

**REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
BOARD OF DIRECTORS  
ON A  
PROPOSED LOAN  
  
TO THE  
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA  
FOR THE  
NORTH EAST COASTAL COMMUNITY DEVELOPMENT PROJECT**

**November 2003**

## **CURRENCY EQUIVALENTS**

(as of 3 November 2003)

Currency Unit – Sri Lanka rupee/s (SLRe/SLRs)

SLRe1.00 = \$0.0105

\$1.00 = SLRs94.80

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AF	–	Agromart Foundation
AWDR	–	average weighted deposit rate
CBO	–	community-based organization
CCD	–	Coastal Conservation Department
CEA	–	Central Environmental Authority
CFHC	–	Ceylon Fisheries Harbor Corporation
CRMP	–	Coastal Resource Management Project
DCC	–	district coordinating committee
DEO	–	divisional environmental officer
DPD	–	district project director
DPO	–	district project office
DS	–	district secretariat
DVCC	–	divisional coordinating committee
EIRR	–	economic internal rate of return
FHH	–	household with female head
GN	–	Grama Niladhari
IA	–	implementing agency
ICB	–	international competitive bidding
IDP	–	internally displaced person
IEC	–	information, education and communication
IEE	–	initial environmental examination
IP-NGO	–	implementing partner-NGO
ITDG	–	Integrated Technology Development Group
LCB	–	local competitive bidding
LEDs	–	livelihoods and enterprise development services
LTTE	–	Liberation Tigers of Tamil Eelam
MDB	–	multiday boat
MF	–	microfinance
MF-NGO	–	microfinance NGO
MFI	–	microfinance institution
MHAPCLG	–	Ministry of Home Affairs, Provincial Councils, and Local Government
NDTF	–	National Development Trust Fund
NECORD	–	North East Community Restoration and Development Project
NEERP	–	North East Emergency Reconstruction Program
NEIAP	–	North East Irrigated Agriculture Project
NEPC	–	North East Provincial Council
NGO	–	nongovernment organization
O&M	–	operations and maintenance
PD	–	project director
PIA	–	project implementation agreement

PIU	–	project implementation unit
PMA	–	Provincial Ministry of Agriculture
PNA	–	participatory needs assessment
PO	–	project office
PPMS	–	project performance management system
PPS	–	provincial planning secretariat
PPTA	–	project preparatory technical assistance
PSA	–	poverty and social assessment
QCBS	–	quality and cost-based selection
RFI	–	rural finance institution
RFSDP	–	Rural Finance Sector Development Program
SDB	–	single day boat
SGIA	–	second generation imprest account
SMA	–	special management area
SWM	–	solid waste management
SDR	–	special drawing rights
SEEDS	–	Sarvodaya Economic Enterprise Development Services
SOE	–	statement of expenditure

## NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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## **LOAN AND PROJECT SUMMARY**

<b>Borrower</b>	Democratic Socialist Republic of Sri Lanka
<b>Classification</b>	Core poverty intervention Thematic: Gender and development; and environmental protection.
<b>Environment Assessment</b>	Category B. Initial environmental examinations were undertaken; a summary environmental analysis is a core appendix.
<b>Project Description</b>	<p>The Project is designed to assist vulnerable coastal communities in the Eastern Province to improve livelihoods, meet basic needs, and strengthen community management of natural resources. The Project will also strengthen government capacity for resource management and planning. All project interventions will be assessed to ensure that they support the peace building process and contribute to postconflict reconciliation at the community level. The core project area will cover 396 Grama Niladhari (GN) divisions that border the open coast or major lagoon systems, with initial targeting of about 150 GN divisions identified as most vulnerable for assistance early in the Project.</p>
<b>Rationale</b>	<p>Coastal communities in the East are characterized by high levels of poverty, weak and fragmented social institutions, inadequate and damaged physical infrastructure, and reduced access to services and markets. The long period of conflict has disrupted livelihoods, resulted in a loss of productive assets (fishing boats and gear) and household possessions, limited access to the natural resource base, and encouraged nonsustainable resource use practices. Communities lack social cohesiveness, and displacement and loss of family members and property have traumatized people, thus diminishing self-reliance and motivation. Women have been particularly affected and have experienced conflict differently from men. The conflict has resulted in a large proportion of households with female heads (FHHs) without social acceptance and the means to earn a livelihood.</p> <p>Institutional capacity at the provincial and district levels for natural resource management and planning is also extremely limited. In addition, nonenforcement of environmental rules and regulations is resulting in increasingly adverse impacts on coastal communities and the natural resource base upon which residents depend for their livelihood.</p> <p>The scale of the economic damage and social dislocation due to the conflict has severely strained the Government's ability to provide development assistance. It has therefore turned to the international community, particularly the Asian Development Bank (ADB), for support.</p>

**Objectives**

The goal of the Project is to reduce poverty and meet basic needs in coastal communities in the three districts of the Eastern Province. The project purpose is sustainable livelihood improvement and sound management of natural resources. The most vulnerable communities will be prioritized for support early in the Project. Focus will particularly be on women, given the high number of FHHs. The Project has five components: sustainable livelihood improvement; resource management in three special management areas (SMAs—Trincomalee Bay, Batticaloa Lagoon, and Southern Ampara biodiversity zone); coastal resource planning; fisheries development; and project implementation support.

**Cost Estimates**

The total project cost is estimated at \$28.4 million equivalent comprising foreign exchange of \$8.2 million and local currency of \$20.2 million equivalent. Parallel cofinancing will be provided by the Government of the Netherlands on a grant basis.

**Financing Plan**

(\$ million)				
Source	Foreign Exchange	Local Currency	Total Cost	%
ADB	7.8	12.2	20.0	70.4
Gov't. of Sri Lanka	0.0	5.6	5.6	19.7
Gov't. of Netherlands	0.4	1.1	1.5	5.3
Beneficiaries	0.0	1.3	1.3	4.6
<b>Total</b>	<b>8.2</b>	<b>20.2</b>	<b>28.4</b>	<b>100.0</b>

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

**Loan Amount and Terms**

The proposed financing from ADB's Special Funds resources is equivalent to Special Drawing Rights 14,009,000 (\$20.0 million equivalent). The loan will have a maturity of 32 years, including a grace period of 8 years, with an interest charge of 1% during the grace period and 1.5% thereafter.

**Period of Utilization**

30 June 2010

**Estimated Project Completion Date**

31 December 2009

**Executing Agency**

Ministry of Home Affairs, Provincial Councils, and Local Government (MHAPCLG).

## **Implementation Arrangements**

The North East Provincial Council (NEPC) will be the lead implementing agency and will be responsible for overall project coordination. The Ceylon Fisheries Harbor Corporation (CFHC) will be the implementing agency for the fisheries harbor rehabilitation activities. The National Development Trust Fund (NDTF) will manage and coordinate the Project's microfinance delivery system under a subsidiary loan agreement acceptable to ADB. The Central Environmental Agency (CEA) will implement the project activities financed by the Government of the Netherlands, which relate in part to strengthening the capacity of its regional and subregional offices in the North and East. A provincial level coordinating committee, chaired by the chief secretary of NEPC, will be established for project coordination, direction, and guidance. Project loan funds will be routed to NEPC through MHAPCLG in an arrangement similar to that adopted under other foreign-funded projects in the North and East. Implementation of the community-level interventions will be undertaken with the assistance of implementing partner nongovernment organizations (IP-NGOs).

## **Procurement**

Goods and services financed from the proceeds of the ADB loan will be procured in accordance with ADB's *Guidelines for Procurement*. ADB-financed civil works contracts estimated to cost the equivalent of more than \$1.0 million will be awarded on the basis of international competitive bidding (ICB), while those valued at \$1.0 million or less will be carried out following the Government's local competitive bidding (LCB) procedures satisfactory to ADB. Supply contracts estimated to cost the equivalent of more than \$500,000 will be awarded on the basis of ICB; those between \$500,000 and \$100,000 will be awarded on the basis of international shopping. Minor items costing less than \$100,000 equivalent may be procured through direct purchase; small items costing less than \$10,000 equivalent will be procured by communities under arrangements developed by the Ministry of Finance for community development projects and acceptable to ADB. Notwithstanding the above, the award of civil works contracts estimated to cost the equivalent of \$50,000 or less and supply contracts for equipment and materials estimated to cost the equivalent of \$50,000 or less, except for the first three such contracts in each project district, will be subject to ADB's post facto approval procedures.



## **Consulting Services**

Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. A team of domestic and international consultants will be engaged to undertake two categories of tasks: (i) to provide project management support to the project office (PO) and the district project offices (DPOs); and (ii) to advise and guide the PO, DPOs, and implementing agencies on technical aspects of project activities relating to components 1, 2, and 3. Outside assistance will be sought in a number of other areas: (i) IP-NGOs will be engaged to assist with implementing community-level interventions in components 1 and 2; (ii) implementation of the strategic studies for coastal resource management in the Northern Province will be outsourced to a team of international and domestic consultants; (iii) the detailed designs and feasibility studies for the fisheries harbor rehabilitation will be contracted out to qualified international engineering firms; (iv) the provision of livelihood and enterprise development services (LEDS) will be outsourced to contractors; and (v) project impact assessments will be carried out by outside contractors.

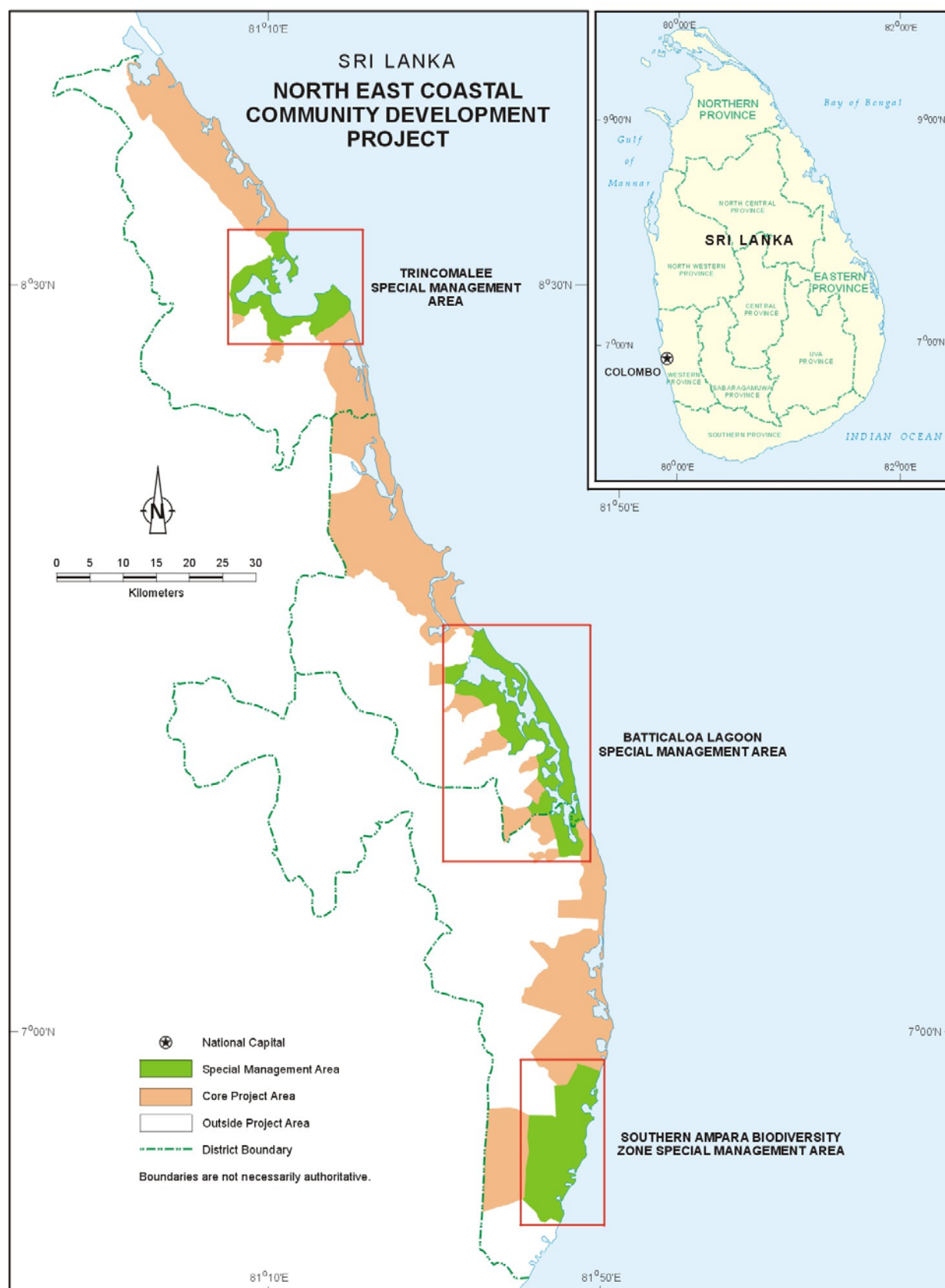
## **Project Benefits and Beneficiaries**

Economic benefits will be generated from investments in (i) community infrastructure and environmental improvements; (ii) sustainable livelihood interventions; (iii) resource management and planning; and (iv) fisheries infrastructure. Investments in community infrastructure will improve productivity and health, and have the potential to reduce household medical costs. Environmental improvements will enhance household quality of life and sustain growth in tourism. The livelihood interventions will result in incremental production of a broad range of products, with the potential to raise the incomes of the poorest households substantially at full development. Improved resource management will reduce the economic losses from inefficient and environmentally destructive resource-based activities that would have occurred in the absence of the Project. Investments in the fisheries harbors will increase the productivity of both fishers and shore-based businesses. In particular, the facilities will attract more boats, especially multiday boats that can operate outside the immediate coastline where fishing pressure is currently high, and will help facilitate development of an export-based fishing industry on the east coast.

Of the approximately 110,000 households in the project area, the vast majority are poor. The Project will target about 40,000 households judged to be most vulnerable for early assistance through social infrastructure and livelihood support interventions, concentrating the activities on households with female heads that are among the poorest of the poor.

**Risks and Assumptions**

The Project will be implemented in a changing political and institutional environment, and as such will face considerable political, institutional, social, and security risks. With the ongoing peace building activities, the political and security risks are considerably reduced. However, until there is a formal resolution between negotiating parties, these risks will remain. The Project has a number of important design and implementation features aimed at managing and mitigating the other risks, including (i) identifying and initially prioritizing project interventions to the most vulnerable communities and important natural resource systems within the project area; (ii) implementing approaches that are responsive to the special challenges posed by the post-conflict situation to ensure that project activities do not widen ethnic divisions; (iii) providing LEDS to help ensure that livelihood improvements supported under the Project are sustainable, equally accessible to women, and provide acceptable financial returns; and (iv) promoting a partnership between various levels of government, nongovernment organizations, the private sector, community-based organizations, and beneficiaries in implementing project activities to ensure efficient service delivery.



## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on a proposed loan to the Democratic Socialist Republic of Sri Lanka for the North East Coastal Community Development Project.<sup>1</sup>

## **II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES**

### **A. Performance Indicators and Analysis**

2. The humanitarian and economic impacts of the 20-year-long armed conflict between the Sri Lankan Government and the Liberation Tigers of Tamil Eelam (LTTE) have been severe. Approximately 2.5 million persons (nearly 15% of the population) lived in areas of direct military activity. More than 60,000 persons were killed during the conflict, while another 800,000 were internally displaced, including about 170,000 living in refugee camps. The Central Bank of Sri Lanka estimates that the conflict reduced the country's annual growth rate by 2-3 percentage points over the past two decades. The disruption of economic activity is also estimated to have decreased the contribution of the North and East to national gross domestic product from 15% in the early 1980s to less than 4% at present. The central Government's fiscal position has also deteriorated significantly and severely constrains its ability to finance development activities.

3. The worst impacts of the conflict have been felt in the war-torn Northern Province and Eastern Province. While national poverty levels have been stable in the 20-25% range over the past decade, poverty rates in the North and East (which have been excluded from national statistical surveys for the past 17 years) are believed to be as high as 60%. There are an estimated 30,000 war widows and 300,000 displaced children in the North and East where the school dropout rate is twice the national average. In addition, the infant mortality rate in the North and East is twice the national average, the maternal mortality rate is three times the national average, and virtually all malaria deaths in Sri Lanka occur in the region.

4. Poverty in the North and East is largely conflict related (Appendix 1). While the direct loss of life has had the most dramatic impact, the conflict has also weakened the economic and social resilience of the affected communities, with the rise of households headed by females being one of the most visible impacts. Conflict-related displacement has resulted in destruction or loss of assets, including housing, farm equipment, and fishing vessels/gear. Restrictions on mobility and increased perceptions of risk during the conflict have also affected people's capacity for earning a living as has loss of access to services and markets. The mobility restrictions and high overall poverty levels have led to overexploitation of the natural resource base and environmentally destructive resource-use practices. The displacement and destruction of livelihoods have in turn left many people dependent on external support for their survival.

### **B. Analysis of Key Problems and Opportunities**

5. Loss or impairment of livelihoods is the major cause of the high poverty levels in coastal communities in the East, where the long period of conflict resulted in loss of productive assets (particularly fishing boats and gear) and household possessions, and limited access to the natural resource base. The people of the eastern coastal communities have traditionally depended directly on the resources in the marine, lagoon, and terrestrial environments for their sustenance and survival. Dependence on natural resources is significantly higher in these

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<sup>1</sup> While the Project is primarily focused on the Eastern Province, some capacity building for environmental enforcement and a feasibility study for a possible follow on project in the Northern Province will also be undertaken.

communities than in neighboring inland settlements. The conflict radically altered patterns of access to coastal ecosystems, and caused inefficiencies and direct damage that have resulted in waste or loss of valuable natural assets, thus disrupting traditional livelihoods.

6. The majority of the population in eastern coastal communities nevertheless continue to earn their income from fishing and farming, with the poorest groups surviving primarily through low wage labor in agriculture and fisheries, and informal sector activities. An estimated 30% of households in coastal communities are directly employed in fishing, against 10-15% for the province as a whole. Problems in the fisheries sector include restricted access to the resource base due to security concerns and, partly due to this, overexploitation of nearshore coastal and lagoon resources; destruction and loss of infrastructure (e.g., harbors), vessels, and fishing gear; monopolization of market access along ethnic lines; poor fish handling and processing, resulting in high postharvest losses and low output values; and absence of support services (credit, research and extension, and functioning cooperatives). The conflict also seriously affected agricultural activity as provision of agricultural support services virtually ceased and productive land became inaccessible due to access restrictions and land mines.

7. Environmental pressures, which were held somewhat in check during the conflict, intensified after the initiation of the peace process in late 2001 and are also contributing to the high poverty rates in the region. In particular, the current lack of enforcement of environmental laws and regulations is resulting in increasing degradation of the natural resource base. The coastal areas of the East have a large number of ecologically significant areas that provide habitat for fish and wildlife, support rich biodiversity, create buffers against flooding and erosion, and provide filters to limit pollution. In addition, coastal ecosystems are the foundation of most of the region's economic activity, and have the potential for major ecotourism development. Institutions at the provincial and district levels have limited capacity to protect the environment and undertake effective resource management and planning. Moreover, a number of national agencies that have responsibility for environmental protection and natural resource management have limited capacity to undertake their functions.

8. Against this background, a key development priority for the North East Provincial Council (NEPC) is to initiate interventions that directly assist poor coastal communities to improve livelihoods and meet basic needs. These interventions are to be undertaken in parallel with activities to improve resource management and planning, within both government and recipient communities, and to provide fisheries infrastructure to facilitate development of the local fishing industry.<sup>2</sup> A key criterion for community-based activities is that they must enhance the capacity of the communities to sustain any assets provided. Dependency on external support must also not be increased, and communities' capacity to meet operation and maintenance (O&M) costs must be improved. Capacity building and exit strategies will therefore be essential elements when preparing community-based activities.

