lanka with the most acute shortages of drinking water and sanitation services and facilities. In addition, it will also consider opportunities in rural areas in the North Central

[9] This is the case in several towns in the North-East and North West Provinces. In Mannar, where water supply is limited to 10 divisions, the population receives less than 3 hours of water a day and the system experiences frequent breakdowns. In Vavuniya, the current system is too small to meet demand, water supply is distributed for less than 4 hours per day, and less than 60% of the population is covered.

[10] In rural areas, both MUDWS and NWSDB, with support from the World Bank and ADB, have extensively promoted community participation in water and sanitation for more than a decade. Other donors working in this sector include the Danish government (engaged in small towns in the Central Province and Colombo), the Japanese Government (supports programs through NWSDB and local authorities in Kandy), and the French and German governments.

Province. While supporting inclusive social development and subsidiarity principles to strengthen local centers, the TA will aim to increase transparency, complement activities undertaken locally or by other assisting agencies, and involve stakeholders from early stages of the planning and design process. The TA will seek local government and community participation and ensure that the design of the ensuing Project has an integrated approach, and also draws all actors into the upgrading process in a way that validates and strengthens them.

11. The TA will consist of two components. Component 1, which will focus on preparing a comprehensive feasibility study, will be implemented in two phases. Phase I will consist of a detailed evaluation of the water supply and sanitation sector, and will (i) collect and review basic planning data, capabilities, and resources for development in four urban centers,[11] with an emphasis on more deprived areas; (ii) evaluate sample ADB subprojects and determine lessons learned; (iii) initiate a socioeconomic assessment in identified target areas; (iv) map and analyze poverty data, the incidence of waterborne diseases, and the concentration of minority and disadvantaged groups; (v) undertake engineering field surveys and mapping to ascertain the condition of basic infrastructure and amenities, including collecting data on water and sanitation facilities; and (vi) identify priority urban and rural areas based on needs for improved coverage and determine population projections and demand for services. Results will be analyzed and discussed at stakeholder consultations at the national and district levels. In phase II will (i) select and refine project-specific investment components in both urban and rural areas; (ii) develop technical options acceptable to all stakeholders; and (iii) conduct economic and financial feasibility studies, environmental and social studies, and other documentation as required by ADB guidelines. An institutional development and capacity-building program will support the prioritized infrastructure rehabilitation, augmentation, and development in selected towns and will include a detailed nonrevenue water reduction program. In addition to infrastructure development, the TA will consider health and hygiene education.

12. Component 2 of the TA will help NWSDB institutionalize postproject completion sustainability measures in community-based schemes. For this purpose, the TA will support NWSDB in (i) conducting consultations with provincial councils and local authorities and developing understanding on the proposed by-laws enabling CBOs to exist as legal entities and on the Development Fund for Water Supply and Sanitation, which will ensure CBOs' access to credit facilities; and (ii) preparing and delivering a basic accounting, budgeting, and overall financial management training component for CBOs and CBOs' district offices.

C. Cost and Financing

13. The total cost of the TA is estimated at $1,160,000 equivalent. ADB will finance $870,000 equivalent, which will cover $750,000 equivalent under component 1, and $120,000 equivalent under component 2. The remaining $290,000 equivalent will be contributed by the Government and will include office accommodation and utilities, counterpart staff, taxes and duties, and workshop facilities. Component 1 of the TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan, and component 2 will be financed under the Cooperation Fund for the Water Sector. Detailed cost estimates and the financing plan are provided in Appendix 3. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing Project.

[11] Districts are selected considering poverty and access to services data, mostly water and sanitation infrastructure. It is proposed that urban schemes in Mannar and Vavuniya in the North-East Province, and Chilaw and Puttalam in the North West Province may be examined under the feasibility study. Districts where support for rural assistance is to be evaluated include Mannar, Puttalam and Vavuniya, and possibly Anuradhapura and Polonnaruwa. The study will consider similar beneficiary gains in rural and urban areas. Remote villages will be prioritized.

D. Implementation Arrangements

14. NWSDB, under MUDWS, will be the executing agency and will (i) appoint a TA unit coordinator, who will have a supportive, coordinating, and facilitating role; and (ii) provide office space, furniture, equipment, and technical and support counterpart staff to the TA as necessary. Overall guidance for TA implementation will be provided by the TA Steering Committee, which will be headed by the secretary of MUDWS and will include senior officials from other government agencies, including the Ministry of Finance and Planning; NWSDB; the Ministry of Local Government; the Central Environmental Agency; and representatives of provincial governments, local authorities, aid agencies, and NGOs. The Steering Committee will first meet no later than 2 weeks after the start of the TA to confirm the coverage area and within 8 weeks of TA commencement to review the outcome of phase I of component 1. After that, the Steering Committee will meet on a bimonthly basis or as frequently as required to review TA progress and provide direction, particularly on policy issues.

15. The TA will be implemented over 8 months from March 2007 to November 2007. A team of international and national consultants will be selected and recruited through a firm using the quality- and cost-based selection method to provide a total of 74.5 person-months of consulting services, 20.5 person-months of international consultants and 54 person-months of national consultants, of which 33 person-months will be allocated to component 1 and 21 person-months will support component 2. The international consultants will include experts in water supply and sanitation, economics, hydrology, sanitation and sewage treatment, organizational development and financial management, and environment. The national consultants will include experts in water supply engineering, sanitation and sewerage, drainage, social development and gender issues, resettlement, financial analysis, and environment for component 1 and rural water supply, financial management and accounting, and community development for component 2. The consultants will be selected and engaged by ADB in accordance with the *Guidelines on the Use of Consultants*. Outline terms of reference for TA consultants are presented in Appendix 4. ADB's full technical proposal will be used in selecting consultants. Extensive workshops and consultations will be conducted under both components of the TA. Office equipment financed by the TA will be procured in accordance with ADB's *Procurement Guidelines*. The consultants will submit four major reports: (i) an inception report no later than 4 weeks following the commencement of services, (ii) an interim report within 3.5 months, (iii) a draft report at the end of the 7th month, and (iv) a final report within 4 weeks of receiving comments on the draft report from the Government and ADB. Both draft final and final reports will contain separate sections for (i) the feasibility study, and (ii) the support for community development. The consultants will also submit short monthly progress notes summarizing project TA activities, issues, constraints, and proposed solutions. Tripartite meetings will be held with ADB and Government representatives and the consultants to review the inception, midterm, and draft final reports and verify accomplishments. The consultants will translate the TA key deliverables to facilitate their review by the Government and stakeholders.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of $120,000 to be financed on a grant basis by the Cooperation Fund for the Water Sector, and (ii) ADB providing the balance not exceeding the equivalent of $750,000 on a grant basis to the Government of Sri Lanka for preparing the Small Towns and Rural Arid Areas Water Supply and Sanitation Project, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK[a]

