

## SUMMARY OF PROJECT PERFORMANCE

### A. Background

1. On 10 November 2010, the Asian Development Bank (ADB) approved a loan of \$90 million equivalent from the ADB's Asian Development Fund (\$70 million) and ordinary capital resources (\$20 million) for the Jaffna and Kilinochchi Water Supply and Sanitation Project (the current project). It became effective in May 2011. The Agence Française de Développement (AFD) provided cofinancing of €35 million (approximately \$45 million in 2011) to the current project. The Government of Sri Lanka also financed \$34 million equivalent for the current project. The expected overall impact of the current project was improved health and human development in urban areas of the Jaffna Peninsula. The loan closing date was planned to be 14 August 2017.

2. The current project has four outputs:

- (i) **Outputs 1 and 2: Improved water supply and sanitation infrastructure.** Improvements to water supply infrastructure include the following: (i) rehabilitating and improving headworks at Iranamadu Tank; (ii) constructing a water intake in Iranamadu Tank, a raw-water supply system, a water treatment plant, and a treated water pumping station; (iii) laying treated water transmission mains to Jaffna;<sup>1</sup> and (iv) providing water connections to urban councils and towns on the road to Jaffna. The current project would also (i) build new water distribution systems in the Jaffna Peninsula, (ii) install bulk/system water meters, (iii) institute a leak detection program for the existing distribution network, and (iv) provide spare parts and maintenance equipment. Improvements to sanitation infrastructure include the following: (i) building a sewage collection system in Jaffna town, (ii) building a sewage treatment plant, (iii) building an effluent sea outfall, and (iv) providing maintenance equipment.
- (ii) **Output 3: Strengthened Jaffna water resource management.** This output includes the following: (i) assist the Jaffna Water Resources Management Committee in designing a policy and institutional framework for integrated water resources management by financing a study to develop a water resources management plan; (ii) support the National Water Supply and Drainage Board (NWSDB), the Water Resources Board, and other institutions in developing a groundwater quality and quantity monitoring system; (iii) support municipalities, urban councils, and *pradeshiya sabhas* in monitoring and managing groundwater resources by helping them design effective bylaws, rules, and regulations; and (iv) conduct public water conservation, environmental protection, and hygiene awareness campaigns, and a program for community monitoring.
- (iii) **Output 4: Building capacity of the National Water Supply and Drainage Board to carry out project implementation and build regional office in Jaffna:** This output includes the following: (i) support the NWSDB to build a regional office in Jaffna, and (ii) provide capacity and administrative support for the NWSDB Jaffna regional office to carry out project implementation.

### B. Performance of the Project

3. The current project suffered significant start-up setbacks resulting in implementation delays and cost overruns. The current project was hampered by local farmers' objection against

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<sup>1</sup> The government requested AFD to fund item (ii) and part of item (iii) as well as associated consulting services for design and supervision.

the use of Iranamadu Tank's water for drinking water purposes, despite a consensus reached on water sharing at the loan appraisal stage.<sup>2</sup> Heightened security concerns during the conflict period before 2009 restricted project due diligence, resulting in cost underestimation. Therefore, the raw water intake and treatment component to be cofinanced by the AFD had to be canceled. The ADB-financed part is guided by experienced staff at the central and project levels, supported by management and implementation consultants.

4. **Delivery of expected outputs.** The project is expected to meet or exceed the target outputs as stipulated in the design and monitoring framework (Table 1).

**Table 1: Achievements against Output Targets**

Performance Targets and Indicators	Achievements
<b>Output 1: Improved water supply infrastructure</b>	
Construction of one water treatment plant and production of 35,000 m <sup>3</sup> per day potable water	Canceled
Installation of 584 km of water mains	51 km of pipe laid
60,000 new water connections	Not yet commenced
At least 33% representation of women in committees established for community water supply and sanitation programs	Women's representation is 55%
<b>Output 2: Improved sanitation infrastructure</b>	
Construction of one sewage treatment plant of 12,500 m <sup>3</sup> per day capacity	Canceled
Installation of 331 km of sewer mains and networks, with 20,000 households connected to the sewer network	Canceled
Households with access to properly maintained on-site sanitation	Canceled
Pro-poor sanitation infrastructure is built (target: 35% are war widows and households headed by women)	Canceled
Communal sanitary facilities built for both men and women	Canceled
<b>Output 3: Strengthened Jaffna water resource management</b>	
Training of NWSDB and Water Resources Board staff for capacity building (target: 50% women participation)	50% women participation achieved
Monitoring and data systems for groundwater institutionalized	Water resource management committee established; monitoring and data systems for groundwater developed but not yet institutionalized
Monitored bacteriological groundwater pollution reduced by 25% in Jaffna city	Not commenced yet
Water conservation, environmental, and hygiene awareness-raising activities conducted	Activity implementation commenced
Public communication documents published and disseminated to target audience	Achieved
<b>Output 4: Building capacity of the NWSDB to carry out project implementation and build regional office in Jaffna</b>	
Capacity building training of NWSDB Jaffna regional office	102 training programs conducted

km = kilometer, m<sup>3</sup> = cubic meter, NWSDB = National Water Supply and Drainage Board.