9. The Project is accordingly focused on assisting vulnerable coastal communities in improving livelihoods, meeting basic needs, and strengthening the management of natural resources. As an investment loan, the Project moves beyond the provision of emergency assistance to development of interventions that provide an enabling environment for people to take advantage of the economic opportunities afforded by the peace process. In addition, the Project draws lessons from ongoing interventions in the North and East in assisting vulnerable people in regaining productive lives. In particular, a process approach has been adopted to permit flexible adjustment of project design during implementation. This will be particularly

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<sup>2</sup> There is an abundant large pelagic fish resource off Sri Lanka's east coast, particularly tuna. A recent study suggests that less than half of the potential sustainable yield of this resource is currently being harvested.

important in the present context, given that the security environment is still very fluid and that most local people remain traumatized by the conflict. Other important lessons include recognition of (i) the need to ensure that a balance is maintained in project activities among ethnic groups; (ii) the need to undertake activities in both government-controlled and LTTE-controlled areas; (iii) the limited implementation capacity of local government institutions; and (iv) the critical need to coordinate the large number of projects in the North and East.

10. The Project is in line with the Government's poverty reduction strategy.<sup>3</sup> In addition, in the poverty partnership agreement, the Government and the Asian Development Bank (ADB) have agreed that ADB will assist in addressing conflict-related poverty.<sup>4</sup> Moreover, ADB's Country Strategy and Program endorses the Government's priority to reduce poverty and facilitate the development of sustainable natural resource management systems so as to improve livelihoods and support sustainable long-term economic growth. Finally, the Project addresses key priorities as identified in the recently completed *Assessment of Needs in the Conflict Affected Areas* undertaken jointly by ADB, United Nations Development Program, and World Bank, and complements well planned and ongoing assistance from ADB and other development partners (Appendix 2).

### **III. THE PROPOSED PROJECT**

#### **A. Objectives and Scope**

11. The goal of the Project is to reduce poverty and meet basic needs in coastal communities in three districts (Trincomalee, Batticaloa, and Ampara) of Eastern Province. The purpose is sustainable livelihood improvement and sound management of natural resources. The core project area comprises the 396 Grama Niladhari (GN) divisions<sup>5</sup> in the province on the open coast and around major lagoons and is delineated based on the linkages between coastal communities and the natural resource base on which they depend for their livelihoods. The project area has a population of about 550,000 out of a total of 1.5 million in Eastern Province.<sup>6</sup> The project beneficiaries include fishers, fisher-agriculturalists, small farmers, landless laborers, and small entrepreneurs. There will be a special focus on women as the most disadvantaged among this target group (Appendix 3).

#### **B. Components and Outputs**

12. The Project comprises five components: sustainable livelihood improvement; resource management in three special management areas (SMAs); coastal resource planning; fisheries development; and project implementation support. The project framework is in Appendix 4.

##### **1. Sustainable Livelihood Improvement**

13. Sustainable livelihood improvement, which will be equally accessible to men and women, will focus on activities in agriculture, fisheries, agroforestry, and related enterprises servicing and adding value to these subsectors. Appropriate nontraditional livelihoods, including

<sup>3</sup> Government of Sri Lanka. 2002. *Regaining Sri Lanka, Part II, Connecting to Growth: Sri Lanka's Poverty Reduction Strategy*. Colombo.

<sup>4</sup> ADB. 2002. *Poverty Reduction Partnership Agreement between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank*. Colombo.

<sup>5</sup> The GN division is the lowest administrative level in Sri Lanka and commonly consists of 2–3 villages, with a population limit set at 250 families.

<sup>6</sup> The ethnic composition of the coastal area differs markedly from that of the Eastern Province as a whole: 3% of the population in coastal GN divisions are Sinhalese, 38% are Tamil, and 59% are Muslim, versus about 25% Sinhalese, 40% Tamil, and 35% Muslim for the entire province.

tourism and waste management, will also be supported. In undertaking the livelihood support activities, emphasis will be on developing livelihood clusters—linkages between supply of raw materials and value-added production, and access to transport and marketing facilities—to ensure the sustainability and financial viability of the interventions. There will be separate clusters for women. Livelihood and enterprise development services (LEDS) will be provided to facilitate identification of market opportunities, relevant technology transfer, small business and entrepreneurship training, provision of mentoring support, and development of livelihood clusters.<sup>7</sup> The livelihood improvement activities will be financed through a microfinance delivery system established under the Project.

14. After a comprehensive needs assessment, support will be provided at the community level to meet basic needs through small-scale infrastructure. Community infrastructure interventions eligible for funding include the construction and rehabilitation of minor roads, culverts, drains, small-scale water supply and sanitation facilities, simple solid waste management schemes, and community buildings (e.g., multipurpose buildings, including day care and playground facilities).<sup>8</sup> Fishing communities that meet predetermined selection criteria will also be eligible to receive simple fisheries support infrastructure, including net repair sheds, market/auction halls, fisher rest houses, and cold storage facilities. The community infrastructure interventions, including the fisheries infrastructure, will be assessed and selected on the basis of specific social and environmental criteria (Appendix 5). The recipient communities themselves will manage and maintain the infrastructure facilities, which will be financed directly by the Project.

15. Livelihood support and community infrastructure provision will initially focus on GN divisions identified as the poorest and most vulnerable. In the absence of reliable statistical data on poverty and livelihoods, proxy data combined with qualitative information were used to identify 146 of the 396 GN divisions in the project area (Appendix 5). In total, about 225 GN divisions are expected to receive support under the Project. Small but extremely poor and marginalized communities of coastal indigenous people also reside within the vulnerable GN divisions. A separate set of livelihood interventions will be developed to ensure that their specific needs are addressed in a socially sensitive manner.<sup>9</sup>

## **2. Resource Management in Three Special Management Areas (SMAs)**

16. Three SMAs—Trincomalee Bay, Batticaloa Lagoon, and the Southern Ampara biodiversity zone—were selected for interventions to improve natural resource management and address acute environmental problems. These objectives are important as most economic activity in the SMAs depends heavily on the natural resource base. The three SMAs were selected on the basis of environmental and ecological criteria such as significant natural

<sup>7</sup> The rationale for providing these services is based on the observation that the vast majority of potential beneficiaries lack technical and market information, business skills, access to financial services, and market linkages. The envisaged approach to provision of LEDS has worked well under the ongoing ADB-financed Southern Province Rural Economic Advancement Project.

<sup>8</sup> The Project seeks to meet the immediate basic needs of the selected communities. Assistance for larger infrastructure works is being provided under the ADB-financed North East Community Restoration and Development Project (NECORD) and the World Bank-financed North East Irrigated Agriculture Project (NEIAP). Assistance in the social areas—such as in community nutrition and health—is being provided by bilateral sources.

<sup>9</sup> There are small communities of such people (coastal Veddas) in Batticaloa and Trincomalee districts. Most Veddas refrain from acknowledging their identity due to social stigmatization by neighboring communities. The Project will evaluate their status through a culturally sensitive participatory needs assessment to identify priority areas for interventions. These could include construction of community infrastructure as well as improving incomes, while maintaining their seminomadic livelihoods in fishing, and hunting and gathering.

resource systems where a very high proportion of the local population obtain livelihoods. Their defining features are as follows:

- (i) **Trincomalee Bay.** The bay is a large natural harbor and has significant potential for economic development. Currently, major areas of localized pollution, shoreline erosion, and coastal resource degradation are affecting livelihoods.
- (ii) **Batticaloa Lagoon.** The lagoon is a critical natural resource area and provides livelihoods for a very large proportion of the local population. It is also ecologically and environmentally significant, and is at risk from overexploitation of its resource base and shore-based pollution entering the lagoon system.
- (iii) **Southern Ampara biodiversity zone.** Key resource issues within this SMA include unsustainable practices by resource users (e.g., sand mining and dynamite fishing), lack of effective management of ecologically sensitive areas, and an absence of integrated management of sanctuary areas.<sup>10</sup> The area also has significant potential for tourism development.

17. The Project will provide assistance to carry out resource mapping and identify resource management problems (i.e., environmental hot spots) that affect livelihoods and the quality of life at the community level within the SMAs. Typical hot spots include areas of mangrove destruction, sand and coral mining, and uncontrolled solid waste dumping. The Project will help implement selected community-based resource management interventions to address these problems, including mangrove replanting, solid waste management, introduction of alternative energy sources (such as solar power), and implementation of public awareness programs. In addition, the Project will support habitat conservation activities, such as demarcation of environmentally sensitive areas and formation of local resource management groups. The resource management interventions at the community level will be closely linked to the livelihood support activities in component 1 to ensure the sustainability of the latter.

18. Resource mapping at the community level will be consolidated and further elaborated into SMA plans that address key resource management issues and acute environmental problems. The district-level SMA plans may identify the need to implement environmental interventions at a scale above the community level, for example, solid waste management schemes or remedial measures to mitigate the effects of sand mining, which will involve several GN divisions. This would entail identifying suitable implementation partners, and formulating and implementing sustainable intervention strategies. Whenever possible, these larger-scale interventions will be linked to the community-based interventions described earlier. All resource management interventions, including community-level interventions, will be assessed and selected on the basis of specific criteria (Appendix 5).

### 3. Coastal Resource Planning

19. A coastal resource management plan for the Eastern Province will be prepared to establish a consistent framework for provincial coastal resource planning and management. The plan, among others, will encompass shoreline management and tourism development in the coastal zone. The plan will link up with, and have application to, other associated development and sector plans, including the national coastal zone plan. Assistance will be provided to improve systems for resource management (including implementation of zoning) and

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<sup>10</sup> A sanctuary is the lowest form of protection enforcement under the Department of Wildlife Conservation, where private land ownership, human settlements, and economic activities are permitted.



enforcement of relevant environmental laws and regulations, and to strengthen the capacity of the relevant agencies in the province to implement such systems. A study on coastal resource management issues in the Northern Province that could form the basis of a follow-on investment similar to the Project will also be supported under this component.

20. The Project will improve the capacity of local government agencies to undertake planning, coordinate aid agency interventions, prepare natural resource management plans, and efficiently integrate these plans into specific sector and overall development plans. These outcomes will be achieved through institutional capacity building with staff training at provincial, district, and divisional levels; and investing in equipment to improve existing database management systems, incorporating gender-disaggregated information where appropriate. The preparation of community resource management plans in component 2 will also contribute to improved coastal resource planning.

#### **4. Fisheries Development**

21. This component will support the development of a more efficient and productive fishing industry on the east coast by rehabilitating the two major fisheries harbor facilities found there: Valaichchenai and Cod Bay. The Project will also support private sector participation in onshore commercial activities at the two harbor facilities. Training programs aimed at improving fish handling and processing methods will be conducted for fishing industry participants.

22. The fisheries harbor facilities in Valaichchenai were badly damaged during the conflict and have been closed since 1990. The following activities are proposed: improve the sea entrance and the harbor access channel; provide mooring and boat lifting facilities; improve the fish-landing wharf; rehabilitate existing buildings; provide fire-fighting and first aid facilities; rehabilitate roads and parking areas; and provide additional utilities and services (e.g., power supply, garbage collection, ice, and radio communication). The facilities at the only functioning fisheries harbor on the east coast at Cod Bay deteriorated significantly during the conflict period and will also be upgraded. Development activities at this site include extending the waterfront (fish landing wharf and jetty), improving the slipway, and providing some onshore facilities (for repairs, flaked ice, cold storage, and other services).<sup>11</sup> The improved facilities at the two sites will allow safe moorings and sea access year round for vessels (particularly multiday boats), speed up refueling and provisioning, and permit more efficient and hygienic fish handling. The shorter turnaround time in port and better handling will in turn minimize waste and improve the overall quality of the fish catch.

23. Physical improvement at the two harbor facilities will be preceded by an in-depth preparation phase in which stakeholders will be consulted to revalidate the needs assessment undertaken during project preparation. The consultation process in both locations will proceed in phases and give careful attention to the distribution of benefits among the local Tamil, Muslim, and Sinhalese communities to ensure the social viability of the proposed activities. The stakeholder consultation process will be followed by full feasibility studies, detailed engineering designs, and preparation of tender documents. To avoid any possible scope for resettlement impacts, the rehabilitation activities at Valaichchenai will be confined to the current harbor area. Physical implementation of rehabilitation works is scheduled to begin during year 2 in Valaichchenai and year 5 in Cod Bay.

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<sup>11</sup> To ensure that the rehabilitation of Cod Bay is consistent with the planned long-term development of Trincomalee Bay, the rehabilitation work will only be initiated after the completion and adoption of a comprehensive development plan for the area. For this reason, the rehabilitation of Cod Bay is planned for the second half of the project period. An alternative site has been identified in the event it is decided not to proceed with Cod Bay.

24. Improper handling has contributed to the poor quality of fish and fish products on the east coast. Training and awareness programs covering improved fish handling and onboard storage methods, as well as improved processing and marketing methods, will therefore be conducted for fishing industry participants—fishers, boat owners, processors, and traders. This is critical to the development of an export-oriented fishing industry, as raw material procurement and processing have to conform to stringent international quality standards and regulations. Maintenance of the quality of the fish catch is a particular area of concern because of the increasing fleet of multiday boats, which access the offshore fishing grounds.

## **5. Project Implementation Support**

25. This component includes establishment and operation of management and monitoring systems to support timely and cost-effective project implementation. It will consist of provision of project and financial management support; engagement of nongovernment organizations (NGOs) and other service providers, especially those with a particular focus on women; procurement of equipment, supplies and materials; and the establishment of accounting, auditing, monitoring and reporting systems. An impact assessment framework, and an information, education and communication (IEC) system, will also be established. The IEC strategy and plan seeks to (i) provide easy access to the most current project information; (ii) initiate and guide awareness campaigns, events, and training; and (iii) establish efficient information and communications mechanisms among project implementation partners and with other relevant development initiatives.

## **C. Special Features**

26. The Project has a number of important design and implementation features to address the special needs of the project area. These include (i) identifying and initially prioritizing project interventions to the most vulnerable communities and important natural resource systems within the project area; (ii) implementing approaches that are responsive to the special challenges posed by the postconflict situation to ensure that project activities do not widen ethnic divisions; (iii) providing LEDS to help ensure the livelihood improvements supported under the Project are sustainable, give equal access to women, and provide acceptable financial returns; and (iv) forming a partnership between various levels of government, NGOs, the private sector, community based organizations (CBOs), and beneficiaries in project activities. The Project will adopt a gender strategy to address the specific concerns and needs of women (Appendix 3).

27. A variety of approaches have been integrated into the design and implementation arrangements to ensure that the project interventions strengthen peace building and contribute to community reconciliation. Community consultation and participation are at the core of project planning and implementation so that potential constraints on project activities and interventions can be identified and dealt with effectively at an early stage. Activities will be phased so that the Project can adapt to the evolving peace process. A “do no harm” approach will be applied so that negotiated solutions can be found for any activity that could widen divisions within communities, or fuel further conflict. The ethnic composition of the project area will also be taken into account in identifying beneficiaries for specific project interventions. All major project documents (including recruitment announcements and tender notices) will be translated and made available in the three official languages. Agreed upon implementation procedures will also ensure that criteria and procedures for selecting beneficiaries and implementation partners, and awarding contracts are entirely transparent to avoid any perception of resource misuse.

28. The provision of LEDS will help project beneficiaries to (i) identify and assess market opportunities for different products, services, and enterprises; (ii) identify environmentally

friendly and appropriate technology alternatives; and (iii) prepare business plans for proposed enterprises. The provision of LEDS will be facilitated by (i) specialized training in enterprise-related technical and managerial aspects; (ii) linking small-scale entrepreneurs with successful larger-scale entrepreneurs through a mentoring program; and (iii) implementing programs to introduce new technologies. The concept is to link private sector entities and NGOs currently providing such services to potential beneficiaries. An integral LEDS function will be to take affirmative action toward empowering women entrepreneurs.

29. Project activities will be programmed and implemented at the district level and below, with coordination taking place at the provincial level. Implementation will involve a partnership between local NGOs selected according to specified criteria in each district and the district planning offices, while NGOs with specialist skills, other local government agencies, and the project consultant team will provide technical support as required. The focus will be on building the capacity of the local government and implementing partner NGOs (IP-NGOs), as well as the beneficiary communities themselves, which are the focal point for service delivery. At least one IP-NGO in each district will be a women's NGO.<sup>12</sup>

#### D. Cost Estimates

30. The total project cost (including interest during implementation, taxes, and physical and price contingencies) is estimated at \$28.4 million equivalent, comprising \$8.2 million in foreign exchange cost and \$20.2 million equivalent in local currency. The project cost estimates are summarized in Table 1. Further details are in Appendix 6.

**Table 1: Cost Estimates  
(\$ million)**

<b>Project Components</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Base Cost</b>			
1. Livelihood Improvement	1.3	10.2	11.5
2. SMA Resource Management	0.7	1.2	1.9
3. Coastal Resource Planning	1.2	1.5	2.7
4. Fisheries Development	2.4	2.8	5.2
5. Project Implementation	1.0	1.9	2.9
<b>Subtotal (A)</b>	<b>6.5</b>	<b>17.7</b>	<b>24.2</b>
<b>B. Contingencies</b>			
1. Physical <sup>a/</sup>	0.7	1.4	2.0
2. Price <sup>b/</sup>	0.5	1.1	1.6
<b>Subtotal (B)</b>	<b>1.2</b>	<b>2.5</b>	<b>3.6</b>
<b>C. Interest During Construction</b>	0.5	-	0.5
<b>Total</b>	<b>8.2</b>	<b>20.2</b>	<b>28.4</b>
%	29	71	100

<sup>a</sup>Estimated at 10% of the value of all items, except for the microfinance fund for which there are no physical contingencies.

<sup>b</sup>Estimated using a constant purchasing power parity exchange rate, and assuming foreign inflation of 2.4% (years 1-3) and 2.7% (years 4-6), except for the microfinance fund for which there are no price contingencies. Source: Asian Development Bank estimates.

<sup>12</sup>To qualify as a women's NGO, at least 70% of clients and staff, including the NGO's top management, must be women.

## E. Financing Plan

31. It is proposed that ADB finance the Project with a loan not exceeding the equivalent of \$20 million from ADB's Special Funds resources. The Borrower will be the Democratic Socialist Republic of Sri Lanka. The ADB loan will have a maturity of 32 years, including a grace period of 8 years. The loan will carry an interest charge of 1.0% during the grace period and 1.5% per annum thereafter to be paid semiannually. Government counterpart financing will be required in the amount of \$5.6 million and the project beneficiaries' contribution is estimated at \$1.3 million. Bilateral parallel cofinancing of \$1.5 million will be provided on a grant basis by the Government of the Netherlands to support capacity building in environmental protection and monitoring activities. The financing plan is outlined in Table 2.

**Table 2: Financing Plan  
(\$ million)**

<b>Source of Financing</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>	<b>%</b>
ADB	7.8	12.2	20.0	70
Gov't. of the Netherlands	0.4	1.1	1.5	5
Beneficiaries	-	1.3	1.3	5
Gov't. of Sri Lanka	-	5.6	5.6	20
<b>Total</b>	<b>8.2</b>	<b>20.2</b>	<b>28.4</b>	<b>100</b>

Source: Asian Development Bank estimates.

## F. Implementation Arrangements

### 1. Project Management and Coordination

32. The Ministry of Home Affairs, Provincial Councils, and Local Government (MHAPCLG) will be the Executing Agency. MHAPCLG will report on project financial and implementation performance. The NEPC will be the lead Implementing Agency (IA) and will be responsible for overall project coordination under a project implementation agreement (PIA) acceptable to ADB. The Ceylon Fisheries Harbor Corporation (CFHC) will be the IA for the fisheries harbor rehabilitation under a PIA acceptable to ADB. The National Development Trust Fund (NDTF) will manage and coordinate the Project's \$4.0 million credit line under a PIA and subsidiary loan agreement acceptable to ADB. The Central Environmental Authority (CEA) will implement the project activities financed by the Government of the Netherlands.<sup>13</sup> A provincial-level coordinating committee, chaired by the chief secretary of NEPC, will be established for project coordination, direction, and guidance. The coordinating committee will initially meet monthly, and will include representatives from all implementing organizations, including the CEA, as well as a representative from the NGO sector.<sup>14</sup> A national-level steering committee chaired by the secretary of MHAPCLG has been established to facilitate coordination between all projects implemented in the North and East that are executed by MHAPCLG and to address project-related issues of national significance.

<sup>13</sup> The specific project activities to be financed by parallel cofinancing have been mutually agreed upon by the CEA, the Government of the Netherlands, and ADB.