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Sustainable development in disadvantaged dry zone districts in Sri Lanka	Regional improvement in well-being as measured by the United Nations Development Programme's human development and vulnerability indexes Increased development of economic capital as measured by the employment index and the volume of trade	United Nations Development Programme *Human Development Report* for Sri Lanka Census Reports from aid agencies ADB country strategy and program and updates	**Assumptions** • Macroeconomic stability • Political stability and peace
Outcome Improved basic water supply and sanitation infrastructure and services in dry zone districts of Sri Lanka	Significant support for meeting Millennium Development Goal 10 targets in the North-East, North West, and North Central provinces Greater than 95% compliance with Government and World Health Organization standards for water distribution and effluent discharges in the Project area More than 90% of all Project rural schemes are sustainable	United Nations Children's Fund reports on water supply, sanitation, and hygiene United Nations Environment Programme state of the environment reports National and provincial statistics on water supply and sanitation ADB project completion report and project audit report	**Assumptions** • Inflation is contained • All institutions, including local governments, actively participate in the planning and development process • Both the government and beneficiary communities are fully committed to long-term sustainability **Risks** • Not all key stakeholders participate in consensus-building exercises • Women and disadvantaged groups are not involved in project planning and design
Outputs 1. Preparing a feasibility study for developing water supply and environmental infrastructure and services in dry zones of Sri Lanka 2. Developing institutional support for sustainable community-based management of rural water and sanitation infrastructure	Feasibility study completed to the highest standards By-laws for CBO establishment passed in at least 50% of provincial councils Development Fund for Water Supply piloted in additional provincial councils Accounting and budgeting capacity increased in CBOs and CBOs' district offices	Inception report Interim report Draft final and final reports Training materials Tripartite meetings	**Assumptions** • Provincial councils have a genuine interest in ensuring the legality of CBOs • Local populations have the time and opportunity to participate in consultations **Risk** • Fielding of consultants is delayed

Activities with Milestones	Inputs
1.1 Phase I 1.1.1 Assess the situation, prepare a working plan, and submit an inception report by the end of month 1. 1.1.2 Assess the water supply and sanitation sector and map existing facilities in selected urban areas by the end of month 2. 1.1.3 Evaluate and review selected ADB subprojects and extract lessons by the end of month 2. 1.1.4 Determine demand projections by the end of month 2. 1.1.5 Identify and test adequate and sustainable sources of water by the end of month 2. 1.1.6 Hold first round of consultations by the end of month 2. **1.2 Phase II** 1.2.1 Submit an interim report by the middle of month 4. 1.2.2 Propose strategies for overcoming constraints prioritized by sector stakeholders in the first round of consultations and hold a second round of consultations. 1.2.3 Complete socioeconomic surveys and poverty assessment by the middle of month 5. 1.2.4 Complete preliminary designs for water and sewerage schemes to the highest standards by the end of month 7. 1.2.5 Complete financial and economic analyses indicating project viability by the end of month 7. 1.2.6 Conduct and disclose social and environmental safeguard assessments by the end of month 7. 1.2.7 Complete organizational and financial management assessment by end of month 7. 1.2.8 Submit a final report by the end of month 8. **2.1 Introduction of By-Laws for Rural Water Supply CBOs** 2.1.1 Review experience from ongoing projects as well as materials developed under previous assistance by the end of month 1. 2.1.2 Develop simple and efficient budgeting methods for CBOs and associated training materials by the end of month 2. 2.1.3 Develop simple methods of accounting and auditing for CBOs and associated training materials by the end of month 4. 2.1.4 Conduct training in at least 10 districts by the end of month 7. **2.2 Operationalization of the Water Supply Development Fund for CBOs** 2.2.1 Review status of the Water Development Fund for CBOs in the North Central Province and provide recommendations by the end of month 1. 2.2.2 Prepare educational materials on the fund, user-friendly manuals, and instructions for CBOs by the end of month 3. 2.2.3 Translate documents into Sinhalese and Tamil by the end of month 4. 2.2.4 Conduct training and explanatory sessions by the end of month 8. **2.3 Financial Management and Accounting for Small Scheme Operators** 2.3.1 Review experience from ongoing projects as well as materials developed under previous assistance by the end of month 1. 2.3.2 Develop simple and efficient budgeting methods for CBOs and associated training materials by the end of month 3. 2.3.3 Develop simple methods of accounting and auditing for CBOs and associated training materials by the end of month 4. 2.3.4 Conduct training in at least 10 districts by the end of month 8.	• ADB: $870,000 • Government: $215,000 • Beneficiaries: time and in-kind contributions

ADB = Asian Development Bank, CBO = community-based organization.

[a] This design and monitoring framework outlines the impact, outcome, outputs, and activities with milestones of the project preparatory technical assistance. While the impact and outcome are expected to remain unchanged for any project that many ensue, the outputs and activities refer only to this technical assistance.

