



Report and Recommendation of the President to the Board of Directors

Project Number: 51297-001
August 2018

Proposed Technical Assistance Loan and Technical Assistance Grant Democratic Socialist Republic of Sri Lanka: Urban Project Preparatory Facility

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 July 2018)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.006
\$1.00	=	SLRs159.580

ABBREVIATIONS

ADB	–	Asian Development Bank
CTEC	–	Colombo–Trincomalee Economic Corridor
GAP	–	gender action plan
GDP	–	gross domestic product
MMWD	–	Ministry of Megapolis and Western Development
MPCLGS	–	Ministry of Provincial Councils, Local Government and Sports
O&M	–	operation and maintenance
PAM	–	project administration manual
PMU	–	project management unit
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51297-001	
Project Name	Urban Project Preparatory Facility	Department /Division	SARD/SAUW
Country	Sri Lanka	Executing Agency	Ministry of Megapolis and Western Development, Ministry of Provincial Councils, Local Government and Sports
Borrower	Democratic Socialist Republic of Sri Lanka		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Renovation and protection of cultural heritage		2.00
	Urban flood protection		1.50
	Urban sanitation		1.50
	Urban solid waste management		1.50
Transport	Urban roads and traffic management		3.50
	Total		10.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG11		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Sovereign TA (Concessional Loan): Ordinary capital resources		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.20	
Government		2.20	
Total		12.20	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-6) in the amount of \$1,000,000.			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed technical assistance (TA) loan to the Democratic Socialist Republic of Sri Lanka for the Urban Project Preparatory Facility. The report also describes proposed TA for Capacity Building for Secondary Towns and Strategic Cities, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.

2. The proposed facility will strengthen project readiness and institutional capacity in the urban sector by (i) completing advanced feasibility studies and detailed designs for urban projects with climate and disaster resilience and gender-friendly features;¹ (ii) providing advanced implementation support through the preparation of bidding documents for advanced contracting, and safeguard documents; and (iii) strengthening the institutional capacities of implementing agencies during the inception period of project implementation.

II. THE PROJECT

A. Rationale

3. **Sector performance and key issues.** Urban projects are complex and require significant preparation. The experience of the Asian Development Bank (ADB) in Sri Lanka shows limited long-term strategic investment planning, weak engineering capacity in urban departments, and lengthy land acquisition processes.² These issues lead to (i) lack of investment-grade projects ready for appraisal, (ii) slow start-up and implementation delays, (iii) multiple scope changes, (iv) cost overruns, and (v) delays in the delivery of benefits to the people.³

4. **Limited strategic investment planning.** Urbanization to enable agglomeration, drive innovation, promote environmental sustainability, and boost economic growth in Sri Lanka involves strategic planning and up-front engagement. Demand to improve urban services in city centers, such as Colombo, remains, but demand is growing for peri-urban and greenfield development to support planned urbanization in strategic economic corridors. Planning for trunk infrastructure with links to satellite towns is needed to enhance city and regional competitiveness. Incorporating climate and disaster resilience, high technology, gender equality, as well as addressing governance issues adds more layers to project planning.

5. **Limited institutional capacity to prepare and implement urban projects.** The urban sector in Sri Lanka is constrained by weak implementing agencies, requiring significant hand-holding support, especially in detailed engineering, procurement, contract management, and safeguards. Implementing agencies need increased capacities to address issues critical for project planning; execution; operation and maintenance (O&M); and other areas of sustainability including revenue generation, and financial and asset management. Key institutions in the urban sector include the Ministry of Provincial Councils, Local Government and Sports (MPCLGS), the Ministry of Megapolis and Western Development (MMWD), the National Water Supply and Sewerage Board, provincial councils, and local authorities.

¹ Asian Development Bank (ADB). 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila. The facility will prepare two projects listed for approval in 2020–2021: (i) the Secondary Towns Sustainable Development Project (\$180 million) under the MPCLGS; and (ii) the Western Megapolis Urban Infrastructure Development Project (\$200 million) under the strategic cities development program of the MMWD.

² Land acquisition in Sri Lanka takes up to 1.5 years to complete.

³ This is accentuated when projects are dispersed across the country and partially managed by municipal entities.