<sup>14</sup> This will be covered by the Consortium of Humanitarian Agencies, which is an association of agencies supporting development work in Sri Lanka.

33. A project office (PO) will be established within the Provincial Ministry of Agriculture (PMA)<sup>15</sup> and will be headed by a suitably qualified project director (PD) to oversee day-to-day implementation of the Project. Project offices will also be established at the district level within the district secretariats (DS) and will be headed by suitably qualified deputy project directors (DPDs). The PD and DPDs will be selected and appointed in accordance with the Government's procedures for recruiting project staff for foreign-assisted projects, acceptable to ADB. They will be assisted by an adequate number of support staff, also recruited in accordance with the aforementioned procedures. The Project will be implemented with the assistance of the existing district coordinating committees (DCCs) and divisional coordinating committee (DVCCs). A project organization chart is in Appendix 7.

34. Project loan funds for NEPC will be routed through MHAPCLG in an arrangement similar to that adopted under other foreign funded projects in the North and East, e.g., the World Bank-supported North East Emergency Reconstruction Program (NEERP) and the ADB-supported NECORD project. The Treasury will release funds directly to the NEPC and debit the amounts accordingly from the budget line item for MHAPCLG. The direct transfer of funds will expedite disbursement, while formal routing through MHAPCLG will ensure fiduciary oversight at the central Government level. A Department of Budget circular regarding the transfer of funds under NECORD provides the precedent for this disbursement mechanism.

35. The Government and the LTTE plan to negotiate a transitional administration for the North and East. Once the institutional mechanisms have been agreed upon, it will be necessary to operationalize its workings, introduce appropriate financial controls, and define new administrative procedures. Until such time, the existing administrative mechanisms will continue to operate, and the NEPC and local government agencies falling under its jurisdiction will implement the Project as set out below. The Loan Agreement provides for prior consultation with and approval of ADB on any changes in administrative responsibilities under the Project.

## **2. Project Components**

### **a. Sustainable Livelihood Improvement**

36. The community infrastructure interventions will be implemented with the assistance of local IP-NGOs contracted under the Project. The criteria established for NGO selection are set out in Appendix 5. The IP-NGOs will help communities identify and prioritize their needs, and prepare subproject concept proposals in a standard format.<sup>16</sup> The proposals will be submitted to the relevant DVCC for clearance. The DVCC will be chaired by the divisional secretary/divisional assistant director of planning, and will include the divisional environmental officer (DEO) and IP-NGOs. If the proposal requires a more detailed technical assessment, the DVCC will have the authority to request such assistance from the project consultant team. Depending on the nature and scope of the subproject, clearance may be required from the relevant government approving agency (e.g., CEA, Coastal Conservation Department [CCD], etc.).<sup>17</sup> Once cleared, the subproject proposal will be resubmitted to the DVCC for final approval. The subproject proponent (e.g., the recipient communities themselves in the case of community

<sup>15</sup> The PMA's functions are most closely aligned with the range of livelihood support interventions under the Project. Specifically, the PMA oversees activities in agriculture, fisheries, and food processing.

<sup>16</sup> A number of potential IP-NGOs are already providing community infrastructure in the Eastern province. Simple, low-cost designs utilizing locally available building materials have been developed for basic infrastructure prototypes, which will be adopted by the Project. As such, the development approach envisaged is considered to be cost effective and appropriate in the local context.

<sup>17</sup> Clearance will also be required through the District Mine Action Committees before any community development activities can be initiated. Project funds have been allocated for mine surveys and removal in the event this is necessary.

infrastructure) will be responsible for implementation, with the assistance of the IP-NGOs and the project consultant team. Monitoring and oversight will be undertaken by the DCC, chaired by the district secretary, with membership from relevant government agencies, NGO consortia, and the private sector.<sup>18</sup>

37. The IP-NGOs will also help households identify viable livelihood activities in fisheries, agriculture, agroforestry and a range of nontraditional activities in cooperation with the LEDS providers.<sup>19</sup> The livelihood support activities will be financed through a microfinance delivery system established under the Project. Consistent with the approach developed under the ADB-financed Rural Finance Sector Development Program (RFSDP), the NDTF will serve as the apex agency for channeling credit to participating institutions that meet predetermined eligibility criteria. The criteria adopted will be consistent with those under RFSDP. Further details are in Appendix 8. The credit scheme will operate initially through local microfinance NGOs (MF-NGOs), and will expand to a broader range of financial institutions including cooperative rural banks and commercial banks, once the delivery system has developed. The strategy is to provide smaller loans for livelihood improvement and enterprise development early in the Project, and move up to larger loans and enterprises later on.

#### **b. Resource Management in Three SMAs**

38. Implementation of community-based resource mapping and resource management interventions will be facilitated by the IP-NGOs contracted under the Project. As in the community infrastructure interventions described in para. 36, the IP-NGOs will help communities identify and prioritize resource management interventions, and prepare subproject proposals in a standard format. The proposals will be submitted to the relevant DVCC for clearance and funding on a grant basis. Implementation progress will be monitored by the DCCs. The IP-NGOs will also facilitate the linkage of resource mapping at the community level with preparation of SMA plans at district level.

39. Integrated planning and subsequent management of the SMAs at the district level will be undertaken through SMA committees. The committees will be established by the relevant DS and will comprise representatives from the district departments and statutory bodies, municipal governments, IP-NGOs, the private sector, and civil society. The main functions of the committees will be to (i) approve the work plan and budget for preparing an SMA management plan; (ii) ensure that an adequate consultation process is followed; and (iii) provide overall policy guidance. Technical assistance will be provided to the committees as needed by the consultant natural resource planners. Once finalized, the SMA plans will be submitted to their respective DCCs for endorsement.

40. The SMA plans will also identify priority larger-scale environmental interventions for implementation under the Project. Any technical assistance that may be required to formulate project proposals and implementation arrangements will be provided by the project consultant team or the contractors engaged to provide LEDS. The proposed interventions must clear the

<sup>18</sup> The DCCs will meet monthly to review implementation progress. Representatives from the three main stakeholder groups (Government, private sector, and NGOs) from the two other districts will attend the monthly DCC meetings in each district on a revolving basis to enhance transparency.

<sup>19</sup> Organizations such as the Integrated Technology Development Group (ITDG), the Agromart Foundation (AF), and Sarvodaya Economic Enterprise Development Services (SEEDS) will be contracted to provide LEDS. The ITDG is a United Kingdom-based NGO that has established an independent national NGO in Sri Lanka that works to disseminate appropriate technology. The AF is a national NGO that seeks to empower the poor through entrepreneurship training, with a strong focus on women. SEEDS is a national microfinance NGO with a well-developed microenterprise advisory unit.

relevant environmental screening procedures and receive prior approval from the DCC before implementation. These subprojects will be financed on a grant basis.

### **c. Coastal Resource Planning**

41. The provincial planning secretariat (PPS) will be the focal point for implementing the coastal resource planning and capacity building activities at the provincial, district, and divisional levels. A consultant resource planner and short-term experts covering a range of areas, including database management systems and tourism planning, will support the PPS. Specific resource assessments will be outsourced on a case-by-case basis depending on the needs that emerge in the course of the data collection and planning exercises. A provincial inter-agency planning group will be established to ensure coordinated input by the relevant agencies involved in resource-based planning activities, particularly preparation of the provincial coastal resource management plans. The planning group will be chaired by the deputy chief secretary of planning, and will include the following agencies: Urban Development Authority, Ministry of Tourism, Sri Lanka Tourist Board, Sri Lanka Ports Authority, CFHC, CCD, Fisheries Department, CEA, National Aquatic Resource Agency, Department of Wildlife Conservation, Forestry Department, and the Sri Lankan Navy. National agencies that do not have provincial representation will establish operational functions in the region. The SMA committees will provide the link between community-based planning efforts and planning activities at higher institutional levels.

42. Implementing strengthened enforcement procedures will require active community participation as well as the support of the relevant agencies. Activities related to enforcement procedures will involve information dissemination and public consultation, and will build on the outputs of community-based planning efforts. The Project will also strengthen the regional and subregional offices of the CEA in the North and East,<sup>20</sup> which will have overall responsibility for environmental monitoring under the Project, and facilitate establishment of effective links and collaboration with the NEPC. Specific project activities in this regard, which will be financed by the Government of the Netherlands, include training the DEOs and other relevant government officials, installing an accredited environmental testing laboratory in the region, and providing a mobile environmental monitoring unit. The strategic study for coastal resource management in the Northern Province, which will also be financed by the Government of the Netherlands, will be outsourced by CEA to outside experts. This will be done in close coordination with NEPC.

### **d. Fisheries Development**

43. CFHC will be responsible for rehabilitating the fisheries harbors in Valaichchenai and Cod Bay and managing the rehabilitated facilities. This will include (i) overseeing the conduct of feasibility studies and preparing detailed engineering designs, quantities, cost estimates, and tender documents; (ii) awarding construction works; (iii) supervising contractors during implementation; and (iv) implementing appropriate O&M practices in the rehabilitated harbors. CFHC will also take the lead in organizing the stakeholder consultation process for the two harbor facilities.

44. CFHC will carry out operation and management under the policies set out in its Corporate Plan 2003-2007, which are considered adequate to ensure cost recovery and efficient operation of the rehabilitated harbor facilities.<sup>21</sup> Under the Project, fishery harbor

<sup>20</sup> The CEA is establishing a regional office in Trincomalee with subregional offices in Ampara and Jaffna.

<sup>21</sup> The CFHC owns and operates all of Sri Lanka's fishing harbors and currently recovers O&M costs through a system of berthage fees. CFHC has developed a new catch weight-based "port gate" levy on fish moving through its harbor facilities that will substantially improve its financial performance.

management staff will be trained to support improved management and monitoring of the fish catch.<sup>22</sup> Efforts will also be made to secure fishers' participation in improving harbor management and operations, as well as in building a monitoring mechanism. Facilities for onshore commercial activities will be leased out to the private sector on a competitive basis in line with current government policy.

45. The PO will organize the fisheries training activities and awareness campaigns, with the assistance of the project consultant team. These programs will be developed in close cooperation with existing fisheries training institutes and private sector initiatives. The Project will also draw upon relevant training materials and programs developed under the CRMP.

#### **e. Project Implementation Support**

46. The PO will establish and operate project management and monitoring systems with the support of the DPOs. Project and financial management specialists will be recruited at the provincial level and for each DPO to establish effective management and monitoring systems. The project consultant team will implement the IEC services, while the contractors will carry out the project impact assessments.

### **3. Implementation Period**

47. The Project will be implemented over 6 years (Appendix 9). Year 1 will involve setting up the project management and implementation framework, and various other preparatory tasks. The latter includes (i) preparing work and financial plans; (ii) procuring goods and services (consultants, IP-NGOs, and other service providers); (iii) designing and installing a management information system; and (iv) monitoring impacts. Producer and user groups will be mobilized once the IP-NGOs are contracted. The fisheries infrastructure will be started after satisfactory completion of the social preparation and stakeholder consultation.

### **4. Procurement**

48. Goods and services financed from the proceeds of the ADB loan will be procured in accordance with ADB's *Guidelines for Procurement*. ADB-financed civil works contracts estimated to cost the equivalent of more than \$1.0 million will be awarded on the basis of international competitive bidding (ICB); those costing less than \$1.0 million will be carried out following the Government's local competitive bidding (LCB) procedures satisfactory to ADB. Supply contracts estimated to cost the equivalent of more than \$500,000 will be awarded on the basis of ICB, and those between \$500,000 and \$100,000 will be awarded on the basis of international shopping. Minor items costing less than \$100,000 equivalent may be procured through direct purchase; small items costing less than \$10,000 equivalent will be procured by communities under arrangements developed by the Ministry of Finance for community development projects and acceptable to ADB and the lead IA. Notwithstanding the above, the award of civil works contracts estimated to cost the equivalent of \$50,000 or less and supply contracts for equipment and materials estimated to cost the equivalent of \$50,000 or less, except for the first three such contracts in each project district, will be subject to ADB's post facto approval procedures.<sup>23</sup> Indicative contract packages are in Appendix 10.

<sup>22</sup> The latter will be undertaken as part of a broader effort established under the ADB-financed Coastal Resource Management Project (CRMP) seeking to create a comprehensive fish catch monitoring system to track the sustainability of the marine fisheries resource.

<sup>23</sup> If such contracts are subsequently not approved by ADB, the Government will be required to refund any payment made from the loan to finance such contracts and provide financing from its own or other resources.



## 5. Consulting Services

49. Consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. Summary terms of reference for the project consultant team (around 35 international and 381 domestic person-months) and various other consultant packages (including the IP-NGOs) envisaged under the Project are in Appendix 11. Consultants will be provided individually and through a firm. In recruiting consulting firms, quality and cost based selection procedures will be followed. To ensure that the Project is implemented without delay, advance action will be allowed in recruiting individual project management consultants. The Government has been advised that ADB's support of advance action does not commit ADB to approve the Project or to finance the recruitment costs. To the extent possible, individual consultants and IP-NGOs will be recruited on a competitive basis. Where the number of qualified applicants is limited, direct selection may be used with prior approval of ADB.

## 6. Disbursement Arrangements

50. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. For the timely release of funds, imprest accounts will be established for the use of NEPC and CFHC. Disbursements to the NDTF and from NDTF to MF-NGOs will be made on a reimbursement basis in accordance with the subsidiary loan agreement between the Government and NDTF and the participation agreement entered into by NDTF and each MF-NGO. The imprest accounts will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed to by the Borrower and ADB. The initial amount to be deposited in the imprest accounts will not exceed 6 months of estimated expenditure or 10% of the total loan amount, whichever is less. ADB's statement of expenditure (SOE) procedures may be used to reimburse eligible expenditures and to liquidate advances made to the imprest accounts in accordance with ADB's loan disbursement guidelines. Any individual payment to be reimbursed or liquidated under SOE procedures will not exceed the equivalent of \$50,000. The cofinancing will be disbursed in accordance with procedures agreed upon by the Government of the Netherlands and the Ministry of Finance.

## 7. Accounting, Auditing, and Reporting

51. All agencies involved in project implementation will prepare and maintain separate accounts for Project-related disbursements. The PMA will consolidate the accounts of the various DSs and the CFHC and submit them to MHAPCLG, which will review the consolidated accounts and, after audit, submit them to ADB. The audit report will include, among others, a statement verifying that funds disbursed by ADB against SOEs have been used for the purpose for which they were provided. The NDTF will be responsible for accounts and requests for reimbursements relating to the microfinance delivery system; it will establish a separate project cell to maintain detailed records on the use of loan proceeds. Project accounts (including those of the NDTF and the MF-NGOs), together with disbursement documents, will be audited annually by independent auditors acceptable to ADB, and will be submitted to ADB within 9 months of the end of each fiscal year. The imprest accounts and SOEs will be audited as part of the regular annual audit of the project accounts, and a separate opinion on their use will be required in the annual audit report. MHAPCLG, NEPC, CFHC, and NDTF will ensure submission of audited project accounts within the time frame stipulated in the Loan Agreement.

52. The implementing agencies will prepare quarterly financial and physical progress reports on their respective activities, and submit the reports to the PO for consolidation. The NDTF will

submit quarterly progress reports to the PO on the progress of its part of the Project. The report will be an aggregation of the MF-NGOs quarterly reports, which will cover staffing, training, lending, collection, arrears performance, portfolio data, sub-borrowers' characteristics, and the impact of the livelihood support activities. The NDTF will segregate ADB loan proceeds from its own statements and from other ongoing projects, and present separate financial statements for the Project. MHAPCLG will submit quarterly to ADB progress reports on project implementation, within 1 month after the end of the quarter to which they relate, and such other reports and information relating to the Project as ADB may reasonably request. Within 3 months of physical completion of the Project, MHAPCLG will submit a project completion report to ADB. The responsibility for preparing these reports and ensuring they are submitted within the agreed upon time frame rests with the PD. All progress reports will include gender-disaggregated information with a section devoted exclusively to the Project's impact on women, successes encountered, constraints faced, and efforts made to overcome them.

## **8. Project Performance Management System**

53. During year 1 of project implementation, a project performance management system (PPMS) will be established at the PO with links to each district and to each project division. The PPMS will be prepared in consultation with the government agencies, project management staff, and IP-NGOs. Participatory monitoring and evaluation systems, which include gender specific indicators, will be introduced, and a mechanism to monitor the performance of the IP-NGOs will be developed with the assistance of the district NGO consortia. Indicators outlined for the vulnerable GN selection process and other key benchmarks will be incorporated. The PPMS will be part of the Project's overall computer-based management information system. Project impact assessment consultants under the Project will identify strategic indicators at the beginning of the Project and monitor them in-process twice a year and in more detail in years 3 and 6. The consultants will particularly focus on gender, postconflict impact assessments, poverty impacts, natural resource management, and institutional arrangements.

## **9. Project Review**

54. In the first 3 years of the Project, ADB will carry out semiannual reviews to (i) determine if the implementation arrangements are appropriate and in place and (ii) assess whether the various selection and intervention screening criteria in Appendix 5 remain appropriate. These reviews will also track relevant indicators, to be identified at the beginning of project implementation, to assess whether or not the overall peace/conflict climate is improving. During year 3 of the Project, a comprehensive midterm review will assess performance; identify any problems and constraints affecting project implementation, including changes in the security climate; and reach agreement on required changes to address the shortcomings. Depending on progress with the development plan for Trincomalee Bay, the midterm review may need to reassess the feasibility of proceeding with the rehabilitation of Cod Bay Fisheries Harbor, and evaluate other potential sites for fisheries infrastructure. Any required changes in scope, activities, and associated financial reallocation will be incorporated following the midterm review.

# **IV. PROJECT BENEFITS, IMPACTS, AND RISKS**

## **A. Economic Benefits**

55. Economic benefits will be generated from investments in (i) community infrastructure and environmental improvements; (ii) sustainable livelihood interventions; (iii) resource management and planning; and (iv) fisheries infrastructure. Investments in community infrastructure will result in improved productivity and health, and have the potential to reduce

household medical costs. Environmental improvements will enhance household quality of life and sustain the growth of tourism. The livelihood interventions will result in incremental production of a broad range of products, with the potential to raise the incomes of the poorest households substantially at full development. Improved resource management will reduce economic losses from inefficient and environmentally destructive resource-based activities that would have occurred in the absence of the Project. Investments in the fisheries harbors will increase productivity of both fishers and shore-based businesses. In particular, the facilities will attract more boats, especially multiday boats that can operate outside the immediate coastline where fishing pressure is currently high, and will facilitate the development of an export-based fishing industry on the east coast.

56. Since the project-financed investments in livelihood development activities will be largely determined by a community demand-driven process, it is difficult to predict the actual mix and scale of outputs. Furthermore, it is not possible to quantify with any degree of precision the long-term benefits of improved resource management and planning, environmental protection, or investments in community infrastructure. Therefore, a full benefit-cost analysis for the overall project was considered impractical. Benefits from rehabilitating the fisheries harbors are from increased boat landings due to the improved infrastructure facilities and a higher value fish catch due to better handling methods and reduced wastage. The economic internal rate of return (EIRR) for the fisheries development component is estimated at about 30%.<sup>24</sup> Further details of the financial and economic analyses are in Appendix 12.

## **B. Social Measures and Impact on Poverty**

57. **Ethnic Segregation.** Major changes in ethnic composition have occurred during the conflict period at the GN divisional level with communities living in separate villages or sections of villages. Further, with primary education being either in Tamil or Sinhalese, the education system effectively supports segregation of children of different communities at an early age. Ethnic segregation also occurs at the enterprise and institutional levels in terms of businesses, in government, and in subsector activities. The fishing industry, in particular, has become highly segregated along ethnic lines and the long period of conflict has resulted in a substantial loss of fishing assets by the Tamil population. The Project will seek to ease ethnic tensions by adopting practices that have worked well under NECORD and NEIAP (as described in para. 27).

58. In the event that disputes arise during project implementation, the relevant parties will be encouraged to make use of the established legal system where this is considered accessible and effective. Where this is not the case, traditional community-based nonviolent conflict resolution mechanisms will be used.<sup>25</sup> In areas where these do not exist, project management will select and contract local NGOs with specific skills in conflict transformation to assist communities in creating such mechanisms. Such contracts could cover several communities at a time, depending on the need and related economies of scale. The Project will draw on the experience NECORD has gained in this area.