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	☒ Yes ☐ No	**Is the sector identified as a national priority in country poverty partnership agreement?**	☒ Yes ☐ No

Contribution of the sector or subsector to reduce poverty in Sri Lanka: Sri Lanka's continued efforts to improve its development indicators have placed the country ahead of most other South Asian countries. It has made major strides in reducing maternal and infant mortality by means of an effective network of community health workers, literacy levels are more than 90%, life expectancy is high (74 years), the net enrollment ratio in primary education is greater than 95%, and immunization coverage is high (99%). Welfare levels are, however, not matched by high earnings and adequate livelihoods. While Sri Lanka's indicators compare favorably with those of countries with similar per capita incomes, Sri Lanka is unlikely to meet the first target of the Millennium Development Goals, a halving of poverty levels by 2015. Although survey data are not strictly comparable given the use of different methodologies and sample sizes, the percentage of poverty remains stubbornly at about 23%, with little improvement since 1991, and 50.7% of the population is reported to be subsisting on less than $2 per day. While additional work needs to be carried out to determine the root causes of poverty in Sri Lanka, relatively low economic growth, low agricultural productivity, and increasing income inequality are likely to play a role.

From 1990 to 2002, access to improved water sources increased from 70% to 91% and to sanitation increased from 68% to 78%. However, disparities in poverty levels and access to basic services and infrastructure are large. Poor access to water supply and sanitation is often associated with poor health. The Asian Development Bank's country strategy for Sri Lanka emphasizes the role of water supply, sanitation, and urban development infrastructure and the need to target the poor to reduce both poverty and inequalities. Similarly, the Government's new development strategy emphasizes the importance of providing safe drinking water by constructing new schemes and augmenting existing ones. Access to safe drinking water, improved sanitation, and improved environmental quality will reduce poor communities' vulnerability to environmental hazards. Improving the quantity and quality of domestic water supply and sanitation facilities will reduce morbidity and mortality, especially among young children. The availability of safe drinking water supplies will also reduce the time needed to fetch water, which will benefit mainly women and girls.

B. Poverty Analysis

Targeting Classification: Targeted intervention

What type of poverty analysis is needed? A multidimensional and multivariable poverty analysis will be required for the Project. Although a good initial source, national and provincial survey data do not contain local–level information, particularly for the North-East Province. Data at the town and *pradeshiya sabha* level on population, literacy, health indicators, water and electricity availability, sanitation services, and so on will be used as part of the coverage selection criteria. Detailed survey data will also be required to estimate access by various groups to water and sanitation facilities, modes of delivery, quality of water sources, time spent by women and children collecting water, costs of various services and infrastructure in the area, affordability by the most disadvantaged groups, and direct and indirect poverty impacts of the various services.

The detailed socioeconomic survey will be conducted for selected urban and rural areas where specific information on incomes and expenditures, demographic trends, gender issues, health, water and sanitation, and urban environment will be determined. Sample data and secondary data sources will be used to extrapolate to the remaining Project areas. The findings of the socioeconomic baseline survey will be used to improve access by the poor to existing and newly created infrastructure facilities and urban services. Participatory methods and innovative poverty assessment techniques will be considered to identify the most disadvantaged and vulnerable groups.

C. Participation Process

Is there a stakeholder analysis? ☐ Yes ☒ No

Preliminary stakeholder assessment was conducted during the Fact-Finding Mission for the project preparatory technical assistance (TA). Stakeholders that will participate in the Project include representatives of the urban and rural poor (including women and different ethnic and religious groups), all tiers of government (including the central and provincial governments and local authorities), community-based organizations, aid agencies, nongovernment organizations, and selected members of the private sector where relevant and appropriate,.

Is there a participation strategy? ☐ Yes ☒ No

The participation strategy for the TA will focus on putting the urban and rural poor at the center of development by means of the Project's planning and design, and at a later stage, at the center of implementation, management, and operation and maintenance. The Project will involve communities from phase I by conducting a socioeconomic analysis to include appreciative inquiry and rapid assessment methods, as well as community participation in identifying and mapping current urban infrastructure and services. Workshops will be carried out with representatives of all stakeholder groups during all stages of project design. In rural areas, participatory project mechanisms will build on self-help and will take local conditions into account. The existing structure of extended households provides natural groupings that can be mobilized, strengthened, and used as a nucleus for community-based organizations with whom partnerships will be built and to whose demands the Project could respond. This will provide for grassroots participatory development. This approach ensures (i) the full participation by beneficiaries in project design and implementation, leading to greater ownership; (ii) a process approach; (iii) the use of decentralized and localized implementation arrangements along with capacity support to government and community groups in relation to implementation and maintenance; and (iv) the use of more widely accepted technology.

D. Gender Development

Strategy to maximize impacts on women: Sri Lankan women have a relatively better status than women in many other developing and industrial countries, but have yet to achieve gender equality, and the scope for empowerment is substantial. The confluence of positive social policies, slow economic growth and the consequent persistent poverty among segments of the population, armed conflict, and engendered social norms have contributed to uneven development that impinges on women's quality of life. Women have major household responsibilities, including ensuring the availability of water for household purposes. In the proposed project areas, women face various problems relating to access to safe water and sanitation facilities because of the (i) lack of sources of water; (ii) deterioration of water quality; and (iii) increased time required to obtain water, which reduces the time available for other activities. The TA will specifically address gender issues, including participation by women in planning and design and in the identification of constraints to and opportunities for women to actively contribute to implementation of the ensuing Project. A gender action plan for the Project will be prepared. Targeting of women requires a modified approach consistent with local cultures and traditions in different parts of Sri Lanka.