6. **Value addition of ADB.** The following are key lessons from ADB's sector and country experience incorporated in the facility design: (i) developing high project readiness for immediate start-up and timely delivery of benefits,⁴ (ii) building the implementation capacity of project agencies, (iii) commencing land acquisition during the planning stage of projects, (iv) incorporating disaster and climate resilience into project designs, (v) achieving more equitable outcomes by mainstreaming gender, and (vi) demonstrating smart urban solutions through innovative pilot projects. The proposed facility will go beyond traditional water and sanitation projects to support other key infrastructure and services for enhancing urban livability and economic growth. These include (i) introducing intelligent transportation systems (considering disability access) for traffic management and road safety; (ii) creating high-quality public spaces; (iii) promoting digital technologies (e.g., mobile bill payment systems, remote early warning systems), and energy-efficient urban services (e.g., solar lighting, green public buildings) to reduce greenhouse gas emissions and improve operational efficiency; and (iv) supporting infrastructure for tourism and markets for enhanced local and regional competitiveness.⁵

7. **Urbanization challenges.** While 20% of Sri Lanka's population lives in urban areas, cities contribute more than an estimated 40% of gross domestic product (GDP). As Sri Lanka approaches upper middle-income status, a number of development challenges continue to constrain its growth potential, including (i) unplanned urbanization; (ii) inequitable access to basic urban services outside of Colombo; (iii) urban environmental pollution; (iv) weak local governance and institutional capacities; (v) low service level indicators;⁶ (vi) vulnerability to climate change and disasters including floods, landslides, and droughts; and (vii) weak disaster risk management capabilities.

8. **Government strategy.** In its Vision 2025 and Public Investment Program (2016–2018), the government articulates its goals and strategy for stimulating inclusive and balanced geographic development for achieving upper middle-income status.⁷ The vision focuses on improving access to and delivery of urban services, such as roads, markets, public spaces, drainage, solid waste management, traffic management, and e-governance. Through its Strategic Cities Development Program, overseen by the MMWD and supported by development partners,⁸ the government aims to improve urban services in six city regions (Anuradhapura, Galle, Jaffna, Kurunegala, Kandy, and Trincomalee).⁹ Through these programs, the government prioritizes full coverage of urban services, especially in underserved urban areas, as well as strengthening the capacity of local institutions for improved service delivery. It also identifies disaster risk management and climate change resilience as priorities.¹⁰ The government requested ADB to support advanced project readiness of urban projects and to strengthen institutional capacity in

⁴ Advance recruitment of consultants is a good practice from ADB projects. ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the Democratic Socialist Republic of Sri Lanka for the Transport Project Preparatory Facility*. Manila.

⁵ Cities and projects will be identified following agreed selection criteria outlined in the project administration manual.

⁶ Piped borne water coverage (45.9%), nonrevenue water across the country (27.8%), piped sewerage coverage (2.4%), and increasing traffic. ADB. 2016. *Country Assistance Program Evaluation: Sri Lanka, 2006-2015*. Manila.

⁷ Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

⁸ Development Coordination (accessible from the list of linked documents in Appendix 2).

⁹ The World Bank is supporting Jaffna and Kandy. The Agence Française de Développement is supporting Anuradhapura. Under the TA loan, ADB will support Trincomalee and Kurunegala, in addition to Dambulla and Ratnapura, as part of the four MMWD-supported cities.

¹⁰ Government of Sri Lanka. 2010. *National Policy on Disaster Management*. Colombo.

these areas. The facility is included in ADB's country operations business plan, 2018–2020 and is aligned with ADB's country partnership strategy, 2018–2022.¹¹

9. **Economic corridors and strategic cities.** To facilitate balanced economic development and growth beyond the Western Province, ADB supported the preparation of a study to develop a comprehensive plan for the Colombo–Trincomalee Economic Corridor (CTEC).¹² A multisector approach is adopted by integrating industry, infrastructure, logistics, and urbanization within the corridor. The CTEC connects urban clusters with industrial areas. Among the cities to be supported under the facility, three strategic cities (Dambulla, Kurunegala, and Trincomalee) are located within the CTEC, and included in the ensuing MMWD project (footnote 1).