59. **Highly Stratified Livelihood Systems.** The stratification of livelihoods in eastern coastal communities was compounded during the conflict as the various resource users adapted to restricted access and degradation of the resource base. Significant differences presently exist between resource users in the marine and lagoon systems, between men and women, and among ethnic groups (Supplementary Appendix G). The Project will address the

<sup>24</sup> The EIRR for the fisheries harbor rehabilitation activities under the recently completed ADB-financed Fisheries Sector Project was estimated to be in the 20-25% range.

<sup>25</sup> Conflicts among the various ethnic groups are often mediated by local religious or NGO leaders. LTTE leaders play the same role in areas they control.

social stratification problem by identifying and supporting alternative nontraditional income generation activities. At the same time, livelihood support packages for traditional resource-based activities will be carefully tailored to the different needs and capacities of the resource users (marine fishers, lagoon fishers, fisher/farmers, farmers, and farmer/cattle herders), and their sustainability will be enhanced through environmental rehabilitation and restoration activities. Advisory services and mentoring support will also be provided to assist project participants in further adapting the livelihood interventions to their particular circumstances and capacities. Project assistance in this regard will focus particularly on female entrepreneurs.

60. **Gender.** An inequitable division of labor continues to place additional strain on women in the East in fulfilling traditional male tasks, prompting many women to leave the country and seek work in the Middle East. In addition, women do not have access to many higher-wage occupations, and earn about half of what men earn in occupations in which both participate. Further, unlike in other parts of Sri Lanka, women in the East are only peripherally engaged in marine fishery support activities. Therefore, livelihood improvement interventions supported by the Project, especially those related to microenterprise development, will be geared toward women. This will be important given the high numbers of households with female heads in the project area. To ensure that this orientation is carried out, criteria for selecting IP-NGOs include demonstrated gender awareness. Moreover, gender issues will be addressed and monitored at all levels according to the gender strategy and plan in Appendix 3.

61. **Resettlement Impacts.** No resettlement impacts—either through displacement or adverse impacts on incomes—are envisaged, given the Project's emphasis on providing small-scale community infrastructure and support for improved livelihoods. In addition, fisheries harbor rehabilitation in Valaichchenai will be limited to the confines of the existing facility to eliminate any possible scope for displacement of households.<sup>26</sup> A resettlement framework has been prepared and agreed upon with the Government in the event any unanticipated resettlement issues arise during project implementation (Supplementary Appendix F).

62. **Minority Groups.** As noted in para. 15, small groups of coastal indigenous people live in scattered communities in the project area. The Project will support specific activities through separate, more holistic interventions to ensure socially and culturally sensitive improvement of their living conditions. Separate terms of reference were developed for the implementing partner NGO that will be engaged to implement the activities directed at coastal indigenous people. An indigenous peoples' plan according to ADB's *Policy on Indigenous Peoples* is not necessary in view of this direct intervention approach.

63. **Impact on Poverty.** The Project will enhance traditional livelihoods in fishing and agriculture as well as create new economic opportunities for marginalized groups in nontraditional activities, particularly women and landless laborers. A number of innovative and financially viable livelihood packages have been identified for possible support under the Project (Appendix 12). A cluster concept linking income generation activities of the poor with micro, small, and medium-scale enterprises within a sector promoting backward/forward linkages will be adopted and technical/mentoring support provided to ensure that the poor do not remain in isolated activities that yield low financial returns. By undertaking environmental improvements and strengthening resource management systems, the Project will also help maintain the natural resource base on which many coastal livelihood activities depend.

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<sup>26</sup> An ADB review mission will be fielded following completion of the detailed design of the rehabilitated harbor facility to ascertain whether land acquisition would be required or any other resettlement impacts would be generated.

### **C. Environmental Impacts**

64. The Project is classified as category B in accordance with ADB's Environmental Assessment Guidelines (2003). Initial environmental examinations (IEEs) carried out as part of project preparation have involved extensive public consultation. In view of the different typologies and locations of the interventions, five IEEs were prepared comprising development activities in the three SMAs and rehabilitation of the two fisheries harbors. The full range of community interventions is examined in the IEEs conducted for the SMAs. While some activities may give rise to adverse but manageable environmental impacts, the Project will also have significant environmental benefits, including direct protection of sensitive and valuable natural resources. A summary environmental analysis is in Appendix 14. Environmental management plans, including mitigation measures and environmental monitoring, have been prepared and relevant subprojects will in addition be subject to formal environmental assessment and review procedures (Supplementary Appendixes N and O).

### **D. Risk Assessment**

65. The Project will be implemented in a changing political and institutional environment, and as such will face considerable political, institutional, social, and security risks. During project preparation, to the extent possible, measures to address the risks were incorporated in the project design. The political and security risks are considerably reduced with the current peace-building activities. However, until there is a formal resolution between the negotiating parties, these risks will remain. Political and institutional developments will be closely monitored by the NEPC and other relevant agencies, to enable project management to anticipate likely changes in this regard.

66. Government agencies in the North and East have limited institutional capacity. To address this constraint to effective implementation, the Project will provide strategic staff inputs into the local Government agencies to support capacity building and implementation of activities, assist in developing partnerships between Government and NGOs, and strengthen private sector participation in delivering services. To address the lack of effective enforcement of environmental regulations, which could have an adverse impact on project outcomes, the Project will work at a number of levels: with communities in terms of awareness raising and local resource management subprojects addressing environmental hot spots; through inter-agency groups at the SMA level to establish coordinated planning and resource management systems; through implementation of subprojects with direct benefits, such as solid waste management; and through assistance to improve enforcement of environmental regulations.

67. The targeted beneficiaries are poor and vulnerable, and there is a risk that they will not participate in project activities. The project design has addressed this risk by focusing on interventions that meet immediate needs—provision of basic community infrastructure and livelihood support. The interventions will be developed in close consultation with the communities themselves, and will aim to respond to local priorities. IP-NGOs will work with communities to assist in identifying and preparing these interventions. The sustainability of project activities is also a risk, given the government's fiscal constraints and the low household incomes in the project area. To reduce this risk, the Project will strengthen local community-based organizations and offer training in management practices for project-supported activities. To reduce the fiscal burden on Government, and increase local ownership, the O&M costs of the community infrastructure will be borne by the communities themselves.

## V. ASSURANCES

### A. Specific Assurances

68. In addition to the standard assurances, the Government has given the following assurances, which are incorporated in the legal documents:

- (i) The project implementation arrangements reflect the present Government administrative structure in the project area that may change during implementation. The Government will immediately notify ADB of any change in administrative structure and take necessary steps to ensure that the project management arrangements are revised in consultation with ADB to reflect the new administrative structure.
- (ii) The Government will ensure that all project interventions contribute to peace building and community reconciliation. In the event that any intervention is having, or is thought to have had, negative impacts on peace building and reconciliation efforts, the Government agrees that ADB will have the discretion to determine whether the intervention should be continued, redesigned, suspended, or cancelled.
- (iii) The Government will provide adequate counterpart funding for the Project and will ensure that the lead implementing agency receives its annual budget allocations without delay to enable it to properly discharge its responsibilities under the Project.
- (iv) The Government will ensure that the lead IA, with the assistance of consulting services, will have come up with long-term O&M procedures and sustainable sources of funds to operate and maintain the assets upgraded or constructed under the Project. With respect to the assets to be operated and maintained by communities, the Government will ensure that each community or community organization has (a) before the start of any civil works, agreed in writing with the lead IA to be responsible for O&M of the relevant upgraded or new assets; and (b) put in place an O&M plan that is practicable and acceptable to the lead IA and ADB.
- (v) The Government will ensure that (a) all project interventions are specifically targeted to the poor and to women; (b) the Project's gender strategy and plan are implemented as set out in Appendix 3; and (c) specific interventions are developed to benefit the coastal indigenous people in accordance with ADB's *Policy on Indigenous Peoples*.
- (vi) The Government will ensure that all environmental mitigation measures identified in the IEEs conducted for this Project are incorporated into the project design and followed during implementation in consultation with the responsible line agency and in accordance with ADB's *Policy on the Environment*.
- (vii) The Government will ensure that (a) the environmental review procedures (ERP) for approving subprojects are strictly observed and agrees that no project activities will start before the full compliance with the ERP and receipt of approval; and (b) all subproject activities will be carried out in accordance with the Government's environmental rules, regulations and laws, and ADB's environmental assessment guidelines.
- (viii) The Government will ensure that an adequate resettlement plan based on the approved resettlement framework is prepared and submitted to ADB for approval for any subproject involving resettlement impacts as defined in the Government's *National Involuntary Resettlement Policy* and ADB's *Policy on Involuntary Resettlement*.
- (ix) The Government will ensure that the NDTF will implement the microfinance scheme as described in the ADB Loan Agreement and in the subsidiary loan agreement, and performs its obligations under the subsidiary loan agreement.

## **B. Conditions for Loan Effectiveness**

69. Prior to loan effectiveness, the Government will have (i) made the necessary office space and initial office equipment allocations for the Project; (ii) appointed the project director, and selected and appointed the deputy project directors for each of the three districts in accordance with the Government's Circular 10 of 26 December 2000, *Management of Staff for Project Management Units of Projects Assisted by Foreign Financed Agencies and Their Emoluments*, with the concurrence of ADB; (iii) signed a subsidiary loan agreement with the NDTF, satisfactory to ADB, with all conditions for its effectiveness satisfied; (iv) obtained the Netherlands grant or made other arrangements, satisfactory to ADB, to commit the provision of the funds intended to be provided by the Government of the Netherlands, and provided ADB with a copy of a signed agreement relating to obtaining the Netherlands grant; and (v) completed the NDTF's incorporation as a company.

## **C. Condition for Withdrawal from Loan Account**

70. No withdrawals will be made from the loan account for civil works related to rehabilitation of the two harbor facilities unless ADB verifies that CFHC has submitted to ADB a corporate plan addressing at least the following: (i) strategies for promoting private sector participation in the harbor activities at Valaichchenai and Cod Bay; (ii) strategies for medium and long-term management, O&M of its assets, including civil works, equipment, and services provided under this Project; and (iii) strategies for ensuring equitable stakeholder participation in the facilities constructed or upgraded at Valaichchenai and Cod Bay. In addition, no withdrawal shall be made from the Loan Account for civil works at Cod Bay until CFHC has demonstrated to the satisfaction of ADB that the proposed activities are consistent with the planned long-term development of Trincomalee Bay.

## **VI. RECOMMENDATION**

71. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan in various currencies equivalent to Special Drawing Rights 14,009,000 to the Democratic Socialist Republic of Sri Lanka for the North East Coastal Community Development Project from ADB's Special Funds resources with an interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement and Project Implementation Agreements presented to the Board.

JOHN LINTJER  
Vice President (Finance and Administration)

6 November 2003

## **ANALYSIS OF THE POSTCONFLICT SITUATION IN THE NORTH AND EAST**

### **A. Background**

1. Twenty years of conflict has severely affected the livelihood capabilities of households and communities in the North and East. The direct effects of the conflict include the loss of breadwinners and livelihood opportunities due to death, displacement, physical injury, and destruction of physical assets. There has also been a great deal of personal insecurity and reduced access to communal and public assets. Capabilities and skills have also been reduced by declining standards of education, low school attendance rates, and lack of continuous employment and concomitant skills development. The general erosion of assets and capabilities, in turn, has undermined people's capacity to cope with stress and shock, making them overly focused on short-term survival and highly averse to risk taking.

2. As economic activity diminished due to the above factors, the resulting unemployment and underemployment further reduced household incomes in the North and East. Unemployment in the region in 2002 was estimated to exceed 25%—compared with 10% in the rest of the country—with youth and new graduates among the most seriously affected. Widespread underemployment has also made large numbers of people in the region dependent on low productivity, low income, and subsistence-oriented activities. Women account for a disproportionately large proportion of the underemployed, particularly those engaged primarily in agricultural activities.

3. Economic activity has slowly picked up since the declaration of a cease-fire in early 2002. As part of the peace process, some obstacles are gradually being removed, such as the borders between government-controlled and Liberation Tigers of Tamil Eelam (LTTE)-controlled areas. Despite all the legacies of the conflict and prevailing insecurities caused by a deep sense of distrust, people are slowly rebuilding their lives and reestablishing social relationships outside their immediate communities. In response to the cease-fire declaration, more than 270,000 internally displaced persons (IDPs) returned to their areas of origin during 2002. A high level of movement to and within the North and East has continued in the course 2003 as well. However, land mines and unexploded ordnance still inhibit the movement of people and access to physical assets, particularly agricultural land and economic infrastructure.

4. Restoring village livelihoods in this complex and still fluid situation requires multiple interventions at the community level, and the needs are great. Local roads, particularly category C and below, need to be restored. Minor irrigation schemes are in poor condition, with over 30% of their tanks requiring rehabilitation. Destruction and loss of animals have significantly reduced the livestock population. Water and sanitation systems were totally or partially destroyed in most villages, and electricity still needs to be provided in many remote rural areas. Most of the formerly surplus producing agricultural areas have become food-deficit areas, and farming equipment and key infrastructure have been lost. Coastal fisheries have experienced widespread destruction of productive assets, including boats and gear, and serious damage to supporting infrastructure such as harbors, anchorages, ice plants, and fuel supply depots.



## **B. Needs Assessment**

5. The recently completed assessment of needs in the conflict-affected areas<sup>1</sup> indicates that restoration of livelihoods will require the strengthening of the capacities and assets that support the basic well-being of the people. The assessment concludes that it will be necessary to provide an enabling and protective environment for people to take advantage of new opportunities through a more holistic approach combining the following elements: (i) programs that address immediate, medium-term, and long-term needs in a continuum ultimately linked to development-oriented interventions for poverty reduction; (ii) priority being given to the poorest and most vulnerable within the affected communities and resettling populations; (iii) programs that reflect the diversity of natural resources, livelihood systems, ethnicity, conflict impacts, and geographical locations in the region; (iv) participation of communities, particularly of women and other disadvantaged groups, at all stages; (v) empowering the affected communities, in particular poor people and other vulnerable groups, by promoting institutional development and capacity building/training of participants in community-based organizations (CBOs), cooperatives, and other community groups; and (vi) promotion of peace building and sustainability.

6. With nearly 90% of the population in the North and East living in rural areas, livelihood restoration will have to come primarily from reviving and expanding rural economic activities, at least initially. Improving the productivity of crops, fisheries and livestock, and related processing industries will be particularly important. Agriculture and fisheries sector recovery, in turn, will induce a demand-propelled expansion of many other activities, including agro- and fisheries-based services and value addition. Revival of the rural economy through small and medium-scale enterprise development, enhanced use of local resources, and an expanded service sector (e.g., trading, transport, and tourism) also have considerable potential to improve livelihoods in the North and East.

7. The current peace process and the ongoing resettlement of IDPs also give opportunities for expanding microfinance (MF) activities into broader programs that link microfinance institutions (MFIs) with the needs of both resident and returnee populations. The entry point of MF must be at the community level. Social mobilization, savings promotion, quality and timeliness of credit disbursement, effective handling of recoveries, income disclosure, and delinquency management are the main competencies required in expanding MFIs. The institutional development and social mobilization strategies should contribute to the economic empowerment of the local people and the smooth functioning of CBOs and other local groups. It is also necessary to combine the provision of MF services with strengthened institutional development, staff capacity building, and technical support/mentoring of MF clients.

## **C. Lessons Learned and Project Context**

8. Ongoing interventions in the North and the East (e.g., North East Community Restoration and Development Program [NECORD] and North East Irrigated Agriculture Project [NEIAP]) provide valuable lessons that must be considered in designing projects to help local communities regain productive lives. In particular, project interventions must adopt a process approach to permit flexible adjustment of project design during implementation. This will be particularly important in the present context, given that the security environment remains very fluid and that most local people are still traumatized by many years of conflict and the effects of living in insecure surroundings. Other relevant lessons from earlier experiences are (i) the need to ensure that a balance is maintained in project activities among ethnic groups; (ii) the need to

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<sup>1</sup> ADB, UN, World Bank. 2003. *Assessment of Needs in the Conflict Affected Areas*. Colombo.

undertake activities in both government-controlled and LTTE-controlled areas; (iii) the limited capacity of local government institutions to implement projects; and (iv) the critical need to coordinate the large number of externally assisted projects now under implementation in the North and East.

9. The Project will be implemented partly in government-controlled and partly in LTTE-controlled areas. Although boundary lines between these areas will undoubtedly be the focus of future discussions as part of the peace negotiations, at the moment they are not actively contested by either side. The future political and security situation in the North and East will depend greatly on the progress of the peace talks. Although the situation now is generally stable, it is punctuated by frequent reports of relatively minor breaches of the cease-fire agreement and of intimidation of local citizens and groups not closely aligned with the LTTE.

10. Key actors who have an influence on the evolving conditions in the conflict-affected areas include the LTTE, who wish to ensure that peace will bring, not only rehabilitation to the North and East, but also significant autonomy in the governance of the region. The LTTE also wishes to ensure that it remains the sole recognized representative of the Tamil people. The Government, which controls about half of the conflict-affected area, sees peace and the ensuing stability as an essential ingredient in revitalizing the national economy. However, the attitudes of certain elements within Government and the civil service mitigate against the pursuit of an equitable peace settlement. These attitudes are reflected within some opposition parties and nationalist political and religious groups in the South, considerably limiting the scope for bold Government initiatives to advance the peace process.

#### **D. Prognosis**

11. The general trend over the past 18 months has been a gradual decrease in the overall level of tension in the country. However, there is a clear sense that the trend could easily be reversed. In addition, this general easing of tension does not preclude periodic outbreaks of violence triggered by local issues. These issues tend to be related to competition for local resources, for example access to fishing grounds or arable land. Because of the lack of trust and effective dispute resolution mechanisms at higher levels, the danger is that these local triggers could cause wider outbreaks of violence through contagion effects. In the present context, this danger appears to be more of a risk than national or subnational leaders inciting their followers to violence at the local level.

12. The most likely scenario over the next few years is that the overall peace will hold despite periodic setbacks in negotiations and outbreaks of violence. However, the lack of transparent, effective, democratic governance according to generally accepted international norms is likely to continue to be a problem for the foreseeable future. Thus, conflict-related tensions will continue to constrain Sri Lanka's development process, particularly in the North and East.

**EXTERNAL ASSISTANCE  
FOR REHABILITATION IN THE NORTH AND EAST<sup>a</sup>**

Source	Amount (\$ million)
<b>Multilateral</b>	
World Bank–North East Irrigated Agriculture Project	27.0
World Bank–North East Emergency Reconstruction Program	31.0
United Nations–Rehabilitation and Reconstruction in North East Province	3.0
United Nations High Commissioner for Refugees (several programs)	15.1
ADB–North East Community Restoration and Development Project	40.0
ADB–Secondary Towns and Rural Community-Based Water Supply and Sanitation Project <sup>b</sup>	60.3
ADB–Distance Education Modernization Project <sup>b</sup>	45.0
ADB–A9 Rehabilitation under Third Road Improvement	5.0
<b>Bilateral</b>	
European Commission (Several programs in rehabilitation, protection, capacity building, and information)	24.7
Japan Bank for International Cooperation Pro-Poor Economic Advancement and Community Enhancement Project <sup>b</sup> Small-Scale Infrastructure Rehabilitation and Upgrading Project	16.0
Government of Germany (Several programs in rehabilitation, shelter, urban and rural water supply, integrated food security, and training)	8.5
Government of Australia Integrated Water Supply Scheme for Ampara	4.7
Government of Norway (several programs in security, peace building, capacity building, and health)	9.8
Government of the United Kingdom (several programs in security, peace building, capacity building, and health)	21.8
Government of the Netherlands (several programs in livelihood assistance, education, agriculture, capacity building, and environment)	5.3
Government of Canada (several programs in child welfare, gender, capacity building, and health)	7.6
Government of Sweden (several program in child welfare, gender, capacity building, and health)	8.7

<sup>a</sup> Only major programs are listed. There are also many small-scale internationally and domestically financed programs, typically implemented by nongovernment organizations.

<sup>b</sup> Some components cover the North and the East.

Source: Asian Development Bank.