Has an output been prepared? ☐ Yes ☒ No, it will be prepared as part of the TA

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	☐ Significant ☒ Not significant ☐ None	Resettlement needs are uncertain at this stage; however past project interventions have mostly been constructed on Government land. Although resettlement is often necessitated when rehabilitating and upgrading urban infrastructure, the size of interventions will be small. Resettlement will be minimized through the Project's design, nonetheless, this TA has provided for a full assessment of resettlement needs and an ensuing resettlement plan.	☐ Full ☒ Short ☐ None
Affordability	☐ Significant ☐ Not significant ☒ Uncertain	To ensure both project sustainability and affordability by all stakeholders, an affordability analysis will be conducted as part of the socioeconomic survey. The ensuing Project will take into account affordability, operational improvements, and capacity building for efficient administration and management of schemes in both urban centers and rural areas.	☐ Yes ☐ No

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Labor	☐ Significant ☒ Not significant ☐ None	No significant labor implications are expected. Employment opportunities will be examined and recommendations will be made for employment generation in relation to service delivery under improved working conditions.	☐ Yes ☒ No
Indigenous Peoples	☐ Significant ☒ Not significant ☐ None	The ensuing Project is not expected to have an impact on indigenous peoples. Nevertheless, participation by minorities will be sought and closely monitored. A plan will be prepared under the TA if indigenous peoples are identified as an emerging issue. The ensuing Project would cover mixed areas containing members of Muslim, Tamil, Christian, and Sinhalese communities. In urban areas, the integration of various groups is such that economic and social activities undertaken by smaller groups are not necessarily distinct from activities undertaken by larger groups; however, care will be taken during project design to ensure that no discrimination or increased vulnerability results as a consequence of development activities.	☐ Yes ☒ No
Other Risks and/or Vulnerabilities	☐ Significant ☐ Not significant ☒ None	No other risks or vulnerabilities are foreseen. If any are identified during TA implementation, appropriate action will be taken.	☐ Yes ☒ No

COST ESTIMATES AND STAFFING SCHEDULE

Table A3.1: Cost Estimates and Financing Plan

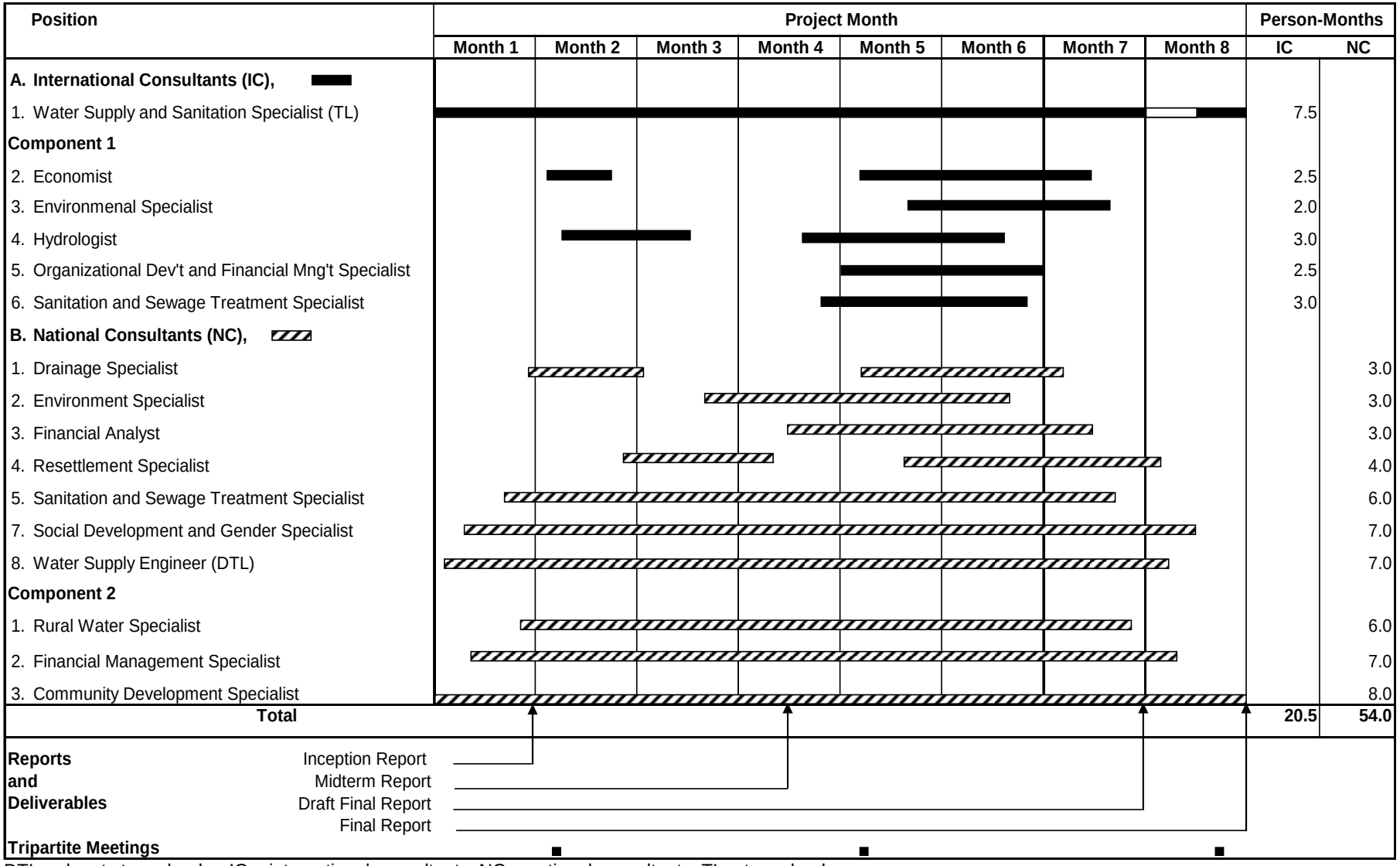
($'000)