B. Impact and Outcome

10. The project is aligned with the following impact: urban projects in strategic cities and towns implemented in a timely manner (footnote 7). The project will have the following outcome: high level of urban project readiness achieved.¹³

C. Outputs

11. **Output 1: Feasibility studies and detailed designs of urban subprojects completed.** This will include subprojects in up to 29 cities (four strategic cities under the MMWD and 25 secondary towns under the MPCLGS) with climate and disaster-resilience and gender-friendly features completed. Subprojects will comply with agreed selection criteria outlined in the project administration manual (PAM).¹⁴

12. **Output 2: Advance implementation support for two ensuing projects provided.** The support for the two projects (footnote 1) will include (i) at least 30% of bidding documents for civil works contracts prepared and tendered before ADB loan fact finding mission for ensuing projects, (ii) safeguard documents prepared and disclosed for the 30% bidding documents, and (iii) gender action plans prepared before ADB loan fact finding mission for the two ensuing projects.

13. **Output 3: Institutional capacity of project agencies strengthened.** This output will be funded under the attached transaction TA and will include (i) capacity building and implementation support for project management units (PMUs) and relevant project agencies,¹⁵ covering procurement, contract management, safeguards, financial management, climate and disaster resilience, innovative approaches, project performance monitoring, urban governance, and gender mainstreaming conducted; (ii) a governance improvement program for ensuing ADB projects (footnote 1) designed; and (iii) guidelines for mainstreaming gender in the design of urban projects prepared and disseminated.

14. The facility will be implemented through two components—strategic cities and secondary towns—to coincide with the two pipeline projects prepared under the facility (footnote 1).

¹¹ ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila; and ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

¹² ADB. 2018. *Colombo–Trincomalee Economic Corridor: Comprehensive Development Plan*. Colombo.

¹³ The design and monitoring framework is in Appendix 1.

¹⁴ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁵ Relevant agencies for capacity building include the MMWD, MPCLGS, National Planning Department, provincial councils, the Urban Development Agency, and local authorities.

D. Summary Cost Estimates and Financing Plan

15. The facility is estimated to cost \$12.2 million (Table 1). Detailed cost estimates by expenditure category are included in the PAM (footnote 14).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Secondary towns (25) under MPCLGS component	5.10
2. Strategic cities (4) under the MMWD component	5.74
Subtotal (A)	10.84
B. Contingencies^c	1.06
C. Financial Charges During Implementation^d	0.30
Total (A+B)	12.20

MMWD = Ministry of Megapolis and Western Development, MPCLGS = Ministry of Provincial Councils, Local Government and Sports.

^a Includes taxes and duties of \$1.3 million. The government will finance \$1.3 million through cash contribution.

^b In early 2018 prices. Exchange rate of \$1 = SLRs154.0 is used.

^c Physical contingencies computed at 5.0% for consulting services. Price contingencies computed at 1.5%–1.6% on foreign exchange costs and 4.3%–5.3% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during construction for the Asian Development Bank loan has been computed at 2.0% per annum.

Source: Asian Development Bank estimates.

16. The government has requested a concessional TA loan of \$10,000,000 from ADB's ordinary capital resources to help finance the facility. The TA loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement.

17. ADB will finance expenditures related to consulting services, incremental administrative costs, contingencies, and interest during construction. The government will contribute \$2.2 million to the investment costs of the facility to finance (i) taxes and duties, and (ii) part of incremental administrative costs and contingencies; and will provide the loan proceeds and counterpart funds to the executing agencies for the implementation of the facility. The summary financing plan is in Table 2.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	10.0	82.0
Government	2.2	18.0
Total	12.2	100.0

Source: Asian Development Bank estimates.

18. There is no climate financing under the facility. Follow-on urban projects (footnote 1) will include costs and financing to mitigate and adapt to climate change.

E. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 14). The two executing agencies, the MPCLGS and the MMWD, will establish separate PMUs for implementation. The PMUs will recruit consulting firms to prepare feasibility

studies, engineering designs, bidding documents, safeguard documents, and gender action plans. Recruitment will be through quality- and cost-based (90:10) selection. Full technical proposals will be used to evaluate the consulting firms. Procurement (including consulting services) to be financed by the loan will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	September 2018–September 2021		
Estimated completion date	30 September 2021		
Estimated loan closing date	31 March 2022		
Management			
(i) Oversight body	<p>National steering committees will be established for both executing agencies, chaired by the secretaries of the Ministry of Provincial Councils, Local Government and Sports (MPCLGS) and the Ministry of Megapolis and Western Development (MMWD). An interministerial committee, chaired by the secretaries of the MPCLGS and MMWD, will meet periodically to review overall facility progress.</p> <p>Chair: Secretaries, MPCLGS and MMWD</p> <p>Members: Ministry of National Policies and Economic Affairs (National Planning Department, External Resources Department); Ministry of Finance and Mass Media; Ministry of City Planning and Water Supply; National Budget Department; Department of Project Management and Monitoring; Urban Development Authority; and provincial councils. Other agencies, including the Central Environmental Authority and the Road Development Authority, will be invited as required.</p>		
(ii) Executing agency	MPCLGS (secondary towns component) and MMWD (strategic cities component)		
(iii) Implementation unit	One project management unit for each component will be established: (i) MPCLGS, 7 staff members; and (ii) MMWD, 16 staff members.		
Consulting services	Quality- and cost-based selection	1,150 person-months (key staff) 480 person-months (non-key staff)	\$8.84 million
	Individual consultants selection	30 months	\$0.30 million
Retroactive financing and/or advance contracting	Advance contracting is requested for consultant packages and incremental administration costs. Retroactive financing will be up to 20% of the Asian Development Bank (ADB) loan amount for eligible expenditures incurred before loan effectiveness. However, such expenditures cannot be incurred more than 12 months before signing of the loan agreement.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

III. ATTACHED TECHNICAL ASSISTANCE

20. The TA for Capacity Building for Secondary Towns and Strategic Cities attached to the facility will support output 3 in the following areas: (i) strengthen the institutional capacity of project agencies to design and manage urban infrastructure projects, particularly in procurement, safeguards, financial management, gender mainstreaming, climate and disaster resilience, financial management, project performance monitoring, and innovative approaches; and (ii) strengthen the institutional capacity to design and implement urban governance improvement programs, including innovative areas of revenue generation, financial management, citizen participation, gender mainstreaming, e-governance, O&M, asset management, and strategic planning.¹⁶ The TA is estimated to cost \$1.1 million, of which \$1.0 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The government will provide counterpart support in the form of counterpart staff, venue and support staff for training, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total TA cost. The TA will be implemented from September 2018 to September 2021.

IV. DUE DILIGENCE

A. Technical

21. The urban sector investments to be prepared under the facility will be in line with (i) the government's national strategy and sector development plans, and (ii) ADB's country partnership strategy for Sri Lanka. An initial list of priority projects for the TA loan was identified in line with the selection criteria, and others will be identified in consultation with the government following the same criteria.¹⁷ The terms of reference prepared for the consulting services cover technical aspects, including detailed feasibility studies, engineering design, alternatives analysis (technical, environmental, social), life cycle costs, energy efficiency, and climate-resilient measures; maximizing beneficiary area coverage, including the poor and poor households headed by women; minimizing adverse environmental and social impacts; and optimizing timelines for high project readiness of ensuing investment projects.

B. Economic and Financial

22. The ensuing urban investment projects to be prepared under the facility will support Sri Lanka's overall economic growth and poverty reduction by enhancing urban service delivery in priority economic hubs and corridors to reduce the costs to markets and enhancing the quality of life in communities with broad economic and social activities. The facility will support the government in preparing feasibility studies and detailed designs and will assist the executing and/or implementing agencies in procurement and safeguard advance actions. The attached TA will strengthen towns and cities in good governance, including revenue generation and financial management, to enhance capital expenditures, O&M, asset management, and services delivery. It will bridge the gap between project preparation and implementation; minimize the delays normally observed between preparing feasibility studies and detailed designs, procurement activities, and commencement of actual works; and reduce financial charges, such as commitment and interest fees, under the ensuing projects.

23. The terms of reference for consulting services include carrying out economic and financial assessments for ensuing projects in accordance with the related policies and guidelines of the

¹⁶ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

¹⁷ The initial list of priority projects and selection criteria are outlined in the PAM (footnote 14).

government and ADB. These assessments will help formulate economically and financially viable urban projects.