## GENDER STRATEGY AND PLAN

1. **Background.** With the objective of reducing poverty and meeting basic needs in coastal communities in the three districts of Trincomalee, Batticaloa, and Ampara, the Project seeks to address women and gender-related concerns through selected interventions. The Project comprises five components: (i) sustainable livelihood improvement, (ii) resource management in three special management areas (SMAs); (iii) coastal resource planning; (iv) fisheries development; and (v) project implementation support. A poverty and social assessment (PSA) was conducted during the project preparatory technical assistance and has been cross-checked and updated during loan processing.

2. **Conflict-Related Gender Issues.** During the conflict, the workload of women has increased and role reversals have occurred, but patriarchal values still influence gender relations in society and economy. An inequitable gender division of labor continues to put additional strain on women in fulfilling supposedly male tasks. Due to economic hardships caused by the conflict, many poor women have left the country seeking work in the Middle East. Not only are they prone to numerous abuses for using unlicensed agencies or personal contacts, but they compromise their social status and are blamed for any misfortune that befalls the family in their absence. In the PSA focus group discussions, women mentioned the additional workload originating from role reversal, a general feeling of being exploited, of working 15-25% longer hours than men (taking unpaid household work into account), increasing domestic violence and incest, and stigmatization for having worked in the Middle East.

3. **Households with Female Heads.** The PSA reports high numbers of households with female heads (FHHs) in the project area. Overall, FHHs form 16% of the total number of households, with a maximum of 54% for individual Grama Niladhari (GN) divisions in Ampara district. Of the 36 GN divisions with 25% or more FHHs, 18 are in Ampara, 11 in Batticaloa, and 7 in Trincomalee. The emergence of large numbers of FHHs in the project area is directly linked to the conflict. War-related death and disappearance of a large number of young men during the 1990s left a large population of young war widows in the Eastern Province. These women not only suffer trauma, but also fall under the category of widows, a status that carries with it stigma owing to prevalent patriarchal attitudes and misconceptions. The breakdown of social control and displacement—which have allowed men to abandon their wives without going through a legal divorce, or practice polygamy in selected areas—and high divorce rates have further contributed to the increase in FHHs.

4. **Wage Discrepancies.** The wage disparities between men and women are marked. Women earn SLRs50–100 per day, while men earn SLRs100–200. Women do not have access to many higher wage activities such as masonry and carpentry, even if they have undergone training. For example, nontraditional job training for women that has been supported by the World University Services of Canada for the past 10 years is largely ineffective because of existing social barriers. Fortunately, microfinance-based development programs focusing on women already operate successfully in the project area and are seen as an alternative to female wage labor. In the LTTE-controlled areas, structures are more egalitarian and female cadres are considered equal partners. Sustaining gender equity in a postconflict situation represents a challenge to the Project, which seeks to provide opportunities for women beyond the conflict.

5. **Women's Livelihood Activities.** Unlike in other parts of Sri Lanka, women in the East are only peripherally engaged in marine fishery support activities although in exceptional cases they do mend nets. In lagoon fishing systems, however, they engage in a number of fisheries-related activities like catching shrimps, or gleaning for clams and oysters both for home

consumption and for sale. Mat weaving is another income generating activity. Men seasonally migrate for agricultural work, whereas women remain at home. Therefore, livelihood projects and microenterprise development can be enhanced to increase income and social benefits, and will be geared toward women in particular.

6. **Project Design and Implementation.** The Project provides appropriate skills training for employment free from gender bias. All project-related training will include a compulsory module on gender awareness to create a supportive environment for women. Service providers specializing in promoting livelihood and enterprises for women will be recruited. Community infrastructure will be women-friendly, with special provisions for child-care facilities, wherever suitable. Public awareness programs will seek to dispel negative images of widowhood to enable widows to gain self-respect and participate in the economy as valued citizens. The Project through its selection criteria for nongovernment organizations (NGOs) ensures participation by at least one local women's NGO as an implementing partner. The social development consultant to be hired under the project will have expertise in gender and development and gender mainstreaming; conduct gender training; and advise the project offices, implementing partner NGOs (IP-NGOs) and NGO consortia on gender-sensitive project management.

7. The following framework reflects specific features built into the Project to address gender concerns during implementation.

Project Components/Activities	Design Features/Measures
<b>Component 1 - Sustainable Livelihood Improvement</b>	
Select communities	The proportion of households with female heads was one selection criterion.
Establish District Secretariat-level steering and monitoring committees	The committees must have at least 30% female membership in and gender awareness programs will be conducted for officers.
Establish project information centers	With women-friendly opening hours, gender-specific information material available, links with women's NGOs and enterprise development service providers will be maintained.
Select implementing partner IP-NGOs	At least one IP-NGO in each district will be a women's NGO (to qualify, 70% of clients and staff, including top management should be women); will strengthen existing local women's networks bridging across ethnic groups. Other IP-NGOs will show demonstrated gender awareness (as evidenced in their project documents, e.g., gender-disaggregated monitoring and reporting); at least 50% of clients and 30% of staff are women; and there is commitment to increase the female ratio in top management to 30% by project midterm review.
Conduct participatory needs assessments (PNAs)	PNAs will be conducted separately with men and women, and should reflect women's and men's needs separately.
Provide livelihood and enterprise development services (LEDS)	At least one LEDS provider to be contracted will specialize in providing business skills training to women; will provide a female business advisor for each district; will ensure that training, technology transfer, and market opportunities will be provided without gender bias.

Form and strengthen appropriate livelihood clusters and other interest groups (producer and user groups)	At least 50% of members of these interest groups will be women; separate women's groups will be formed where appropriate.
Establish mentoring systems for microenterprises and small entrepreneurs through chambers and service-oriented clubs	The Project will ensure that 50% of participants in the mentoring program are women clients and will aim to persuade successful women entrepreneurs to serve as mentors and role models to increase self-confidence among rural women micro and small entrepreneurs. Gender awareness modules will be developed.
Implement small-scale community infrastructure projects	Subprojects will reflect women's needs as defined in PNAs; at least 50% of subprojects will be designed according to women's needs. Day-care facilities and playgrounds will be part of this design.
Implement environmental conservation and restoration projects	At least 50% women will participate in subproject planning; women's natural resource use patterns (lagoon fisheries and harvesting, firewood and water collection) and specific needs will be taken into account in the planned interventions.
Conduct training	All curricula designed (including livelihood improvement, enterprise development, technology transfer, and leadership training) under this component will be gender sensitive; gender awareness modules will be included; and 50% of participants in courses and exposures/exchange visits will be women.
Separate set of livelihood interventions for coastal Veddha communities	In providing community infrastructure and livelihood interventions special focus will be on needs of women of the community and gender awareness on issues related to alcoholism and education.
<b>Component 2 - Resource Management in Three SMAs.</b>	
Conduct consultations on environmental impacts	At least 30% women will participate .
Carry out detailed resource mapping and identify resource management priorities	Equal participation of women in these activities and women's resource use patterns will be included.
Select community-based resource management interventions including public awareness programs	Participation of women in conservation/restoration activities and in community-based enforcement/management committees will be 50%.
<b>Component 3 - Coastal Resource Planning</b>	
Build capacity through training at provincial, district, and divisional levels	Training will have at least 30% women participants and will include gender awareness modules as an integral component.
Establish databases and management systems	Databases will be gender-disaggregated and gender-focused. The social development consultant will provide assistance.
Prepare coastal resource management plan	Plan to be designed will take into consideration women's use of natural resources, other gender issues, and benefits for women. The gender expert will review the plan.
Conduct technical and feasibility studies on coastal resource management issues in the Northern Province	Studies will include assessment of women's use of coastal natural resources, including involvement in marine and lagoon fisheries.
Form committees.	At least 30% of the members will be women.
Conduct stakeholder consultations	Women will be included as separate stakeholders to ensure their voices are heard and included in decision making.
<b>Component 4 - Fisheries Development</b>	
Revalidate needs assessment during in-depth preparation phase	Women will be included as separate stakeholders.
Carry out feasibility study, detailed designs and environmental studies	The social development consultant will review the studies for gender concerns.

Form public-private partnerships for providing onshore commercial activities	Participation of women entrepreneurs and producer groups will be encouraged.
Carry out awareness programs and training on improved fish handling and on-board storage methods, processing and marketing methods for marine fishers, boat owners and traders	Participation of women boat owners and traders, if there are any, will be encouraged.
<b>Component 5 - Project Implementation support</b>	
Provide project specialist and financial management support	Selection criteria will specify experience in handling gender issues and the capacity to guide, monitor and report on the implementation of the gender strategy and plan of the Project.
Engage NGOs and service providers	Selection criteria will include women's NGOs and service providers that specialize in delivering enterprise development services to women, as well as demonstrated gender sensitivity among other partner NGOs and service providers.
Establish a project performance management system (PPMS) and participatory monitoring and evaluation (M&E) system	PPMS and M&E systems with gender-disaggregated data and gender-specific indicators for effective monitoring systems will be reviewed by the social development consultant and external consultant engaged for process and impact monitoring.

8. **Monitoring and Evaluation.** The Project provides for a social development consultant who will closely monitor gender issues, assist in gathering gender-disaggregated data, and advise on integrating gender at all levels of project implementation. A compulsory section for all project reports will include specific gender-related needs in the project area, how the Project has addressed these needs by the successes encountered, lessons learned, constraints faced, and measures adopted to overcome these constraints. In addition, the external consultant recruited for process and impact monitoring will assess gender issues within the Project and provide comprehensive feedback to the project team, as well as to other stakeholders, on the Project's impact on women and gender-related issues.

## PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<b>Goal</b> Reduce poverty and meet basic needs in coastal communities of the Eastern Province	<ul style="list-style-type: none"> <li>By December 2009, real incomes of 40,000 coastal households increased by at least 20%</li> </ul>	<ul style="list-style-type: none"> <li>Provincial statistics</li> <li>Household income surveys</li> <li>Project impact assessments</li> </ul>	<ul style="list-style-type: none"> <li>Project interventions are adopted and sustainable, and peace process is sustained.</li> </ul>
<b>Purpose</b> Sustainable livelihood improvement and sound management of natural resources in the Eastern Province	<ul style="list-style-type: none"> <li>By December 2009 number of vulnerable GN divisions within the project area reduced by at least 50%</li> <li>Consistent framework for provincial coastal resource management and planning established</li> <li>Compliance with environmental standards improved</li> </ul>	<ul style="list-style-type: none"> <li>PPMS data system</li> <li>Project impact assessments</li> <li>Project review missions</li> </ul>	<ul style="list-style-type: none"> <li>Vulnerable groups obtain access to services.</li> <li>Institutional capacity for resource management and planning is strengthened.</li> <li>CEA regionalization is carried forward.</li> </ul>
<b>Outputs</b> <b>Component 1: Sustainable Livelihood Improvement</b> <b>Output 1:</b> Livelihoods improved in a sustainable manner <b>Activities</b> <ul style="list-style-type: none"> <li>Select IP-NGOs</li> <li>Conduct PNAs</li> <li>Establish microfinance delivery system</li> <li>Provide LEDS</li> <li>Form and strengthen livelihood clusters and other producer groups</li> <li>Establish mentoring systems for micro and small entrepreneurs</li> <li>Undertake market research studies and systems assessments on a routine basis</li> <li>Establish simple monitoring system to assess enterprise marketing trends</li> </ul> <b>Output 2:</b> Livelihoods of coastal Veddha communities improved in a sustainable Manner <b>Activities</b> <ul style="list-style-type: none"> <li>Select IP-NGOs</li> <li>Conduct PNAs</li> <li>Form and strengthen infrastructure users' groups</li> </ul>	<ul style="list-style-type: none"> <li>By June 2009, 40,000 households in project area access microfinance (50% of loans by volume go to women)</li> <li>By December 2004, at least 15 MF-NGOs established in the project area</li> <li>By June 2004, at least 3 LEDS providers engaged</li> </ul> <ul style="list-style-type: none"> <li>By June 2007, community infrastructure provided in all Veddha communities</li> <li>By June 2005, PNAs completed for all Veddha communities</li> <li>User groups established in all Veddha communities receiving community infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>DCC/DVCC reports</li> <li>MF-NGO and IP-NGO reports</li> <li>PPMS database</li> <li>Project review missions</li> </ul> <ul style="list-style-type: none"> <li>DCC/DVCC reports</li> <li>MF-NGO and IP-NGO reports</li> <li>PPMS database</li> <li>Project review missions</li> </ul>	<ul style="list-style-type: none"> <li>Participatory mechanisms and IP-NGO assistance result in demand for credit.</li> <li>Microfinance system is able to efficiently deliver credit.</li> <li>Livelihood support interventions are financially viable and sustainable.</li> </ul> <ul style="list-style-type: none"> <li>Participatory mechanisms and IP-NGO assistance result in demand for credit.</li> <li>Microfinance system is able to efficiently deliver credit.</li> <li>Livelihood support interventions are financially viable and sustainable.</li> <li>IP-NGOs are effective in assisting communities to identify and prioritize their needs</li> </ul>



## PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> <li>Prepare and implement subproject proposals</li> </ul>			
<b>Component 2: Resource Management in 3 SMAs</b> <b>Output 1:</b> Community-level resource management improved <b>Activities</b> <ul style="list-style-type: none"> <li>Prepare community resource maps</li> <li>Identify and prioritize resource management interventions</li> <li>Prepare and screen subproject proposals</li> <li>Implement resource management interventions</li> </ul> <b>Output 2:</b> SMA plans prepared and operationalized <b>Activities</b> <ul style="list-style-type: none"> <li>Establish SMA committees</li> <li>Prepare SMA work plans and budgets</li> <li>Consolidate community resource maps</li> <li>Identify environmental hot spots and prepare interventions</li> <li>Prepare and submit SMA plans for endorsement</li> <li>Implement larger-scale resource management interventions</li> <li>Undertake special studies</li> </ul> <b>Output 3:</b> Study of coastal resource management issues in Northern Province <b>Activities</b> <ul style="list-style-type: none"> <li>Recruit consultant team</li> <li>Establish study monitoring team</li> <li>Carry out study</li> </ul>	<ul style="list-style-type: none"> <li>By December 2006, community resource management needs in SMAs identified and prioritized</li> <li>By December 2009, 500 resource management interventions implemented</li> <li>By September 2004, 3 SMA committees established</li> <li>By June 2006, 3 SMA plans published and made available to public</li> <li>By December 2009, 50 large-scale resource management interventions implemented in environmental hot spots</li> <li>By December 2004, consultant team recruited</li> <li>By December 2004, study monitoring team established</li> <li>By December 2005, study completed</li> </ul>	<ul style="list-style-type: none"> <li>DCC/DVCC reports</li> <li>MF-NGO and IP-NGO reports</li> <li>Project review missions</li> <li>SMA committee reports</li> <li>Project review missions</li> <li>Consultant reports</li> <li>Project reports</li> </ul>	<ul style="list-style-type: none"> <li>IP-NGOs are effective in mobilizing communities to identify and implement environmental subprojects.</li> <li>Interagency coordination mechanisms are effective.</li> <li>Various interest groups reach agreement on and adopt/implement integrated management plans.</li> <li>Cofinancing is obtained in a timely manner.</li> <li>Peace and order is maintained in the Northern Province.</li> </ul>
<b>Component 3: Coastal Resource Planning</b> <b>Output 1:</b> Coastal resource management capacity strengthened and improved <b>Activities</b> <ul style="list-style-type: none"> <li>Establish provincial interagency planning group</li> </ul>	<ul style="list-style-type: none"> <li>By June 2004, key staff/consultants recruited</li> <li>By June 2004, provincial inter-agency planning group established</li> </ul>	<ul style="list-style-type: none"> <li>Project reports</li> <li>Project review missions</li> </ul>	<ul style="list-style-type: none"> <li>Government institutions fill cadre positions and retain trained staff.</li> <li>Government adopts recommended planning processes.</li> </ul>

## PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> <li>Recruit consultant resource planner and short-term experts</li> <li>Develop and improve database management system</li> <li>Procure relevant equipment and data</li> <li>Undertake specific resource assessments</li> <li>Prepare and implement coastal resource management plans</li> <li>Conduct training programs for local government officials</li> </ul> <p><b>Output 2:</b> Environmental enforcement strengthened and improved</p> <p><b>Activities</b></p> <ul style="list-style-type: none"> <li>Conduct information awareness campaigns</li> <li>Review/revise relevant legislation and enforcement procedures</li> <li>Carry out regionalization program of the CEA in the North and East</li> <li>Conduct training programs for local government officials</li> <li>Establish accredited laboratory and mobile environmental unit</li> </ul>	<ul style="list-style-type: none"> <li>By December 2005, first coastal resource management plan published and posted on NEPC web site</li> <li>Coastal resource plans updated annually between 2006 and 2009</li> <li>By December 2006, all relevant national and provincial agencies participating in coastal planning process</li> </ul> <ul style="list-style-type: none"> <li>By December 2006, CEA regional offices fully operational in North and East</li> <li>By December 2006, mobile environmental unit fully operational</li> <li>By December 2005, legal and enforcement procedure review completed</li> <li>By December 2004, accredited laboratory established</li> </ul>	<ul style="list-style-type: none"> <li>Project reports</li> <li>Project review missions</li> <li>CEA reports</li> </ul>	<ul style="list-style-type: none"> <li>CEA decentralization process proceeds according to plan.</li> </ul>
<p><b>Component 4: Fisheries Development</b></p> <p><b>Output 1:</b> Harbor facilities at Valaichchenai and Cod Bay rehabilitated</p> <p><b>Activities</b></p> <ul style="list-style-type: none"> <li>Conduct community consultations</li> <li>Recruit consultants</li> <li>Undertake feasibility studies and detailed designs</li> <li>Carry out construction and supervision of civil works</li> </ul>	<ul style="list-style-type: none"> <li>By June 2009, construction of Cod Bay facility completed</li> <li>By June 2007, construction of Valaichchenai facility completed</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports from engineering firms</li> <li>Project reports</li> <li>Project review missions</li> </ul>	<ul style="list-style-type: none"> <li>Competent engineers are selected for timely completion of activities.</li> <li>Trincomalee Bay master development plan identifies Cod Bay as site for harbor development.</li> <li>Proposed harbor development is accepted by local community.</li> </ul>

## PROJECT FRAMEWORK

Design Summary	Performance Indicators	Monitoring Mechanisms	Assumptions and Risks
<p><b>Output 2:</b> Harbor management and operational efficiency improved</p> <p><b>Activities</b></p> <ul style="list-style-type: none"> <li>Organize and train harbor management staff</li> <li>Establish monitoring mechanism</li> <li>Introduce improved O&amp;M systems</li> <li>Contract commercial activities out to private sector</li> </ul> <p><b>Output 3:</b> Productivity of east coast fishing industry improved</p> <p><b>Activities</b></p> <ul style="list-style-type: none"> <li>Conduct training on improved handling and postharvest technology</li> <li>Disseminate information on new technologies and practices</li> <li>Conduct training on improved onboard management practices</li> </ul>	<ul style="list-style-type: none"> <li>Improved harbor management procedures in place prior to completion of rehabilitated harbor facilities</li> <li>Harbor O&amp;M procedures and plans for engaging of private sector approved by ADB before construction starts</li> <li>By December 2007, crews on all registered fishing boats trained in improved techniques</li> <li>By December 2007, fishing boxes distributed to all registered boats</li> <li>By December 2009, 40% of all tuna processed at harbor facilities exported</li> </ul>	<ul style="list-style-type: none"> <li>Project reports</li> <li>Project review missions</li> <li>Harbor management and financial reports</li> <li>Project reports</li> <li>Project review missions</li> <li>Project impact assessments</li> <li>Fisheries production statistics</li> </ul>	<ul style="list-style-type: none"> <li>CFHC is willing to implement agreed-upon procedures and plans.</li> <li>Fishers are willing to adopt improved practices.</li> <li>Traders respond to market opportunities.</li> </ul>
<p><b>Component 5: Project Implementation Support</b></p> <p><b>Output 1:</b> Project management and monitoring services established</p> <p><b>Activities</b></p> <ul style="list-style-type: none"> <li>Establish project office and district offices</li> <li>Hire complementary project staff</li> <li>Recruit project consultant team</li> <li>Award contract for civil works, IP-NGOs, and LEDS providers</li> <li>Conduct necessary training and workshops</li> <li>Procure necessary vehicles and equipment</li> <li>Implement/organize/coordinate project activities</li> <li>Establish PPMS, IEC, and project reporting systems</li> <li>Evaluate project impacts</li> </ul>	<ul style="list-style-type: none"> <li>Project implementation carried out in line with predetermined implementation schedule</li> </ul>	<ul style="list-style-type: none"> <li>Project reports</li> <li>Project accounts</li> <li>Project review missions</li> </ul>	<ul style="list-style-type: none"> <li>Appropriately qualified staff are recruited.</li> <li>Loan funds and project counterpart funds are channeled in a timely fashion.</li> <li>Competent consultants, IP-NGOs, and LEDS providers are recruited.</li> </ul>

ADB = Asian Development Bank, CEA = Central Environmental Authority, CFHC = Ceylon Fisheries Harbor Corporation, DCC = district coordinating committee, DVCC = divisional coordinating committee, GN = Grama Niladhari, IEC = information, education and communication, IP-NGO = implementing partner NGO, LEDS = livelihood and enterprise development services, MF-NGO = microfinance NGO, NGO = nongovernment organization, O&M = operations and maintenance, PNA = participatory needs assessment, PPMS = project performance management system, SMA = special management area.