Item	Component 1[a]	Component 2[b]	Total Cost
A. Asian Development Bank Financing			
1. Consultants[c]			
a. Remuneration and Per Diem			
i. International Consultants	369.0	0.0	369.0
ii. National Consultants	115.0	73.5	188.5
b. International and Local Travel	40.0	13.5	53.5
c. Reports and Communications	5.0	6.0	11.0
2. Equipment[d]	10.0	0.0	10.0
3. Training, Seminars, and Conferences	0.0	0.0	0.0
a. Workshops and Consultations	20.0	8.0	28.0
b. Training Program	0.0	8.0	8.0
4. Studies and Surveys[e]	105.0	0.0	105.0
5. Office and Administrative Services[f]	15.0	2.0	17.0
6. Representative for Contract Negotiations	4.0	0.0	4.0
7. Contingencies	67.0	9.0	76.0
Subtotal (A)	**750.0**	**120.0**	**870.0**
B. Government Financing			
1. Office Accommodation	40.0	5.0	45.0
2. Remuneration, Per Diem, and Transport of Counterpart Staff	45.0	10.0	55.0
3. Workshop Venues	45.0	5.0	50.0
4. Taxes and Duties	120.0	20.0	140.0
Subtotal (B)	**250.0**	**40.0**	**290.0**
Total	**1,000.0**	**160.0**	**1,160.0**

[a] Financed by the Japan Special Fund, funded by the Government of Japan.
[b] Financed by the Cooperation Fund for the Water Sector.
[c] Specific consulting inputs are provided in the indicative staffing schedule for consultants in Table A3.2.
[d] Office equipment (one laser printer and one photocopier) will be purchased by the consultant in accordance with *ADB's Procurement Guidelines* . The equipment will be handed over to the Government on completion of the technical assistance.
[e] Eligible surveys include (i) socioeconomic surveys, (ii) hydrological investigations and tube well testing, (iii) water quality testing, (iv) engineering mapping and water baseline surveys, and (v) satellite imagery of sufficient resolution to support infrastructure planning and design.
[f] Including the services of a full-time office manager.

Source: Asian Development Bank estimates.

Table A3.2: Indicative Staffing Schedule for Consultants



DTL = deputy team leader; IC = international consultants; NC = national consultants; TL = team leader.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance (TA) will be implemented over 8 months and will consist of 2 components. The components will complement and inform each other. Component 1 will be divided into 2 phases. Indicative assignments for different competencies are presented in table A.3.2. Consultants may be based in Anuradhapura or other location to be jointly agreed. Full Terms of Reference are in Supplementary Appendix B.

A. Component 1: Preparing a Feasibility Study for Water Supply and Sanitation

1. Phase I: Sector Review and Data Collection (1–2 months)

2. **Shortfalls, Constraints, and Lessons.** The team will review and analyze existing studies, reports, urban data, and related information, including lessons from past water supply and sanitation and urban development projects in Sri Lanka. The team will also review the experience of projects assisted by the Asian Development Bank (ADB) and other agencies, nongovernment organizations (NGOs), and community-based organizations (CBOs). To do this accurately, the team will conduct a preliminary evaluation study of around 15 to 20 small schemes (including both rural and urban centers) executed by ADB in selected or adjacent provinces. The team will share lessons with central and provincial governments and local authorities, as well as with representatives of citizen groups.

3. **Data Collection on Infrastructure and Service Delivery.** The team will undertake the following tasks:

(i) Assess the total financial envelope available for the sector, including resources in central and provincial government and donor pipelines.
(ii) Collect and assess community data on general affordability and willingness to pay for water supply and sanitation.
(iii) Describe, map, and quantify the condition of basic amenities and services in urban and rural areas, highlighting needs and deficiencies in the water supply, sanitation, sewerage and sewage treatment, and drainage subsectors.[1]
(iv) Discuss managerial and administrative arrangements in existing urban and rural schemes.
(v) Examine the current environmental situation and the severity of potential health problems caused by a lack of access to basic infrastructure.
(vi) Conduct an inventory of, and critically review, all relevant initiatives for infrastructure development, studies, plans and programs, and public and private sector proposals.
(vii) Describe existing relevant operation and maintenance (O&M) procedures, tariffs, and status of billing and collection for the selected subsectors. The consultant will also conduct a capacity assessment for local authorities in the proposed project area and seek ways to identify areas of responsibility under the project preparatory TA (and potentially ensuing Project) for provincial councils and local authorities.

2. Phase II: Detailed Feasibility Study (5–6 months)

4. **Project Design.** The consultant will prepare a preliminary engineering design for all four project towns and three sample subprojects in rural areas[2] and will undertake detailed

[1] Specific reference will be made to problems affecting existing distribution systems, leaks, water pressure, water frequency, materials used, and system adequacy and efficiency.
[2] This component will take full coverage and equitable distribution into account.

subproject preparation activities, including an analysis of suitable technical options acceptable to communities.[3] Bearing integrated water resource management principles in mind, the consultant will undertake the following:

(i) Screen all viable technical options and complete the technical design for selected least-cost water supply and sanitation, sewerage, wastewater treatment, and drainage options in consultation with stakeholders and local communities.[4]

(ii) Conduct a physical reconnaissance of underground and surface water supplies, including (a) testing and basic modeling of water table replenishment to determine scheme sustainability, (b) assessing surface water resources suitable for water extraction (this should include a historical evaluation of the source and of flow fluctuations throughout the year, an analysis of any existing upstream and downstream uses, and a hydrological model to determine maximum extractable water), and (c) analyzing water quality for proposed options in each town and sample rural subprojects.[5]

(iii) Discuss the technical viability of the various proposed options for each project subcomponent and demonstrate that they are the least-cost option under a combined system approach.

(iv) Develop a catchment program for improved water quality in consultation with representatives from provincial irrigation departments containing (a) guidelines for implementing source protection measures; and (b) a specific action plan for implementation in all towns under the Project, including community awareness.

(v) Prepare an integrated and comprehensive program for reducing nonrevenue[6] water, taking into consideration capacity for local and national implementation.

(vi) Assess the impact of wastewater collection and treatment on the water quality of receiving watercourses before and after project construction.

(vii) Assess the adequacy of on-site and off-site wastewater treatment options to accommodate incremental amounts of wastewater.

(viii) Review current approaches and develop an outline strategy for proposed hygiene education and water and environmental monitoring systems.

(ix) Review existing O&M options and, if necessary, prepare a revised strategy for community implementation of rural schemes, including technical procedures to ensure efficiency and sustainability and proper financial, accounting, and managerial arrangements for O&M.