Source: ADB.

5. **Outputs 1 and 2: Improved water supply and sanitation infrastructure.** Of the 13 major (i.e., over \$1 million) civil works contracts, 11 contracts have been awarded and 1 contract completed. Of the 10 ongoing awarded contracts, 2 contracts were awarded in June 2016 and are planned to be completed by December 2018, while the other 8 contracts are progressing satisfactorily and are planned to be completed by December 2017. The remaining two contracts

<sup>2</sup> A memorandum of understanding was signed in 2007 between the NWSDB and the Ministry of Agriculture and Irrigation of the North East Provincial Council to share irrigation water for farmers with Jaffna district.

will be awarded in 2017. Detailed design of the Jaffna sewerage system has been substantially completed and implementation of this component has been removed from the project scope.

6. **Output 3: Strengthening Jaffna water resource management.** The Water Resource Management Committee (WRMC) was established in April 2011 under the current project. The NWSDB, Water Resources Board, Provincial Irrigation Department and other relevant government agencies in Jaffna are members of the WRMC, which is developing a water resource management plan for the Jaffna Peninsula. The WRMC helps to monitor and manage groundwater resources by helping local government agencies formulate effective laws, rules, and regulations. The WRMC conducts awareness campaigns on water conservation, environmental protection, and hygiene awareness.

7. **Output 4: Building Capacity of the National Water Supply and Drainage Board to carry out project implementation and build regional office in Jaffna.** Under the current project, (i) capacity development and administrative support was provided for the NWSDB Jaffna regional office and project staff to help carry out project implementation; (ii) a new NWSDB regional office and staff quarters were constructed in Jaffna; (iii) computerization, accounting, and data recording systems were introduced for the NWSDB regional office; and (iv) 815 NWSDB regional office staff participated in 102 training programs on the use of accounting and financial management, administration, and water supply technology. Training and capacity programs will continue to be conducted based on emerging training needs.

8. **Satisfactory implementation progress.** Project implementation is behind schedule and was not completed by the loan closing date of 14 August 2017.<sup>3</sup> As of 15 October 2017, of the \$81.5 million equivalent loan amount, cumulative contract awards equaled \$62.0 million (75%), and disbursements \$35.4 million (43%). The uncommitted balance consists of \$2.0 million and the balance of \$18.9 million of the loan is committed for (i) water distribution package 2 (mechanical and electronic package), (ii) fisherman's community development, and (iii) consultancy work variations. The loan had achieved physical progress of 60% against an elapsed period of 100% as of the end of September 2017. The ADB-financed overhead water tanks have been constructed and the 51 kilometers of water mains have been laid. The headworks at Iranamadu Tank were completed, which has helped increase water storage in Iranamadu Tank from 131.4 million cubic meters to 148 million cubic meters. The financial progress is detailed in tables 2, 3, and 4.

**Table 2: Contract Award and Disbursement of Loan 2710-SRI by Category  
(as of 15 October 2017) (\$)**

Category	Allocation*	Contracts	Total Disbursement	Balance to be Disbursed
Works	12,031,000	3,328,731	2,098,858	9,932,142
Equipment	4,425,000	167,152	167,152	4,257,848
Road reinstatement	708,000	0	0	708,000
Interest and financial charge	808,000	0	278,769	570,481
Unallocated	2,028,000	0	0	2,028,000
Imprest	0	0	1,421,200	(1,421,200)
	<b>20,000,000</b>	<b>3,486,684</b>	<b>3,965,980</b>	<b>16,034,020</b>

( ) = negative.

Source: Loan and Grant Financial Information System.

<sup>3</sup> The current project is financing the water supply networks and the additional financing will finance the desalinization plant. Construction needs to be synchronized to ensure that the pipes are not constructed ahead of the plant.

**Table 3: Contract Award and Disbursement of Loan 2711-SRI by Category**  
(as of 15 October 2017)  
(\$)

Category	Allocation	Contracts	Total Disbursement	Balance to be Disbursed
Works	45,358,698	50,627,277	22,722,125	22,636,573
Equipment	186,958	248,810	113,535	73,423
Road reinstatement	7,162,981	0	0	7,162,981
Consultants	3,002,409	5,524,961	3,706,926	(704,517)
Project administration and implementation	800,353	2,213,309	1,233,298	(432,945)
Interest and financial charge	1,164,305	0	412,207	752,098
Unallocated	4,905,008	0	0	4,905,008
Imprest: water	133,556	0	2,277,400	(2,143,844)
Imprest: irrigation	7,675	0	1,000,000	(992,325)
	<b>62,721,941</b>	<b>58,614,358</b>	<b>31,465,491</b>	<b>31,256,450</b>

( ) = negative.