## **COMMUNITY-LEVEL INTERVENTIONS: SELECTION CRITERIA AND DESIGN FEATURES**

### **A. Introduction**

1. The core project area is defined to include the 396 Grama Niladhari (GN) divisions bordering the coast or major lagoons. Community-level project interventions for which these selection criteria apply, will initially focus on 146 vulnerable GN divisions within the project area. In addition, nonvulnerable GN divisions located in environmental hot spots within the special management areas (SMAs) will also receive a set of interventions for community infrastructure, natural resource management and environmental improvement/conservation. Most community-level interventions will be facilitated or implemented by implementing partner nongovernment organizations (IP-NGOs). The selection criteria for IP-NGOs, GN divisions, beneficiaries, and project interventions are outlined in this appendix.

### **B. Criteria for Selecting Implementing Partner NGOs**

2. The nongovernment organization (NGO) landscape in the Eastern Province is heterogeneous and rapidly changing. Most NGOs provided the local population with services throughout the conflict, and their focus is slowly shifting from emergency to development interventions.<sup>1</sup> While some NGOs are well established and recognized, others need strengthening. Except for a few, they generally use uniform methodologies, as they lacked exposure to new approaches during the conflict, and concentrated on providing emergency assistance. International NGOs also operated throughout the conflict, and national NGOs have resumed or started working in the East in recent years.

3. Many activities under components 1 and 2 will be implemented or facilitated by IP-NGOs. Several (2–4) experienced local NGOs<sup>2</sup> in each of the three districts will be selected as IP-NGOs to assist the Project to form and work with user and interest groups at the community level and strengthen existing community-based organizations (CBOs). The eligibility of IP-NGOs will be assessed jointly by the project management team and the district coordinating committees (DCCs), in close consultation with the NGO consortia in the three project districts. The selection criteria were developed through an extensive consultation process with the NGOs themselves, who judged the criteria to be transparent and fair. The eligibility criteria for selecting IP-NGOs are as follows:

- (i) readiness to cooperate with the relevant authorities;
- (ii) membership of the district-level NGO consortium;
- (iii) readiness to coordinate with other IP-NGOs;
- (iv) registration under the relevant legislation for at least 3 years;
- (v) a district-level or national-level NGO with a governing body and financial autonomy at district level;
- (vi) an office with appropriate staff (at least 30% of staff members being women);

<sup>1</sup> About 30 district-level NGOs exist in Trincomalee district. In Batticaloa, 45 NGOs belong to the INAYAM Consortium of local NGOs. In Ampara district, the older NGO consortium, based in Akkaraipattu and serving the coastal areas, has 20 member organizations. A second district-level network, the Council of Ampara District NGOs/Consortium based in Ampara, has a membership of 63 organizations.

<sup>2</sup> At least one NGO per district should be a local women's NGO to assure targets in the Project's gender strategy and plan are met. If experience and capacities on gender awareness training permit, this women's NGO could also provide the gender awareness training or respective modules in other training courses for project partners. To qualify as a women's NGO, 70% of clients and staff including top management should be women.

- (vii) Regular auditing (with at least 2 years of audited accounts) and proper record keeping;
- (viii) demonstrated outreach to poor women in coastal areas;
- (ix) demonstrated outreach to vulnerable groups in coastal areas;
- (x) demonstrated gender awareness (at least 50% of groups being women) as evidenced by the NGO's gender-disaggregated monitoring and evaluation system;
- (xi) demonstrated sensitivity to working with the ethnic group(s) to be targeted in that area;<sup>3</sup>
- (xii) willingness to adopt new approaches and combine community development with environmentally sound interventions; and
- (xiii) readiness to increase the number of female office holders to 30% by the Project's midterm review.

4. In addition, selection will be based on proposals that outline:

- (i) how project interventions will be implemented, coordinated and facilitated, with special attention to the social mobilization strategy to reach vulnerable groups and the mode of working with other NGOs and CBOs within the district; and
- (ii) the exit strategy adopted by the IP-NGO to ensure sustainability of project interventions within communities.

5. A separate IP-NGO will be selected to implement project interventions in coastal Veddha communities. In addition to the preceding selection criteria, the following additional criteria will apply:

- (i) demonstrated sensitivity in working with small minority groups, who still combining hunting and gathering with limited sedentary occupations, and in many instances do not want to be identified as a separate group; and
- (ii) demonstrated ability to deal with prevailing social problems (e.g. alcoholism) and commitment to a comprehensive, culturally sensitive livelihood approach.

### **C. Criteria for Selecting GN Divisions**

6. The community-level project interventions under component 1 will initially focus on 146 vulnerable GN divisions. All vulnerable GN divisions will be entitled to receive support for community infrastructure and livelihood interventions. In addition, vulnerable GN divisions within SMAs (84), as well as nonvulnerable GN divisions in designated environmental hot spots (to be identified during the planning process) within SMAs, will also receive support for resource management and environmental improvements.

7. The vulnerability criteria are based on the data collected as part of the social analysis during the project preparatory technical assistance (PPTA) and consisted of the following indicators: (i) access to safe drinking water (households having access to wells or piped water); (ii) access to sanitary facilities (number of toilets per household); (iii) percentage of households with female heads (FHHs); (iv) number of displacements experienced by a community over the last ten years; (v) number of restrictions affecting sustainable livelihoods within the community (income generating activities, mobility, procurement and transport of essential items such as food and energy sources); and (vi) level of indebtedness.

8. The six indicators were combined into a vulnerability index. Of 67 coastal GN divisions in Trincomalee, 173 in Batticaloa, 156 in Ampara, a total of 146 were ranked as most vulnerable: 35

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<sup>3</sup> The Peace/Conflict Screening Instrument in Section F will be used to assess this sensitivity.

in Trincomalee, 88 in Batticaloa, and 23 in Ampara. The 146 GN divisions will be prioritized for community infrastructure and livelihood support during the first 3 years of the Project. Focal villages under the North East Irrigated Agriculture Project and other villages already included in comprehensive village development activities, e.g., under the Integrated Food Security Project, will be excluded. Additional GN divisions will be selected using the following criteria:

- (i) Additional GN divisions will follow the ranking provided in the PPTA.
- (ii) GN divisions with already established North East Community Restoration and Development Project anchor projects will be prioritized to create synergies.
- (iii) GN divisions will be selected to ensure that the beneficiary populations reflect the ethnic composition of the coastal populations within each district.

9. The indigenous coastal Vedda communities concentrated in a number of GN divisions in the Koralaipattu North and Koralai Pattu in Batticaloa district, as well as Muttur/Eachilampattai in Trincomalee district, will receive specific targeted support. The Vedda communities are all located in GN divisions that have been identified as vulnerable.

10. Nonvulnerable GN divisions located near environmental hot spots within SMAs will also be selected to receive assistance in community management of resources, including formation of community-based groups to assist with enforcement of environmental regulations, and improvement/conservation of the environment.

#### **D. Criteria for Selecting Beneficiaries**

11. In the vulnerable GN divisions, beneficiaries will be selected to achieve both direct and indirect poverty reduction. Thus, beneficiaries will consist of both the poor and those who have potential to create employment and link with other beneficiaries within cluster systems. As the conflict has created a large number of FHHs and most women are engaged in low-paid wage labor or livelihood activities with low returns, women will be a major target group. In multi-ethnic GN divisions, ethnically balanced selection will be instituted. Specifically, the following criteria will apply:

- (i) At least 60% of households are poor, based on a multiple set of indicators covering economic, social, vulnerability, and empowerment dimensions—such as income, housing and sanitation conditions, education levels of household members, months of low work, number of meals during the dry/low season, and participation in community organizations.
- (ii) At least 50% of beneficiaries are women, with priority to those from FHHs without adult male wage earners.
- (iii) The proportion of beneficiaries reflects the ethnic composition of the GN division.
- (iv) Individual beneficiaries and groups wishing to obtain credit for livelihood activities/enterprises will have to meet the eligibility requirements of NGOs delivering microfinance under the Project.

#### **E. Criteria for Selecting Community Infrastructure and Environmental Interventions**

12. Community infrastructure and environmental improvement interventions under components 1 and 2, respectively, will be undertaken mostly at the community level in one GN division or in a group of several GN divisions, based on priorities identified by communities and proposals submitted by communities, local government bodies. Larger scale environmental improvement interventions will conform to the SMA development plans. Community infrastructure projects

eligible for funding include the construction and rehabilitation of minor roads, culverts, drains, small-scale water supply and sanitation facilities, simple solid waste disposal schemes, and community buildings (e.g., multipurpose buildings, day care centers, and playgrounds). Coastal fishing communities that meet predetermined selection criteria will be eligible to receive simple fisheries support infrastructure including net repair sheds, market/auction halls, fisher rest houses, and simple cold storage facilities. Environmental improvements will include solid waste management, introduction of fuel-efficient stoves and alternative energy (such as solar power), habitat restoration, habitat conservation, and implementation of public awareness programs.

13. All community infrastructure and environmental improvement interventions will go through an approval process at the divisional secretariat level by the divisional coordinating committee (DVCC), chaired by the divisional secretary/divisional assistant director of planning, and including the divisional environment officer and an NGO representative. The peace/conflict screening instrument for infrastructure and environmental interventions (Table A5.2) will also have to be filled up. If the proposal requires more detailed technical assessment, the DVCC will have the authority to recommend that the project consultant team assist in preparing a more detailed proposal. Depending on the nature and scope of the intervention, clearance may be required from the relevant approving agency (e.g., the Central Environmental Authority or the Coastal Conservation Department). Clearance through the district mine action committee will also be a precondition for initiation of any infrastructure development activity. The clearance will be based on a general mine action assessment and, where required, a technical survey, which includes fencing and marking. Proposed interventions will be ranked according to beneficiary impact indicators, such as investment cost per beneficiary and number of beneficiaries, with priority given to those with the greatest or most cost-effective impacts. Any subproject that could result in resettlement impacts will be excluded if it cannot be restructured to avoid such impacts.

14. Selection criteria for community infrastructure interventions are the following:

- (i) The proposed infrastructure should be on public land; where private land is involved, this must be voluntarily transferred at no cost to the Government.
- (ii) The proposed infrastructure should be on land free from habitation.
- (iii) The total cost of all community infrastructure projects implemented within a GN division should not exceed \$20,000. The overall limit will be raised to \$35,000 for GNs eligible to receive fisheries support infrastructure.
- (iv) The estimated implementation period for specific community infrastructure interventions should not exceed 6 months.
- (v) The number and cost of approved interventions allocated to each of the major ethnic groups in each district in the target area will roughly reflect the relative proportions of those groups within the overall district population.
- (vi) A user group should be established at community level and priorities identified through a participatory needs assessment.
- (vii) The proposed community infrastructure should not be located within (a) any archeological reserve, ancient or protected monument as defined or declared under the Antiquities Ordinance (Chapter 188); (b) any national reserve declared under the Fauna and Flora Protection (Amendment) Act No. 49 of 1993; and (c) any mangrove area.
- (viii) In the case of roads, priority will be given to village link roads that connect to district link roads and enhance livelihood activities.
- (ix) In the case of water supply schemes, only small-scale schemes, including wells, hand pumps, and rainwater collection tanks will be considered. The water source must be free of conflict and villagers must agree to allow access to all potential beneficiaries.

- (x) Beneficiaries of improved infrastructure will contractually agree through a partnership agreement to (a) implement, manage, and supervise the construction; and (b) bear the responsibility for the operation and maintenance (O&M) requirements, including raising and managing the necessary maintenance funds through the formation of a community-based user group.

15. For GNs to receive fisheries support infrastructure, additional participatory needs assessment with concerned stakeholders will be conducted. The following criteria will apply in addition to those in paragraph 14:

- (i) Fishing communities with functioning systems and committees for marketing, and O&M of existing infrastructure will be prioritized.
- (ii) Fishing communities with demonstrated environmental efforts, e.g. proper waste disposal, proper handling of kerosene, etc., will be equally prioritized.
- (iii) Migratory fishing communities are eligible only to basic infrastructure (wells and latrines); responsible parties, namely traders, boat owners, and fishing laborers will contractually agree through a partnership agreement to (a) implement, manage, and supervise the construction; and (b) bear the responsibility for the O&M requirements, including raising and managing the necessary maintenance funds through the formation of a community user group with the traders and boat owners contributing and the GNs taking over responsibilities in the absence of the community.
- (iv) Development of infrastructure and/or access facilities must not cause any disturbance to coastal sand dunes, or alter naturally occurring estuarine sandbars.
- (v) The landing will be safe, free of obstacles and hazards .

16. The selection criteria for small-scale environment improvement interventions costing less than \$3,000 will include those listed above, as well as ecological considerations that will have to be determined on a case-by-case basis, depending on the specific conditions of the hot spot or the type of intervention needed. Site-specific selection criteria could include an assessment of the relative severity of the environmental degradation being addressed, the economic significance of the impact on the natural resource base and the community, and the implications for public health. Small-scale environmental improvement should also be located within SMA areas and no alien species should be introduced as part of the intervention.

17. Larger-scale environment improvement interventions costing more than \$3,000 should also be located within SMA areas and meet the following criteria:

- (i) When located on public land and/or water bodies, the intervention should include benefit-sharing mechanisms to ensure that eventual revenues are shared among the Government and implementers/beneficiaries.
- (ii) Habitat restoration and conservation interventions will be located on public land. Where private land is involved, this must be voluntarily transferred at no cost.
- (iii) The total cost of the environmental intervention should not exceed \$100,000.
- (iv) The intervention should be included in the pertinent SMA management plan and be endorsed by the DCC.
- (v) The intervention should have a sound technical basis and have proven sustainability, based on recovery of at least the O&M costs.
- (vi) The intervention will not lead to the introduction of alien species.
- (vii) The Project's environmental screening and review procedures must be satisfied.



**F. Peace/Conflict Screening Instruments****Table A5.1: Peace/Conflict Screening Instrument for IP-NGO Selection**

<b>Question</b>	<b>Yes / No</b>	<b>Follow-Up</b>
Is the NGO closely identified with any of the protagonists in the violent conflicts of the past several years?		If “yes”, will this association (direct or indirect) with violence be a problem if this NGO is selected as a partner organization?
Will refusing to select this NGO (if it does not score well on the other criteria) cause significant social or political problems of any kind for the overall project?		If “yes”, how can these problems be best mitigated?
Has the NGO had to work in politically/socially tense situations in the past?		If “yes”, do you have independent confirmation of how they dealt with such situations?
Does the NGO have a written policy with regards to treating different ethnic or religious groups equitably?		If “yes”, do they have explicit procedures for ensuring that this policy is respected?

**Table A5.2 Peace/Conflict Screening Instrument for Community Infrastructure and Environment Improvement Interventions**

<b>Question</b>	<b>Yes / No</b>	
Is there a risk that the intervention might fuel inter- or intra-community tensions, for example over access to resources, a weakened sense of security, etc.?		If “yes,” are there ways the intervention should be redesigned to alleviate this risk, for example, by changing its location, redefining its target beneficiaries, clarifying who will be responsible for its ongoing operation, etc.?
Is this intervention likely to advantage one ethnic group at the expense of another?		If “yes,” does the design of the intervention need to be reconsidered to reduce potential resentment?
Do any elements of the implementation plan risk adding to local tensions, e.g., by not using local labor, fueling corruption benefiting local elites, excluding parts of the community from decisionmaking?		If “yes,” how can the plan be improved?
Is there a risk that the intervention might be co-opted or halted by one of the parties to the conflict?		If “yes,” what needs to be done to avoid this (for example, discussing the project beforehand with the concerned party to obtain their support)
If conflicts arise regarding the intervention during implementation or afterwards are there practical, generally accepted mechanisms in place to resolve them?		If “no,” can a way be found, either within the parameters of the overall project or by obtaining external expertise, to assist the community to develop such a mechanism?

## DETAILED COST ESTIMATES

Table A6.1: Project Cost Summary

Item	SLRs million			\$ Million			%	% Total
	Local Currency	Foreign Exchange	Total	Local Currency	Foreign Exchange	Total	Foreign Exchange	Base Costs
1. Livelihood Improvement	988.0	124.3	1,112.3	10.21	1.29	11.50	11	48
2. SMA Resource Management	119.2	66.4	185.7	1.24	0.69	1.92	36	8
3. Coastal Resource Planning	143.5	114.7	258.2	1.49	1.19	2.68	44	11
4. Fisheries Development	274.0	228.1	502.1	2.84	2.36	5.20	45	21
5. Project Implementation	185.9	94.2	280.1	1.93	0.98	2.90	34	12
<b>Total BASE COSTS</b>	<b>1,710.7</b>	<b>627.7</b>	<b>2,338.4</b>	<b>17.70</b>	<b>6.50</b>	<b>24.21</b>	<b>27</b>	<b>100</b>
Physical Contingencies	132.2	62.8	195.0	1.37	0.65	2.02	32	8
Price Contingencies	379.4	179.2	558.6	1.12	0.53	1.65	32	7
<b>Total PROJECT COSTS</b>	<b>2,222.3</b>	<b>869.7</b>	<b>3,092.0</b>	<b>20.19</b>	<b>7.68</b>	<b>27.87</b>	<b>28</b>	<b>115</b>
Interest Charge	-	58.1	58.1	-	0.55	0.55	100	2
<b>Total Costs to be Financed</b>	<b>2,222.3</b>	<b>927.8</b>	<b>3,150.1</b>	<b>20.19</b>	<b>8.24</b>	<b>28.43</b>	<b>29</b>	<b>117</b>

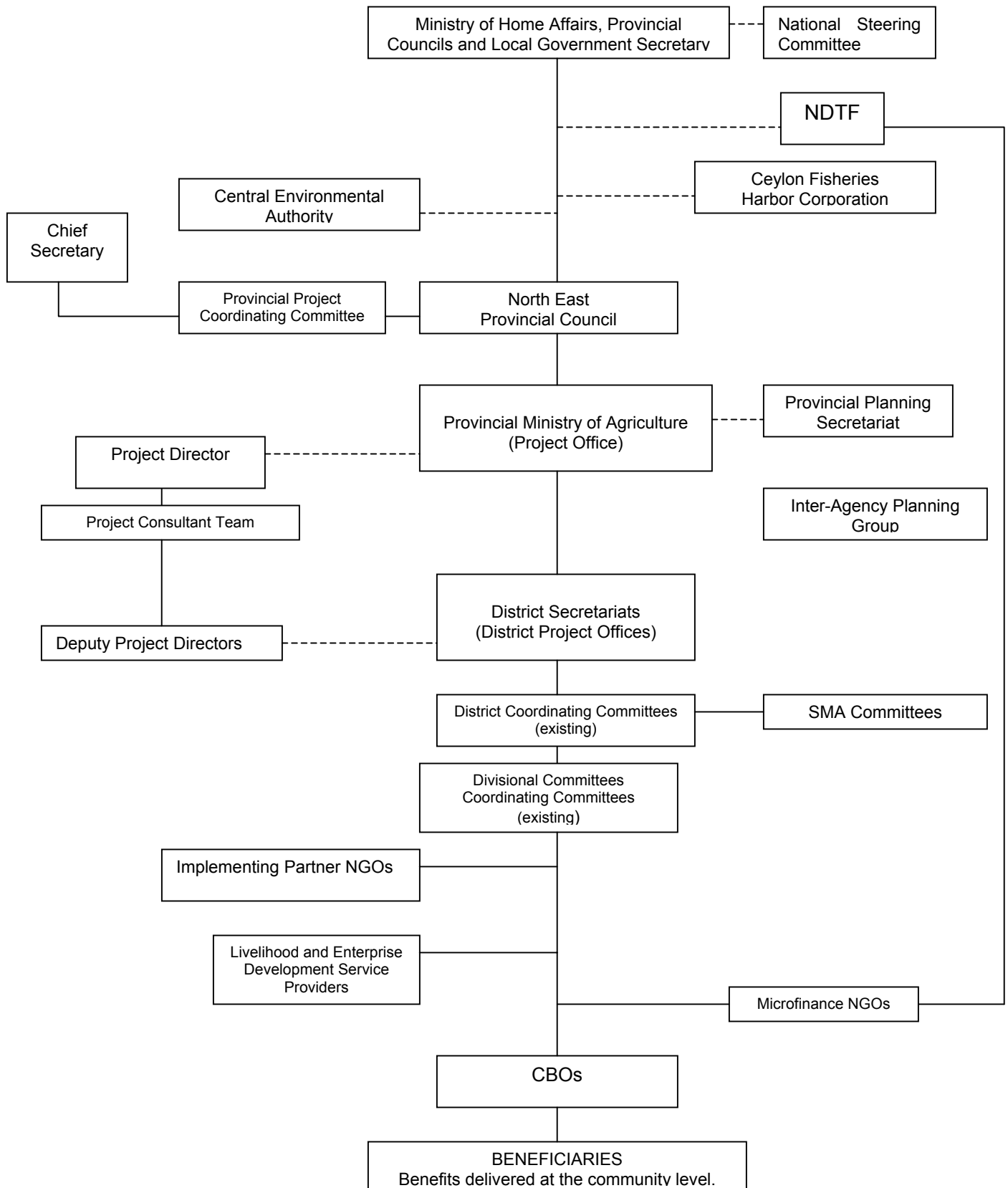
Source: Asian Development Bank estimates.