(x) Review and/or define design criteria and standards.

(xi) Outline designs; arrangements for construction staging, implementation, and tendering; major civil works schedules; staffing requirements; and methods for selecting appropriate equipment, including maintenance and inspection of subcomponents.

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[3] The modality of the ensuing investment is expected to be a Project with a rural sector-like component.

[4] The selected least-cost options should also be environmentally and socially acceptable.

[5] Tests will include assessing levels of fluoride, iron, and manganese and the extent of salinity, bacteriological contamination, blue-green algae, and so on, as deemed necessary. The results will be compared with national quality standards and World Health Organization standards for drinking water and appropriate treatment to comply with the standards will be recommended. In particular, the origin of contamination will differentiate between source and distribution, as this might result from intermittent supply.

[6] Overall, factors that have contributed to the practice of discontinuous supply include (i) rapid growth in population and water demand (and in some areas, particularly in the dry zone, shortage of water); (ii) inadequate water charges (and in some instances collection mechanisms) leading to insufficient revenues to repair, maintain and replace infrastructure; (iii) intermittent and poor quality electricity supply; (iv) inadequate human resource development, including training in modern utility operations; and (v) inadequate and/or slow demand responsiveness and customer-orientation. Some of these factors being specifically suffered by local-authority and smaller schemes.

(xii) Identify requirements for key advance actions to avoid implementation delays.
(xiii) Develop project monitoring and evaluation arrangements for the executing and implementing agencies in accordance with ADB's requirements for project performance management systems, ensuring that the beneficiaries also undertake monitoring and evaluation is also undertaken by the beneficiaries.
(xiv) In consultation with stakeholders, develop a design and monitoring framework. Estimate requirements for adequate project implementation in relation to engineering, planning, project management, and other essential disciplines. Based on an evaluation of staff and available skills, recommend additional recruitment and/or upgrading of expertise.

6. **Project Costs.** The consultants will use COSTAB or another suitable program and/or method to undertake the following tasks:

(i) Estimate project costs at market rates.
(ii) Summarize the project costs estimated for land, civil works, equipment, materials, resettlement (if any), environmental monitoring and mitigation, consulting services, taxes and duties, project management and capacity building, and interest and other charges during construction.
(iii) Present procurement contract packages, clearly indicating the packages to be financed in line with ADB's *Procurement Guidelines*.
(iv) Prepare detailed financing and disbursement plans.

7. **Financial and Economic Analyses.** The consultants will conduct project economic and financial analyses in accordance with ADB's requirements.[7] To this end, they will undertake the following activities:

(i) Describe the macroeconomic and sector context.
(ii) Update water demand and wastewater discharge data and calculate projections for various end user groups, e.g., groups using treated effluent for irrigation.
(iii) Assess project alternatives and confirm least-cost solutions.
(iv) Review cost-recovery policies and tariffs at and national level and current arrangements in each town.
(v) Propose cost-recovery mechanisms (including necessary institutional arrangements) through user charges, taxes, and/or other techniques for O&M and recovery of initial investments,[8] and a tariff structure for each subproject for medium and long-term recovery, taking affordability, willingness to pay, water conservancy, cross-subsidization, and full cost-recovery requirements into account.
(vi) Estimate the detailed economic project costs for selected options, applying appropriate disaggregations of costs, standard conversion factors, and shadow prices as required.

[7] ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila; ADB. 1998. *Guidelines for Economic Analysis of Water Supply Projects*. Manila; ADB. 2002. *Economic Analysis in 2002: A Retrospective*. Manila; ADB. 2004. *Economic Analysis Retrospective 2003 Update*. Manila; ADB. 2002. *Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank. Manila*. The consultants will be informed by ADB. 2003. *ERD Technical Note Series No. 9. Setting User Charges for Public Services: Policies and Practices at the Asian Development Bank*. Manila; ADB. ADB. 2004. *ERD Technical Note Series No. 10. Beyond Cost Recovery: Setting User Charges for Financial, Economic and Social Goals. Manila; ADB.*
ADB's Economics Research Department *Technical Notes* 9, 10 and 17.

[8] The various financial scenarios to be presented should include different combinations of (i) O&M (at the very least), (ii) debt service, (iii) depreciation, (iv) replacement of essential parts, (v) initial investment, etc.

(vii) Identify all quantifiable and unquantifiable project economic benefits, considering with and without Project scenarios, as well as incremental and nonincremental benefits.
(viii) Review the financial performance of selected towns.
(ix) Prepare financial projections for operations 10 years after project completion.
(x) Compute relevant financial indicators for each town to assess financial viability.
(xi) Assess the Project's financial viability.
(xii) Estimate economic and financial internal rates of return and perform sensitivity analyses,[9] including switching values and calculation of the real weighted average cost of capital.
(xiii) Calculate the poverty impact ratio and conduct a distribution analysis.
(xiv) Review and update the existing financial management assessment for the National Water Supply and Drainage Board (NWSDB) and its local project offices, including a review of tariff methodology and proposed performance improvement recommendations.
(xv) Review the financial management performance of urban and municipal councils to be included under the Project.
(xvi) Review existing tariff projections for NWSDB nationwide and determine their suitability for this Project.
(xvii) Evaluate the adequacy of tariff methodology and tariff objectives and recommend improvements.

8. **Organizational and Institutional Assessment**. The consultant will undertake the following actions:

(i) Review the status of approval and implementation of sector policies and regulations, particularly those regarding the Public Utilities Commission.
(ii) Review the organizational composition of NWSDB, the level of responsibility and accountability of different units, existing funding mechanisms, and means for enhancing efficiency.
(iii) Review the status of implementation of corporate and business plans, monitoring mechanisms, methods employed to achieve targets, and linkages to the performance improvement program.
(iv) Analyze provincial and district structures (including district-level rural support units), staffing roles and capabilities, budgets, finance resource bases, cost-recovery mechanisms for urban infrastructure and services, revenue collection performance, accounting systems, internal control mechanisms, and procurement procedures.
(v) Assess the strengths and weaknesses of the accounting system and, together with the Finance Division, develop recommendations and a time-bound action plan for improvement.
(vi) Review the asset management structure and level of valuation and develop an asset management plan for NWSDB.[10]
(vii) Recommend any other operational performance measures deemed necessary.
(viii) Assess and evaluate the presence, capability, and potential role of NGOs in Project areas.