Source: Loan and Grant Financial Information System.

**Table 4: Yearly Disbursement of Asian Development Bank Loans (as of 15 October 2017)**  
(\$ million)

Status	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Disbursed	3.717	1.728	1.830	3.339	4.171	11.343	9.3			
To be disbursed							0.5	11.000	13.000	21.572

Note: Projections are based on net amount (as of 15 October 2017) of \$81.5 million.

Source: ADB.

9. **Satisfactory compliance with safeguard policy requirements.** The project is classified category B for environment and resettlement, and category C for indigenous peoples. Initial environmental examinations for the water supply and irrigation components of the project have been completed. Except for the canceled part, the project has satisfactorily complied with safeguard policy requirements. The project has not had any major safeguard issues and has complied with all safeguard requirements. No major environmental impacts have been recorded and the net environmental benefits are positive. There are no cases of involuntary resettlement in any of the subprojects, and all the land required for the subproject activities is owned by the local governments. A project grievance redress mechanism has already been established and is functioning. A total of two grievance cases were reported, both of which were satisfactorily resolved within 5 days. The project management unit submits regular safeguard monitoring reports that are reviewed and disclosed in accordance with ADB's Safeguard Policy Statement (2009).

10. **Successful management of risks.** The significant risks identified for the project were as follows (with the management of each risk in parentheses): (i) there is a lack of capacity in service delivery (the water service has not yet been delivered); (ii) economic growth cannot be easily projected (economic growth is on the right track); (iii) water demand grows at a slower or more rapid pace than planned (it is difficult to predict water demand growth before the water supply is in place); (iv) essential water tariff revisions are not undertaken (water tariff revisions proposed by the NWSDB are awaiting government approval); (v) sewerage tariffs do not cover operation and maintenance (the sewerage component has been canceled); (vi) there is no cash flow for

operation and maintenance of new systems (cash flow is currently unknown); (vii) funding for irrigation support is not secured (funding for the irrigation tank was planned at \$10.6 million, with a final investment of around \$15 million); (viii) there are delays in obtaining access of the road for construction (currently unknown); and (ix) other water users or polluters emerge who are not under the influence of the NWSDB (this has not yet occurred). However, the raw water availability from Iranamadu Tank was not identified as a risk. The unavailability of the water resource delayed project implementation.

11. **On track rating.** Based on ADB's performance rating system, the project financed by ADB is rated on track.

12. **Restructuring of the current project.** The current project needs restructuring primarily to reflect the change of water source from Iranamadu Tank to a desalination plant, and to strengthen the water supply component. The following changes are proposed: (i) inclusion of a desalination plant using a design–build–operate contract, (ii) cancellation of the water treatment plant and bulk water transportation from Iranamadu Tank originally cofinanced by the Agence Française de Développement (AFD), (iii) exclusion of the sewerage component,<sup>4</sup> (iv) inclusion of the household water connections, and (v) inclusion of water resource management and outreach activities. Based on the revised cost estimates and the cancellation of the AFD cofinancing, the government has requested additional financing of \$120 million from ADB to meet the change in project scope and cost overruns.<sup>5</sup> The closing date of the current loan needs to be extended by 40 months from 14 August 2017 to 31 December 2020 to complete the revised project scope through the current project and the proposed additional financing (footnote 3).

13. **Scope of additional financing.** Additional financing is required after restructuring of the current project. It will be used to (i) finance the shortfall under the current project, (ii) support additional components of the desalination plant and related works, and (iii) support the additional activities of the water resource management plan and capacity building.

## C. Conclusion

14. The overall project remains strategically important to improve basic water service in the post-conflict area. It meets eligibility criteria for additional financing as it is (i) technically feasible, economically viable, and financially sound; (ii) accorded high priority by the government; (iii) consistent with the project's development objectives; and (iv) consistent with the country partnership strategy, 2012–2016 for Sri Lanka; and ADB's Water Operational Plan, 2011–2020.<sup>6</sup> The project has a high degree of project readiness and safeguard compliance, which are priority criteria for additional financing. The government, NWSDB, and ADB remain strongly committed to ensuring that the project achieves its intended outcome. Additional financing is needed to meet the change in project scope and cost overruns to achieve the outcome of the current project.

<sup>4</sup> The government is discussing with the AFD the possibility of funding sewage management through a separate arrangement. The technical assistance under the additional financing will support development of sanitation plans including septage management.

<sup>5</sup> The additional financing was included in ADB. 2014. *Country Operations Business Plan: Sri Lanka, 2015–2017*. Manila.

<sup>6</sup> ADB. 2011. *Country Partnership Strategy: Sri Lanka, 2012–2016*. Manila; and ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.