Table A6.2: Expenditure Accounts Project Cost Summary

Item	SLRs Million			\$ Million			%	% Total
	Local Currency	Foreign Exchange	Total	Local Currency	Foreign Exchange	Total	Foreign Exchange	Base Costs
A. Civil Works	740.0	286.9	1,026.8	7.67	2.97	10.64	28	44
B. Vehicles	28.0	22.0	50.1	0.29	0.23	0.52	44	2
C. Equipment	22.2	19.7	41.8	0.23	0.20	0.43	47	2
D. Materials	410.3	4.6	414.8	4.23	0.05	4.27	1	18
<b>E. Services</b>								
Consultants	-	225.9	225.9	-	2.34	2.34	100	10
Contract Staff	62.5	-	62.5	0.65	-	0.65	-	3
NGOs	157.0	-	157.0	1.63	-	1.63	-	7
Training	87.0	-	87.0	0.90	-	0.90	-	4
Studies/Reviews	65.6	44.1	109.7	0.68	0.46	1.14	40	5
<b>Subtotal Services</b>	<b>372.1</b>	<b>270.0</b>	<b>642.1</b>	<b>3.86</b>	<b>2.80</b>	<b>6.65</b>	<b>42</b>	<b>27</b>
F. Salaries/Allowances	40.2	-	40.2	0.42	-	0.42	-	2
<b>G. Operating Costs</b>								
Offices	58.5	14.6	73.2	0.61	0.15	0.76	20	3
Vehicles	39.5	9.9	49.4	0.41	0.10	0.51	20	2
<b>Subtotal Operating Costs</b>	<b>98.0</b>	<b>24.5</b>	<b>122.5</b>	<b>1.02</b>	<b>0.25</b>	<b>1.27</b>	<b>20</b>	<b>5</b>
<b>Total BASE COSTS</b>	<b>1,710.7</b>	<b>627.7</b>	<b>2,338.4</b>	<b>17.70</b>	<b>6.50</b>	<b>24.21</b>	<b>27</b>	<b>100</b>
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Source: Asian Development Bank estimates.

## SUMMARY PROJECT ORGANIZATION



CBO = community-based organization, NDTF = National Development Trust Fund, NGO = nongovernment organization, SMA = special management area.

## MICROFINANCE DELIVERY SYSTEM

1. The livelihood support activities will be financed through a microfinance delivery system established under the Project. The approach adopted will be consistent with the goals and objectives of the Asian Development Bank-financed Rural Finance Sector Development Program (RFSDP), which seeks to establish a sustainable rural financial system through policy adjustments and to improve the operations of rural financial institutions (RFIs). In line with the approach adopted under RFSDP, the National Development Trust Fund (NDTF) will serve as the apex agency for channeling credit to participating financial institutions that meet predetermined eligibility criteria.<sup>1</sup> The credit scheme will operate initially through microfinance nongovernment organizations (MF-NGOs) that operate at the local level, with expansion to a broader range of RFIs, including cooperative rural banks, MF-fisheries cooperative societies, and commercial banks once the delivery system has developed. As such, the strategy is to provide smaller loans for basic livelihood improvement and microenterprise development early in the Project, moving up to larger loans and enterprises later on. Currently, the NDTF has 12 MF-NGO credit partners in the Eastern Province.

2. As the apex agency, the NDTF will manage the credit delivery system and perform administrative functions associated with refinance applications and loan disbursement requests by the MF-NGOs. The Project will assist the NDTF with capacity building, including of training for MF-NGOs,<sup>2</sup> and will facilitate vulnerable communities' access to microfinance through group formation and community organization. In particular, vulnerable communities will be assisted by IP-NGOs in identifying viable livelihood activities in fisheries, agriculture, agroforestry and a range of microenterprise development opportunities based on nontraditional activities. Livelihood and enterprise development services will also be extended to potential borrowers.

3. The NDTF will receive funds from the Government at the average weighted deposit rate (AWDR) under terms and conditions set out in a subsidiary loan agreement satisfactory to ADB for onlending to MF-NGOs. The MF-NGOs will add their transaction costs—currently ranging from 10-16%—to the AWDR and onlend to end borrowers. The MF-NGOs will bear the credit risk and will be free to determine lending rates based on their perception of risks and returns. Their activities at the local level will be closely coordinated with the divisional coordinating committees and implementing partner NGOs. A service charge of 0.5% will be levied by NDTF, which will enter into participation agreements with each MF-NGO before any onlending.

4. In line with the NDTF's current practice, the maximum loan amount will be set at SLRs 30,000 per subborrower for the first loan, SLRs 40,000 for the second loan, and SLRs 60,000 for all subsequent loans, with a maximum term of 36 months. In addition, 50% of the onlending support will be directed at women.<sup>3</sup> These criteria will be reviewed annually and may be revised as the credit delivery system develops.

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<sup>1</sup> The criteria adopted will be the same as those under the RFSDP.

<sup>2</sup> A training and capacity building program has been developed for MF-NGOs in the project area.

<sup>3</sup> Over 70% of the clients of microfinance NGOs currently operating in the Eastern Province are women. This is based on the rationale that women are more responsible clients than men. Men who wish to take out loans are permitted to borrow only via their female relatives. As recent studies show, this has resulted in women being solely burdened in addition to other household tasks, with the work of reducing poverty and repaying loans taken by their male relatives. Thus the Project aims at gender parity in microfinance so that men take responsibility for their own loans, become aware of gender equity issues, and share with women the burden of overcoming poverty.

## IMPLEMENTATION SCHEDULE

Item	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>A. Sustainable Livelihood Improvement</b>																								
1. Recruit IP-NGOs																								
2. Select GNs																								
3. Prioritize Community Needs																								
4. Recruit LEDS Providers																								
5. Provide LEDS																								
6. Establish Credit System																								
7. Strengthen MF-NGOs																								
8. Implement Livelihood Projects																								
<b>B. SMA Resource Management</b>																								
1. Establish SMACs																								
2. Select GNs																								
3. Prioritize Community Needs																								
4. Intervene in Known Hotspots																								
5. Prepare/Publish Plan																								
6. Implement Resource Management																								
7. Undertake Special Studies																								
8. Review/Revise Plans																								
<b>C. Coastal Resource Planning</b>																								
1. Recruit Key Staff/Contractors																								
2. Strengthen Database																								
3. Undertake Consultation																								
4. Review/update Enforcement																								
5. Prepare/Publish Plan																								
6. Implement Awareness Program																								
7. Undertake Strategic Studies																								
8. Review/Revise Plans																								
<b>D. Fisheries Development</b>																								
1. Valaichchenai Harbor																								
a. Community Consultations																								
b. Engage Consultants																								
c. Design and Supervision																								
d. Construction																								
e. Training Operation																								
2. Cod Bay Harbor																								
a. Community Consultations																								
b. Engage Consultants																								
c. Design and Supervision																								
d. Construction																								
e. Training Operation																								
<b>E. Project Implementation Support</b>																								
1. Recruit Key Staff/Contractors																								
2. Recruit Consultants																								
3. Provide Support Services																								
4. Establish PPMS																								
5. Undertake PME																								
6. Support Midterm Review/PCR																								
7. Manage Impact Assessments																								

GN = Grama Niladhari division, IP-NGO = implementing partner nongovernment organization, LEDS = livelihood enterprise development services, PCR = project completion report, PME = project monitoring and evaluation, PPMS = project performance and monitoring system, SMA = special management area, SMAC = SMA committee.

## INDICATIVE CONTRACT PACKAGES

Item	Estimated Total Cost (\$ million)	Packages (No.)	Mode of Procurement
<b>A. Civil Works</b>			
1. Rehabilitation of Fisheries Harbors	5.40	2	ICB
2. Community Infrastructure	4.80	Multiple	CPP
3. Small Resource Management Interventions	1.65	Multiple	LCB
<b>B. Equipment, Materials, and Vehicles</b>			
1. Office Equipment	0.25	5	DP
2. Materials	0.11	Multiple	DP
3. Vehicles	0.39	1	IS
<b>C. Consulting and Services Contracts</b>			
1. Project management Team-Individuals	0.45	5	QCBS/DS
2. Project Technical Team-Firm	1.52	1	QCBS
3. IP-NGOs	1.20	10-12	QCBS/DS
4. LEDS	0.57	5-6	QCBS/DS
5. Mine Surveys/De-Mining	0.35	1	DS
6. Impact Assessments, PCR, and Small Planning Studies	1.47	Multiple	QCBS/DS
7. Training Services	0.03	Multiple	DS
8. Project Staff	0.15	Multiple	DS

CPP = community participation in procurement, DP = direct purchase, DS = direct selection; ICB = international competitive bidding; LCB = local competitive bidding; PCR = project completion report; QCBS = quality and cost-based selection.

Source = Asian Development Bank estimates.

## **SUMMARY OF CONSULTING SERVICE REQUIREMENTS**

### **A. Scope of Work**

1. The lead implementing agency will engage a team of consultants to provide project management support and technical advice to the government agencies implementing the Project. The team will provide 35 person-months of international and 381 person-months of domestic consulting services. Consulting tasks will be in two categories: (i) to provide project management support to the project office (PO) and district project offices (DPOs); and (ii) advise and guide the PO, DPOs, and implementing agencies on technical aspects of project activities relating to components 1, 2, and 3. The project management consultants providing 180 person-months of services, will be recruited individually. In addition, (i) implementing partner nongovernment organizations (IP-NGOs) will be engaged to assist in implementing the community-level interventions in components 1 and 2; (ii) the strategic studies for coastal resource management in the Northern Province will be outsourced to a team of international and domestic consultants; (iii) the detailed designs and feasibility studies for the fisheries harbor rehabilitation will be contracted out to qualified engineering firms; (iv) livelihood and enterprise development services (LEDS) will be provided by outside contractors; and (v) the project impact assessments will also be carried out by outside contractors.

### **B. Summary Terms of Reference**

#### **1. Project Consultant Team**

2. A domestic project management specialist will be engaged to assist and support the PO and the three DPOs in the day-to-day management of project implementation, including work and financial planning, procurement of goods and services, coordination and monitoring of project activities, liaison with the Asian Development Bank and other concerned parties, and reporting. A team of international and domestic consultants will be engaged on a periodic basis to provide the implementing agencies with technical guidance in specific areas. The team will comprise the following: (i) natural resource planner; (ii) social development specialist; (iii) infrastructure engineer; (iv) environmental engineer; (v) information, education and communication specialist; (vi) microfinance specialist; (vii) tourism planners; (viii) training needs specialist; (ix) database specialists; (x) procurement specialist; (xi) fisheries specialist; and (xii) legal specialist. Provision has also been made for other short-term specialists in a range of technical areas where their services may be required.

#### **2. Implementing Partner NGOs**

3. Several (2-4) experienced local NGOs will be selected in each of the three districts to help implement the community-level interventions under components 1 and 2. The IP-NGOs will (i) coordinate the design and implementation of interventions in livelihood improvement, community infrastructure, and natural resource management interventions; (ii) facilitate community mobilization, needs assessment, and support in preparing community subproject proposals; provide input into the planning process for integrated resource management—such as community participation in resource mapping—in the Special Management Areas; and (iii) initiate community-based enforcement systems to assist local agencies and local community groups. The IP-NGOs in each district will be contracted by the DPOs in consultation with the NGO consortium of the district. A separate IP-NGO with demonstrated experience and sensitivity in addressing the needs of indigenous peoples will be engaged to develop and implement specific development activities for the coastal indigenous people.

### **3. Technical and Feasibility Studies in Coastal Resource Planning**

4. A team of domestic/international consultants will carry out a strategic technical and feasibility study on coastal resource management issues in the Northern Province under component 3. The study will (i) review all related studies, including ongoing studies; (ii) undertake a coastal resource assessment, including wetlands (i.e., mangroves and marches), lagoons, riverine estuaries, beaches, sand dunes, islands, and coral reefs; (iii) assess the fish/marine resource base and related local industries, including traditional industries; (iv) assess coastal fishing communities and other resource users; (v) assess existing fishing facilities; (vi) identify coastal problems or areas of ecological or biodiversity significance (i.e., hot spots); (vii) identify options and needed interventions; (viii) identify the role of local government, NGOs, and local communities in addressing coastal problems and in managing the resources in a sustainable manner; and (ix) identify research activities of immediate importance in managing coastal resources in the province.

### **4. Design and Feasibility Studies for Fisheries Harbor Rehabilitation**

5. Consulting firms will be engaged to prepare detailed designs and undertake feasibility studies for rehabilitation of the fisheries harbors in Cod Bay and Valaichchenai. For each site, the consultants will (i) prepare a site investigation program with regard to sediment transport and oceanographic, bathymetric, and subsoil data collection; (ii) review site investigations, model studies, and designs; (iii) prepare work plans and program the various work elements, including those for site investigations, model studies, further environmental assessments, design, costing and contract documentation, construction, and supervision; (iv) supervise the preparation of standard documents for inviting and prequalifying consultants, consultant contracts, evaluation criteria, and contract tenders for investigations, studies, and construction; (v) coordinate procurement of equipment and materials, and construction of physical facilities in the harbors; (vi) prepare final designs, drawings, and tender documents for specific structures or dredging proposals; and (vii) evaluate contractors' tenders and preparation of detailed cost estimates based on current construction costs.

### **5. Livelihood and Enterprise Development Services**

6. The provision of LEDS will support and strengthen the livelihoods component of the Project. One or more service providers will be contracted to deliver gender-sensitive business development and appropriate technology packages. The services will be initially located at the DPOs. The service providers will work (i) closely with the IP-NGOs supporting livelihood improvement and enterprise development; (ii) conduct training programs; and (iii) facilitate a mentoring program linking small entrepreneurs with successful larger entrepreneurs to transfer practical business knowledge and skills within the region. Business development services that are especially tailored to the needs of women will be an essential part of these packages. A service provider will also pilot-test appropriate technology alternatives, disseminate information on such technology, and train clients in its use.

### **6. Project Impact Assessments**

7. Consultants will be engaged to assist in preparing the project impact assessment framework and undertake the required studies and assessments. At the beginning of the Project, they will identify strategic indicators that will focus on gender, postconflict impact assessments, poverty impacts, natural resource management, and institutional arrangements.



## FINANCIAL AND ECONOMIC ANALYSES

### A. Introduction

1. Many of the expected project benefits cannot be readily quantified, particularly those from improved coastal resource management and planning, and social infrastructure and environmental subproject activities. Improved resource management, for example, seeks to enhance the sustainability of economic activities and to reduce economic losses by preventing or limiting environmentally destructive or inappropriate resource-based activities in the coastal belt. The community infrastructure subprojects seek to meet basic needs and improve living standards of the targeted communities by constructing or rehabilitating small-scale water supply and sanitation schemes, minor roads, culverts and drains, solid waste disposal systems, small community buildings, and basic fisheries infrastructure. Environmental improvement subprojects will include mangrove replanting, solid waste management, and introduction of alternative energy sources that will also produce benefits that are largely nonquantifiable.

2. The livelihood improvement and fisheries development interventions have more quantifiable benefits. However, as the former will be determined largely by a community demand-driven process, it is difficult to predict the actual mix and scale of benefits. Therefore, only the financial incentives for beneficiaries to adopt representative livelihood enterprises and the impacts on household incomes were analyzed. An overall benefit-cost analysis of the livelihood activities has not been attempted. Investments in fisheries development, however, are amenable to standard economic analysis, the outcome of which is summarized in this appendix.

### B. Livelihood Improvement

3. Livelihood enterprises to be supported under the sustainable livelihood improvement component of the Project will focus on activities in agriculture, fisheries, agroforestry, and related enterprises servicing and adding value to these subsectors. In addition, a range of non-traditional livelihood activities could be supported. Implementing partner nongovernment organizations (IP-NGOs) will offer a wide menu of livelihood enterprise models from which beneficiaries can choose. Beneficiary perceptions of the likely returns and their ability to manage and finance the enterprise will be important factors in enterprise selection and in determining the eventual mix of enterprises supported. Financial models were prepared for a range of indicative enterprises based on market prices in the project area to determine the financial incentives for beneficiaries to participate and the likely impact on household incomes, as well as to provide a basis for estimating financing requirements.<sup>1</sup> Key financial indicators for these enterprises are in Table A12.

4. Annual enterprise financial margins before debt service range from about SLRs12,800 (\$133) for a coconut nursery to SLRs96,900 (\$1,000) for a prawn farm. Assuming an average household size of 4.5 persons, annual per capita increments range from SLRs2,845 (\$29) to SLRs21,533 (\$222). In addition, returns to labor exceed the current financial opportunity cost of labor in the project area, which ranges from SLRs80 to SLRs120 per day depending on the season and class of labor. As all enterprises are cash-flow positive after debt service (including the first year, which means the financial rates of return are infinite), they should be attractive to risk-averse, low-income households, including those headed by women.

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<sup>1</sup> More details on the livelihood enterprise models are presented in Supplementary Appendix E, where the marketing channels for enterprise outputs are also discussed.

**Table A12: Livelihood Enterprises and Financial Indicators**

<b>Enterprise<sup>a/</sup></b>	<b>Investment<sup>b/</sup> (SLRs)</b>	<b>Margin<sup>c/</sup> (SLRs)</b>	<b>Return to Labor<sup>d/</sup> (SLRs)</b>	<b>Loan Term (yr)</b>
Maldivé Fish Production	13,428	66,690	225	2.0
Fishing	19,200	49,500	220	2.0
Dry Fish Production	17,095	47,880	213	2.0
Marine Bivalve Culture	21,000	35,500	289	3.0
Prawn Fishing	14,500	96,900	351	2.0
Boat Engine Repairs	14,740	60,000	200	2.0
Spice Garden	14,450	63,000	210	2.0
Renting Cabanas	8,985	62,400	208	2.0
Batik Products	18,920	74,760	249	2.0
Hairdressing Salon	14,815	79,020	263	2.0
Cashew Processing	17,835	56,475	251	2.0
Coir Yarn Production	16,900	68,400	228	2.0
Production of Mats	10,200	55,980	187	2.0
Food Processing	12,187	58,590	222	2.0
Hand Loom Products	31,050	85,200	284	2.0
Cane Products	10,705	53,340	222	2.0
Brassiere Production	18,050	85,500	285	2.0
Broom Production	12,775	64,322	214	2.0
Palmyra Jaggery	6,860	23,940	240	2.0
Palmyra Leaf Products	2,534	23,940	133	2.0
Bicycle Repair	22,975	87,600	292	2.0
Mushroom Production	8,453	41,469	230	2.0
Banana Cultivation	8,453	53,577	469	3.0
Goat Production	19,900	58,200	410	3.0
Dairy Production	27,550	46,640	285	3.0
Big Onion Cultivation	32,680	53,000	336	0.5
Chili Cultivation	31,180	40,700	449	0.5
Coconut Plant Nursery	31,180	12,800	157	3.0

<sup>a/</sup> Enterprises are typically owner-operated with up to one part-time hired employee in some cases.