[9] Risks, such as project delays, will be considered in the sensitivity analysis.
[10] Aspects to be considered include a review of methodology and implementation of asset registration and valuation, asset transfer, asset maintenance, etc.

9. **Institutional Strengthening and Capacity Development.** To ensure the sustainability of the investments under the Project, the consultant will carry out the following tasks:

(i) Develop a carefully designed capacity-building program for NWSDB's local offices, local authorities, and CBOs, especially in relation to collecting, updating, organizing, and managing financial information for routine work.

(ii) Develop an institutional strengthening program for urban entities to operate the schemes based on the local authority assessment conducted in phase I.

(iii) Review existing manuals and guidelines and revise, where necessary, the existing capacity-building program for communities to manage, operate, and maintain proposed facilities, including, where relevant, community introduction, collection and administration of user charges. Capacity-building activities will also address groundwater protection and conservation, environmental and hygiene education, and awareness programs and campaigns.

10. **Poverty and Social Assessment.** By means of a socioeconomic survey and other tools, and in accordance with ADB's *Guidelines for Incorporation of Social Dimensions in ADB Operations*,[11] the consultant will assess the Project's social impact by undertaking the following tasks:

(i) Review existing poverty per capita data, access to basic services by the poor, and the acuteness of health problems in (a) selected urban centers, and (b) selected districts where rural interventions are to be supported.[12]

(ii) Review the Government's national development strategy.

(iii) Conduct a detailed poverty and social analysis for project areas, segregating data for urban and rural centers, guided by ADB's *Handbook on Poverty and Social Analysis.* [13] Specific activities will include (a) conducting a full socioeconomic survey[14] of project beneficiaries by gender and income group; (b) estimating the number of project beneficiaries with incomes below the official poverty line; (c) conducting an affordability analysis; (d) identifying vulnerable groups, including any minorities; (e) evaluating social and economic benefits; (f) identifying project impacts and recommending mitigation measures; (g) collecting and analyzing health data, including morbidity and mortality rates caused by waterborne diseases; (h) analyzing and evaluating social networks; and (i) preparing a poverty reduction and social development strategy.

(iv) Based on ADB's *Policy on Gender and Development*[15] and assisted by ADB's *Gender Checklist for Water Supply and Sanitation* and *Gender Checklist on Urban Development Projects*, the consultant will do the following: (a) conduct a gender analysis and identify the potential for participation by women in project design, implementation, O&M, and training; (b) assess local gender-related constraints and opportunities for development; (c) formulate a gender action plan for the ensuing Project.

[11] ADB. 2003. *Guidelines for Incorporation of Social Dimensions in Bank Operations*. Manila

[12] The preliminary list of urban centers to be covered under this TA include Mannar and Vavuniya in the North-East Province and Chilaw and Puttalam in the North West Province. Districts where support for rural assistance is to be evaluated and designed include Mannar, Puthalam, and Vavuniya. In Anuradhapura and Polonnaruwa, remote villages will be prioritized. Coverage will be confirmed at inception.

[13] ADB. 2001. *Handbook on Poverty and Social Analysis*. Manila

[14] The use of qualified NGOs to assist with and conduct surveying and poverty mapping may be considered.

[15] ADB. 2003. *Policy on Gender and Development.* Manila; ADB.

11. The consultants will also undertake the following actions:

(i) Develop a participatory framework for community participation in the identification, planning, and design of the Project in urban and rural areas.

(ii) Review NWSDB's guidelines and manuals dealing with (a) selection of partner organizations, (b) social mobilization and community participatory planning processes, (c) socioeconomic surveys, (d) environmental conservation plans and hygiene and sanitation, (e) participatory rural appraisals, and (f) cost sharing and update as necessary;

(iii) Prepare a strategy for community mobilization and/or community organization for implementation under the resulting Project. Review previous approaches to community organization for urban and rural participation in Sri Lanka and detail project activities to organize communities for O&M of water utilities and sanitation facilities.

(v) Assess needs and distribution and capabilities of local NGOs in selected subsectors in towns and rural areas.

12. **Social Safeguards.** The consultants will ascertain the number of minorities and vulnerable people and their socioeconomic status and assess the specific anticipated impact that the Project will have on them using, among other documents, the checklist for categorization of indigenous people and will, if necessary, develop indigenous people development plans according to ADB's policy on indigenous people.

13. At an early stage of TA implementation, the consultant will apply ADB's resettlement checklists to identify resettlement issues and ascertain the nature and extent of the Project's impacts on affected households. Based on the assessment, the consultants will determine whether any of the water and sanitation infrastructure will have involuntary resettlement impacts and, if this is the case, in accordance with ADB's involuntary resettlement policy and *Operations Manual* on involuntary resettlement, prepare a resettlement plan based on subproject design in each town, including

(i) reviewing and assessing key national policies, laws, and guidelines regarding land acquisition and compensation;

(ii) identifying and enumerating people likely to be affected through a survey and/or census and preparing an asset inventory that identifies all types of losses;

(iii) ascertaining preferential relocation areas, compensation, and livelihood restoration through consultation with those who might be affected;

(iv) establishing an entitlement cutoff date and estimating the requirements for financial resources, comparing these with available resources;

(v) providing options for relocating housing and other structures, including transfer to established new sites, options for livelihood restoration, and mechanisms for addressing grievances;

(vi) defining institutional responsibilities for approving, implementing, managing, financing, and monitoring the resettlement plan along with implementation schedules, capacity building, financial plans and budgets, and a plan for internal and external monitoring and evaluation of the resettlement plan.