C. Governance

24. **Financial management.** The financial management risk is *moderate* mainly because MMWD and MPCLGS have sufficient experience in implementing externally funded projects.¹⁸ They have established legal, institutional, and monitoring frameworks for budgeting, accounting, and auditing. The project design includes the following risk mitigation measures: (i) extending full training and capacity building support for enhancing the financial management capacity of the MMWD PMU, (ii) the commitment of the MMWD and MPCLGS to the timely allocation and disbursement of the government's counterpart funds, (iii) providing adequate support by hiring the project design and procurement consultants for enhancing the procurement capacity of the PMUs, and (iv) strengthening the internal audit process of the PMUs by appointing qualified staff or outsourcing to experienced audit firms.

25. **Procurement.** A procurement capacity assessment concluded that the overall procurement risk for the project is *moderate*. The MPCLGS and MMWD have extensive experience in development partner supported procurement, including ADB in the case of the MPCLGS. The recruitment of consultants will follow ADB's Procurement Policy and Procurement Regulations for ADB Borrowers. A procurement expert recruited under the attached TA will provide additional implementation support for the MMWD. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the MPCLGS and MMWD. The specific policy requirements and supplementary measures are described in the PAM (footnote 14).

D. Poverty, Social, and Gender

26. The facility is not expected to have any impact on poverty, while follow-on urban projects will be prepared to improve urban services benefiting the poor.

27. **Gender.** The facility is classified *effective gender mainstreaming*. Gender design features include (i) projects with gender-friendly features designed, (ii) guidelines for mainstreaming gender in the design of urban projects prepared and disseminated, (iii) gender action plans (GAPs) prepared before the loan fact-finding mission for the ensuing investment projects, and (iv) training on gender mainstreaming for PMU and other relevant agency staff provided. A GAP has been prepared with clear targets, responsibilities, and resource allocation for the meaningful participation of women.¹⁹ The MPCLGS and MMWD will implement the GAP with support from consultants recruited under the facility. The PMU social officers will serve as the gender focal points to oversee GAP implementation.

E. Safeguards

28. In compliance with ADB's Safeguard Policy Statement (2009), the facility's safeguard categories are as follows:²⁰

¹⁸ The MPCLGS is implementing the ongoing ADB. 2016. *Additional Financing: Local Government Enhancement Sector Project in the Democratic Socialist Republic of Sri Lanka*. Manila. The MMWD has not implemented ADB-financed projects but has experience implementing urban projects funded by the World Bank and Agence Française de Développement.

¹⁹ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²⁰ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

29. **Environment (category C).** The facility will not involve construction work and will not have any adverse environmental impacts.

30. **Involuntary resettlement (category C).** The facility will not involve construction work and will not have any involuntary resettlement impacts.

31. **Indigenous peoples (category C).** The facility will not involve construction work and will not have any indigenous peoples impacts.

32. Follow-on urban projects (footnote 1) will be assessed by ADB in accordance with ADB's Safeguard Policy Statement and government regulations and policies. During project preparation, consultants will prepare environmental assessment documents, and resettlement and indigenous peoples planning documents, as required by ADB's Safeguard Policy Statement. Both executing agencies have experience in donor-supported safeguards—the MPCLGS with ADB and the MMWD with the World Bank (footnote 18). The attached TA will support capacity building on safeguards implementation.

F. Summary of Risk Assessment and Risk Management Plan

33. A financial management assessment in the PAM (footnote 14) outlines other detailed risks and mitigation measures related to financial management. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²¹

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Change in government priorities	The project reflects balanced geographic development. Cities are confirmed and the agreed selection criteria in the project administration manual are designed to reflect the priority infrastructure of local authorities.
Government delays in the release of counterpart funds	The government confirmed counterpart financing. The government share will finance only taxes and duties and a portion of incremental costs. This will ease the government's financial burden of providing counterpart funding and ensure adequate cash flow during implementation. (Timeline: during facility implementation)

Source: Asian Development Bank.