14. The consultants will use ADB's *Handbook on Resettlement*[16] as a guide in resettlement planning. For the rural component, which is envisaged may be a sector-like component, the consultant will prepare a resettlement framework that shall be consistent with the urban resettlement plan or plans.

[16] 1998. ADB. *Handbook on Resettlement: A Guide to Good Practice*. Manila

15. **Environmental Assessment.** The consultants will undertake the following tasks:

(i) Prepare an initial environmental examination and summary or an environmental impact assessment and summary[17] and an associated environmental monitoring plan covering each of the project towns and subcomponents, as well as simplified initial environmental examinations for three rural sample subprojects. This will be conducted in accordance with ADB's *Environment Policy* and ADB's *Environmental Guidelines*,[18] as well as Sri Lanka's National Environmental Act and other environmental protection regulations.

(ii) Assess the positive and negative environmental impacts of proposed urban social infrastructure and services related to their location, design, construction, and O&M.

(iii) Propose mitigation measures and develop a full environmental monitoring plan.

(iv) Conduct consultations in line with ADB requirements.

(v) Formulate environmental management plans for environmentally sensitive subcomponents.

(vi) Prepare an environmental assessment and review procedure framework for the rural component of the Project.

17. **Consultations and Consensus Building**. To ensure community participation from the planning and design stages and enhanced ownership, the consultants will carry out public consultations in selected towns and rural areas. They will conduct stakeholder workshops at the national, provincial, district, and town levels throughout the various stages of the Project. See Supplementary Appendix B for proposed approach to consensus building.

B. Component 2: Developing Institutional Support for Sustainable Water Supply Community-Based Management

20. NWSDB's Rural Water Supply Unit has initiated a program of activities that will allow CBOs to access (i) technical assistance, and (ii) credit sources for essential O&M and rehabilitation of rural schemes developed under this Project or other projects. The support provided under this component will allow piloting of the program and replication under the Project potentially ensuing from this project preparatory TA.

21. **Introducing By-Laws Relating to the Management of Rural Water Supply CBOs.** The lack of recognition of CBOs within Sri Lanka's legal framework was identified as one of the problems for effective community management of water supply and sanitation facilities. Based on studies prepared with United Nations Development Programme assistance under the National Water Supply and Sanitation Sector Facilitation Programme, by-laws for *pradesiya sabhas* and local authorities[19] were formulated to enable CBOs to operate as service providers. In conformity with the 2001 national policy for rural water supply and sanitation and pertinent manuals, NWSDB has prepared draft by-laws and resolutions relating to the management of rural water supply by CBOs. Such by-laws empower CBOs to create, carry out, maintain, and control small semi-urban and rural water supply schemes and widen their opportunities for

[17] The need for an environmental impact assessment will be particularly relevant if water is to be sourced from an environmentally protected or sensitive area, as may be the case in Mannar if water is to be extracted from the Giant's Tank.

[18] ADB. 2002. *Environment Policy*. Manila; ADB. 2003. *Environmental Assessment Guidelines*. Manila.

[19] It is proposed for this to be framed in terms of provisions made in the Local Authorities (Standard By-Laws) Act No. 6 of 152 and Pradesiya Sabha Act No. 15 of 187.

access to funding capital for new facilities. Unfortunately, to date only one provincial council has adopted such by-laws.[20] The consultant will undertake the following tasks:

(i) Review by-laws of concern and associated legal documentation.
(ii) Support NWSDB in organizing and conducting workshop sessions with each of the remaining provincial councils.
(iii) Facilitate dialogue with provincial councils and local authorities and address their concerns.
(iv) Prepare educational materials outlining major advantages and implications of by-laws and ensure their distribution.

23. **Operationalizing the Water Supply Development Fund for CBOs**. The long-term sustainability and successful introduction of water and sanitation schemes implies access to financing in case of emergency rehabilitation, expansion, and development. While schemes have been handed over to CBOs for O&M and general management, and CBOs also engage in fee collection, the Government retains ownership of the assets. CBOs have restricted access to financing sources and their lack of collateral limits their access to banking facilities. NWSDB, in coordination with the Rural Water Supply and Sanitation Division of the Ministry of Urban Development and Water Supply, has completed the preliminary design of the Water Supply Development Fund for CBOs and piloted the creation of the Community-Based Organizations Credit Trust Board, a fund proposed to be managed by Sri Lanka's provincial councils, in the North Central Province. Given these circumstances, the consultant will provide support to NWSDB by

(i) reviewing the status of implementation of the Water Development Fund for CBOs in the North Central Province and provide recommendations;
(ii) preparing educational materials on the subject and user-friendly manuals and instructions for CBOs;
(iii) translating documents into Sinhalese and Tamil;
(iv) conducting training and explanatory sessions with all provincial councils and selected local authorities and/or *pradesiya sabha* representatives, CBO districts, and CBOs in those councils agreeing to adopt the funds.

25. **Institutionalizing Financial Management and Accounting for Small Scheme Operators**. Major findings resulting from one of ADB's regional technical assistances[21] indicate difficulties encountered by a significant number of CBOs in relation to financial management and accounting. To address this, the consultant will engage in the following activities:

(i) Review experience from ongoing projects and material developed under previous assistance.
(ii) Develop simple and efficient budgeting methods for CBOs and associated training materials.
(iii) Develop simple accounting and auditing methods and mechanisms for CBOs and associated training materials.
(iv) Conduct training in at least 10 districts, with a focus on training district-level support units and (in the presence of district-level officers) *pradesiya sabha* and CBO representatives.

[20] As part of the legal requirements necessary to effect the By-laws, approval from the Provincial Minister in charge if Local Government must be obtained and published in *The Gazette*, as should be associated a Pradesiya Sabha resolution.

[21] ADB. 2004. Technical Assistance for *Pilot Testing Participatory Assessment Methodologies for Sustainable and Equitable Water Supply and Sanitation Services*. Manila (RETA 6224).