V. ASSURANCES

34. The government, the MPCLGS and the MMWD have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

35. The government, the MPCLGS and the MMWD have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

²¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

VI. RECOMMENDATION

36. I am satisfied that the proposed technical assistance (TA) loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the TA loan of \$10,000,000 to the Democratic Socialist Republic of Sri Lanka for the Urban Project Preparatory Facility, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and per year thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

22 August 2018

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Urban projects in strategic cities and towns implemented in a timely manner (Vision 2025: A Country Enriched) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome High level of urban project readiness achieved	By 2021: a. At least 30% of contracts ready for award before loan negotiations of ensuing projects (2017 baseline: 0) b. At least 60% of detailed engineering designs completed before loan fact finding mission of ensuing projects (2017 baseline: 0)	a.–b. Project performance reports	Change in government priorities
Outputs 1. Feasibility studies and detailed designs of urban subprojects completed 2. Advance implementation support for two ensuing projects provided ^c 3. Institutional capacity of project agencies strengthened	By 2021: 1a. Urban subprojects prepared in at least 15 of 29 cities with climate- and disaster-resilient and gender-inclusive features (2017 baseline: 0) ^b 2a. At least 30% of civil works bidding documents tendered before loan fact finding mission for ensuing projects (2017 baseline: 0) 2b. Safeguard documents for 30% of tendered contracts prepared before loan fact finding mission of ensuing projects (2017 baseline: 0) 2c. Gender action plans for each ensuing loan project prepared, reassessed, and updated during the respective loan fact finding missions (2017 baseline: not applicable) By 2021: 3a. At least 100 officials (30% women) reported increased knowledge or skills in procurement, contract management, safeguards, financial management, gender mainstreaming, climate change, and disaster risk management (2017 baseline: 0)	1a. Project proposal reports 2a. Bidding documents 2b. Safeguard documents 2c. Gender action plans 3a. Post-training surveys	Government delays in the release of counterpart funds

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>3b. Guidelines for mainstreaming gender equality in the design of urban projects and for enhanced participation of women in local governance prepared and disseminated to nine provincial councils and all local authorities (2017 baseline: none)</p> <p>3c. Urban governance improvement program for two ensuing projects incorporating gender-inclusive delivery of infrastructure and services prepared (including enhanced participation of women in local governance) (2017 baseline: 0)</p>	<p>3b. Guidelines prepared</p> <p>3c. Reports and recommendations of the President of ensuing projects</p>	
<p>Key Activities with Milestones</p> <p>1. Feasibility studies and detailed designs of urban subprojects completed</p> <p>1.1 Mobilize consultants by October 2018 (MPCLGS) and December 2018 (MMWD)</p> <p>1.2 Prepare feasibility studies and detailed designs for projects by January 2020</p> <p>2. Advance implementation support for two ensuing projects provided</p> <p>2.1 Prepare bidding documents and commence advanced contracting for projects by February 2020</p> <p>2.2 Prepare safeguard documents and gender action plans by February 2020</p> <p>3. Institutional capacity of project agencies strengthened</p> <p>3.1 Conduct capacity assessment and execute training plan for PMUs by January 2019</p> <p>3.2 Conduct training in various areas of project planning, design, implementation, and strategic areas of interest by July 2020 (climate change, disaster risk planning, gender equality, and safeguards)</p> <p>3.3 Prepare urban governance improvement program for two ensuing projects by July 2021</p> <p>Project Management Activities</p> <p>Set up PMUs by mobilizing consultants (October 2018 for MPCLGS and December 2018 for MMWD)</p> <p>Hold first project steering committee meeting (October 2018 for MPCLGS and December 2018 for MMWD)</p>			
<p>Inputs</p> <p>ADB: \$10.0 million (concessional technical assistance loan), \$1.0 million (technical assistance grant)</p> <p>Government of Sri Lanka: \$2.2 million</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>			

ADB = Asian Development Bank, MMWD = Ministry of Megapolis and Western Development, MPCLGS = Ministry of Provincial Councils, Local Government and Sports, PMU = project management unit.

^a Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

^b Gender-friendly features may include female participation in local-level planning committees and awareness-building activities, and safety considerations (e.g., streetlights, crosswalks). Climate-resilient features may include enhanced drainage systems considering future rainfall patterns and raised elevations for project facilities.

^c ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila. The facility will prepare two projects listed in 2020–2021: (i) the Secondary Towns Sustainable Development Project (\$180 million) under the MPCLGS; and (ii) the Western Megapolis Urban Infrastructure Development Project (\$200 million) under the MMWD.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51297-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. Attached Technical Assistance Report
10. Gender Action Plan

Supplementary Document

11. Financial Management Assessment