<sup>b/</sup> Includes working capital and physical contingencies of 10%. Up to this amount will be eligible for loan financing. Subsequent seasonal financing will be required for some enterprises.

<sup>c/</sup> Revenue less enterprise-specific cash operating costs at full development, before debt servicing.

<sup>d/</sup> Return per day of total labor input.

Source: Asian Development Bank estimates.

5. Enterprise development will be financed through loans to be provided by participating microfinance NGOs (MF-NGOs). While indicative loan amounts for each of the above enterprises are shown in the table, the participating MF-NGOs will set individual loan limits within their overall lending policies. Most loans will have a 2-year term; however, a 3-year loan is assumed for livestock and coconut nursery enterprises. Initial loans will finance fixed investments such as equipment and initial working capital. Subsequent loans may be necessary to provide seasonal finance for inputs for some enterprises. A flat rate of interest of 12% (the prevailing rate in the project area) has been assumed for the debt servicing estimates. Equity contributions to be made by beneficiaries will be determined by MF-NGOs as part of their loan

evaluation procedures. However, preliminary analysis suggests that most livelihood models should be feasible with minimal beneficiary equity.

6. The poverty and social analysis carried out as part of project preparation indicates that up to half of the households may have incomes at or below Sri Lanka's lower poverty line of about SLRs46,000 per annum. As shown in the table, the estimated annual margins for representative enterprises at full development would in most cases represent very large additions to the incomes of poor households. It is projected that the Project's livelihood support activities will reach at least 40,000 households, comprising nearly 200,000 persons, more than half of whom are estimated to be at or below the poverty line.

7. Failure of markets to absorb the output of proposed enterprises at sustainable prices is a significant risk, with demand for many of the products likely to be inelastic. While markets in the project area appear to be very competitive, little or no information is available on which formal demand analysis can be based. General observations and NGO and other agency marketing experiences in the project area have been summarized in the enterprise profiles in Supplementary Appendix E. Staff of the livelihood enterprise development services (LEDS) providers will have an important role in minimizing market risk. They will survey prices and markets periodically and pass this information to the MF-NGOs for use in loan evaluation. The credit specialist will design a simple monitoring system for this purpose. MF-NGOs will be encouraged to share information about prices and trends in enterprise profitability. Introducing a system of evaluating and reporting portfolio performance by the enterprise sector will also help identify market weaknesses and minimize the risk of continued lending to unprofitable ventures.

8. Limitations in the ability of IP-NGOs to advise beneficiaries on enterprise development possibilities will be addressed through support by LEDS providers who will run training courses for NGO staff as well as beneficiaries.<sup>2</sup> Providing orientation on market opportunities and conditions will in fact be one of their main tasks. LEDS providers will also use the public information system to be established under the Project to disseminate business and market information throughout the project area. Staff of the MF-NGOs will receive additional training in evaluating business proposals through training courses under the Project.

## **C. Fisheries Development**

### **1. Financial Analysis**

9. Project funds will upgrade existing fishing harbor facilities at Cod Bay in Trincomalee Harbor and at Valaichchenai. While about 100 vessels use Cod Bay at present, many of the facilities are run-down, resulting in long turnaround times and poor product quality. One cause of the poor turnaround time is congestion at the main wharf, which is partly due to inadequate mooring facilities and deficiencies in unloading services. Work proposed under the project includes (i) replacing equipment; (ii) constructing new moorings; (iii) constructing crew amenity facilities; (iv) rehabilitating auction and net mending facilities, and (v) providing communications equipment.

10. Apart from the main wharf, the facilities at Valaichchenai are largely nonexistent as a result of destruction during the conflict period. Work at this site will include (i) improving the

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<sup>2</sup> Agromart for example conducts market surveys and packaging/marketing seminars as part of its introductory training program. In addition, it organizes trade fairs, entrepreneur competitions, and awareness-raising tours in the areas in which it operates, including in the Eastern Province.

harbor entrance and channel; (ii) rehabilitating existing buildings; (iii) providing equipment; and (iv) providing additional facilities including crew amenities and improved access. No vessels use the Valaichchenai wharf at present. Boats based in the area currently moor on the banks near the harbor where unloading and provisioning are done by hand.

11. For both harbors, improvements will allow safe mooring year-round for both multiday (MDB) and single-day (SDB) boats, safe access to the sea in most conditions, faster refueling and provisioning, and more efficient and hygienic fish handling. Vessel productivity is expected to improve while the availability of appropriate shore facilities is expected to lead to an increase in the number of vessels able to work the lucrative offshore tuna grounds. Catch composition is expected to change as a result and average value to rise. Improved fish handling and processing in particular will raise fish values and reduce postharvest losses, and may facilitate the development of an export-oriented fishing industry along the east coast.

12. Both harbors are operated by the Ceylon Fisheries Harbors Corporation (CFHC). The corporation aims to recover sufficient fees from users (fishers and concessionaires) and its own commercial activities at the harbors (provision of fuel and water, for example) to cover at least annual operating costs. Funds for periodic maintenance such as dredging, and for new investments are expected to come from the government capital development budget. No dividends are paid. CFHC proposes to move from the current system of charging fishers on a berthing fee basis to a system where a catch-weight based levy is imposed at the port gate. This policy will effectively shift the responsibility for payment of fees from fishers to merchants. In the analysis which follows, the objective of covering operating costs is tested against the proposed CFHC levy of SLRs1.5/kg (\$15.54/ton) of fish at the port gate.<sup>2</sup>

#### **a. Cod Bay**

13. Investment costs are estimated at \$3.1 million, including design and supervision, and physical contingencies of 10%. Although work is expected to take 2-3 years, it will be possible for the port to operate at present levels throughout the construction period. The number of vessels using the port is projected to grow from 116 when construction begins to 205 (about the capacity of the existing main wharf) 10 years after the start of construction. Catch rates per vessel are projected to remain unchanged with the Project although average trip length is expected to decline as turnaround time is improved, leading to an improvement in fish quality. This improvement, together with an increase in the proportion of the catch represented by higher-value species, is projected to lead to an increase of 35% in the average unit value of the catch, compared with the existing situation. These assumptions produce an average fish value at wharf gate of \$880/ton.

14. User charges were estimated on the basis of SLRs1.5/kg (\$15.54/ton) of fish at port gate. Under these assumptions, revenue from this source is sufficient to cover operating costs from year 5 following completion of the work, except in years 10, 15, and 20, when significant periodic maintenance (e.g., dredging) is assumed to be required. Revenue will flow from other sources during the life of the investment, including the provision of services and leasing of harbor facilities to the private sector for commercial activities.<sup>3</sup> The ability of the operation to cover routine operating costs is sensitive to changes in assumptions about the growth in vessel numbers. If the number of MDBs was to be only 80% of that proposed, the required levy would

<sup>2</sup> A detailed financial model for each harbor is in Supplementary Appendix E.

<sup>3</sup> The Cod Bay facility generated about SLRs1.5 million in revenue from these other sources during 2001, primarily the provision of water and fuel. Revenue flows from other sources are expected to rise significantly as the number of boat landings increases.

need to rise to about \$19/ton of fish at wharf gate to cover routine operating costs, excluding revenue flows from other sources.

#### **b. Valaichchenai Harbor**

15. Investment costs are estimated at \$2.3 million, including design and supervision, and physical contingencies of 10%. Construction work is expected to take about 2 years following an initial year of consultation, planning, and design. The number of vessels using the port is projected to grow from none when construction begins to 155 in year 5 following commissioning. Catch rates for vessels using the harbor are expected to increase from 20.6 tons per annum for a typical MDB presently berthed on the adjacent shoreline to about 25 tons per annum when using the harbor. Catch rates for SDBs are projected to rise from 14 tons per annum at present to 15.6 tons per annum when using the harbour. Average trip length for MDBs is expected to increase from about 7 days at present to 12 days as skippers become more confident that they can enter the port in a wide range of weather conditions. Fish quality will improve as ice supplies and onboard fish handling improve. These latter changes, together with an increase in the proportion of the catch represented by higher-value species, is projected to lead to an increase of 25% in the average unit value of the catch, compared with the existing situation. These assumptions produce an average value at wharf gate of \$760/ton.

16. User charges were estimated on the basis of SLRs1.5/kg (\$15.54/ton) of fish at port gate. Under these assumptions, revenue is sufficient to meet operating costs from the time the port becomes fully operational, except for years 10, 15, and 20 in which significant periodic maintenance is required. The ability of the port business to cover operating costs is relatively insensitive to changes in assumptions about the growth in vessel numbers. If growth in the number of MDBs was to be only 80% of that proposed, routine annual operating costs could still be covered at the above charge rate. Additional revenue will be derived from commercial activities at the harbor, including leasing the facilities to the private sector.

### **2. Economic Analysis**

17. Each harbor upgrade proposal was evaluated on the basis of the projected throughput of fish with the Project, less the throughput that would be expected without the Project. Incremental throughput is expected to arise largely from an increase in vessel numbers with the Project, and a small increase in catch per vessel for some vessels. Any increase in vessel numbers compared with the without-Project situation is regarded as incremental and investment and operating costs for these vessels were included in the analysis. The economic worth of services provided by port operators or concessionaires (CFHC supply of fuel, for example) was assumed to be covered in full by the annual operating cost estimates for vessels.

18. Prices are in constant 2003 values, ex-wharf, adjusted from their financial values by imputing various conversion factors, which in turn were estimated using a shadow exchange rate factor of 1.1. A domestic price numeraire was used, therefore. A 20-year analysis period was used. For each port, a residual value estimated at 25% of the investment cost was included in the resource flow. Fishing vessels were assumed to have no residual value.

**a. Cod Bay**

19. For the base case assumptions, the economic internal rate of return (EIRR) is estimated at 25.5%. The estimate is sensitive to changes in the fish price—if price were to fall by 10%, the EIRR would fall to 20.7%, and a 10% increase produces an EIRR of 30.2%. With a 10% increase in port investment costs, the EIRR would fall to 23.8%, or to 23% if boat investment costs rose concurrently by 10%.

**b. Valaichchenai**

20. For the base case assumptions, the EIRR was estimated at 35.4%. This estimate is also sensitive to changes in the fish price: if price were to fall by 10%, the EIRR would fall to 29.4%, and a 10% increase would produce an EIRR of 41.4%. A 10% increase in port investment costs would reduce the EIRR to 33.1%, or to 32.6% if boat investment costs rose concurrently by 10%. If 20% fewer vessels used the harbor, the EIRR would still be acceptable at about 31%.

**c. Fisheries Development Component**

21. Assuming (i) work on Cod Bay begins in year 4 of the Project; (ii) work on Valaichchenai begins in year 2 of the Project; and (iii) directly related training costs are included, the subcomponent EIRR for the base case assumptions is 30.2%.

## SUMMARY POVERTY AND SOCIAL ANALYSIS

### A. Poverty in Sri Lanka

1. The United Nations ranked Sri Lanka 84<sup>th</sup> among 174 countries in the human development index in 2000. Sri Lanka has made substantial gains in reducing poverty, as reflected in its impressive human development indicator, with 0.73 being by far the highest in South Asia. Poverty in Sri Lanka can be attributed to a much larger extent to income and consumption than to access to basic services. It is a predominantly rural phenomenon with 87% of the total poor living in rural areas and distinct regional variations. Overall, about 40% of the country's population are either poor or vulnerable to poverty.

2. Due to the conflict, the North and East have been excluded from official national surveys during the last 17 years. However, data available at the district level and below suggest that the area lacks basic services, and has lost productive assets and social capital. At least 60,000 people died, and close to two thirds of households were displaced. Economic activities are slowly picking up after the declaration of a cease-fire in early 2002. Reducing conflict-related poverty is one of the six pillars of the Government's poverty reduction strategy.<sup>1</sup> In the Poverty Partnership Agreement, the Government of Sri Lanka and the Asian Development Bank (ADB) agree that ADB will assist in addressing conflict-related poverty.<sup>2</sup>

### B. Livelihoods and Poverty in the Project Area

3. **Methodologies of Poverty and Social Analysis.** In the absence of reliable statistical data on poverty and livelihoods in the North and East and nonavailability of head count data on income poverty for the project area, the project preparatory technical assistance (PPTA) used other proxy data combined with qualitative information. The PPTA included all Grama Niladhari (GN) divisions<sup>3</sup> that border the coast or major lagoons—396 GN divisions in the project area of the three districts of Trincomalee, Batticaloa, and Ampara, comprising more than 800 villages. Six indicators were selected and combined into a vulnerability index.<sup>4</sup> Subsequently the GN divisions with the highest prevalence of poverty and dependence on coastal resources for livelihoods were identified. In 82 GN divisions, separate focus group discussions were held for men and women—a total of 1,594 villagers, comprising 806 men and 788 women. Of the 396 GN divisions (67 in Trincomalee, 173 in Batticaloa, 156 in Amparai) and taking the 45-50% level of the vulnerability index as the cutoff, 146 GN divisions are considered as the most vulnerable (Table A13.1). They are concentrated in northern Trincomalee, Kinniya/Muthur, western Batticaloa, and southern Ampara. These findings were cross-checked and confirmed during loan processing. Due to the cease-fire and the changing socioeconomic situation, the PPTA findings were revalidated and detailed social profiles of the target population, with particular

<sup>1</sup> Government of Sri Lanka. 2002. *Regaining Sri Lanka, Part II, Connecting to Growth: Sri Lanka's Poverty Reduction Strategy*. Colombo.

<sup>2</sup> ADB. 2002. *Poverty Reduction Partnership Agreement between Democratic Socialist Republic of Sri Lanka and the Asian Development Bank*. Colombo.

<sup>3</sup> The Grama Niladhari (GN) division is the lowest administrative level. One GN division commonly consists of 2-3 villages with a population limit set at 250 families.

<sup>4</sup> The index is composed of (i) the percentage of households with female heads in the total population of a GN division; (ii) the number of displacements a community had experienced over the last 10 years; (iii) the number of restrictions affecting sustainable livelihood within the community (income generating activities, mobility, procurement and transport of essential items such as food and energy sources); (iv) access to safe drinking water (number of households having access to wells or piped drinking water schemes); (v) access to sanitary facilities (number of toilets per household); and (vi) the level of indebtedness (% of households within each GN division to be indebted).

attention to gender issues and minority groups, were prepared in a detailed poverty and social analysis (PSA, Supplementary Appendix G).

**Table A13.1: Project Area Statistics**

District	Coastal Population	No. of DS Divisions	No. of GN Divisions	No. of Most Vulnerable GNs	No. of Most Vulnerable GNs in SMAs
Trincomalee	116,358	6	67	35	16
Batticaloa	244,652	12	173	88	63
Ampara	184,436	13	156	23	5
<b>Total</b>	<b>545,473</b>	<b>31</b>	<b>396</b>	<b>146</b>	<b>84</b>

DS division = subdistrict administrative level; GN division = Grama Niladhari division; SMA = special management area.

Source: Asian Development Bank estimates.

4. **Characteristics of Poverty.** Poverty in the region is characterized as conflict-related, with displacement,<sup>5</sup> loss of assets, physical injuries, death of family members, and military-induced restrictions on the practice of customary livelihoods, such as farming and fishing, contributing to it. Due to the conflict, there has been lack of continuous employment and concomitant skills development. Declining standards of education and earning a living instead of going to school have led to a continuous loss of capabilities and skills especially among the young. The conflict was deeply embedded in the sociopolitical, economic, and cultural structures. It had become everyday reality, with hopelessness and frustration being an integral part of life and undermining the capacity to cope with psychological stress, shock, and war-related trauma. Throughout the conflict, the population concentrated on short-term survival rather than on any form of sustainable management of natural resources. The only recent large-scale study<sup>6</sup> found income levels within the northern and eastern areas, not controlled by the Liberation Tigers of Tamil Eelam (LTTE), to be similar to average income levels within the rest of the country. This is largely attributed to the remittances sent by family members from overseas. In coastal communities of the Eastern Province, poverty is highly variable and seasonal, and as much a result of lack of savings and other practices such as alcoholism, as of degradation of the resource base due to a multiplication of users.

5. **Population and Ethnic Composition.** The total population of the coastal GN divisions is 545,473, more than one third of the total population of the three eastern districts in 396 GN divisions, which comprise more than 800 villages. The average population per GN division is about 1,450. Major changes in ethnic composition have occurred at the district level. In Trincomalee district, the proportion of Muslims increased by 10% between 1981 and 1999, while the proportion of Sinhalese decreased in the two northernmost districts and increased in Ampara district. The proportion of Tamils increased in Batticaloa and decreased in the two other districts. Ethnic segregation continues down to the GN divisional level, with communities living in separate villages or sections of villages. Primary education being either in Tamil or in Sinhalese effectively supports segregation of children of different communities at an early age. The implication is that project activities in vulnerable coastal communities will address mainly the problems and needs of Tamils and Muslims.

<sup>5</sup> In the project area, 264 out of 396 GN divisions reported one or more displacements (defined as a need for a significant proportion of the population to leave their homes temporarily). Of these the majority were in Batticaloa and Trincomalee, where about 80% of GN divisions have suffered displacement.

<sup>6</sup> World Bank 2001. The Sri Lanka Poverty Assessment, based on the Sri Lanka Integrated Survey, Colombo.



**Table A13.2: Project Area: Population and Ethnicity (%)**

District and Coastal DS	Sinhalese	Tamil	Muslim	Other	Total Study Population
<b>Trincomalee District</b>					
Coastal GNs	10.0	51	39	0	100
Vulnerable Coastal GNs	0.5	56	43	0	100
<b>Batticaloa District</b>					
Coastal GNs	0.0	84	15	1	100
Vulnerable Coastal GNs	0.1	97	3	1	100
<b>Ampara District</b>					
Coastal GNs	2.0	34	64	0	100
Vulnerable Coastal GNs	6.0	62	32	0	100
<b>Eastern Province</b>					
Total Coastal GNs	3.0	38	59	0	100
Total Vulnerable Coastal GNs <sup>a</sup>	0.8	82	17	0	100

DS = divisional secretariat; GN = Grama Niladhari.

<sup>a</sup> Excluding the ethnic ratios for 23 GN divisions due to lack of data.

Source: Divisional Secretariat for district totals, ADB for coastal DS divisions.

6. **Impact of Ethnic Segregation.** Deep fractures have been created and ethnic segregation has led to setting up separate municipal governments, markets, or even bus stands. Ethnic tensions have been accentuated. The fishing industry has become highly segregated along ethnic lines. The conflict has resulted in a substantial loss of assets by the Tamil population, exacerbated by the problems and restrictions faced by Tamil fishers in their dealings with the military. Ethnic segregation is reinforced in many ways. Business establishments run by, or catering to a specific ethnic group, tend to broadcast their ethnicity by signs either in Sinhala or Tamil, in which relatively few people are fluent in both. There is a high incidence of disputes between members of different ethnic groups that can become violent. Communities that once lived together and cooperated in livelihood activities are now segregated and mistrust each other.

7. **Socioeconomic Profiles of Resource Users.** The PSA identified the different resource users in the project area: (i) the fishing population; (ii) fisher-farmers; (iii) farmers and buffalo/cattle herders; and (iv) micro/small entrepreneurs.<sup>7</sup> The PSA found the social structure in fisheries communities, the tenure system, and ownership of fishing assets to be very complex. Many households have multiple sources of livelihoods and boundaries among different types of resource users are not clear-cut. Significant differences occur between resource users in the marine and lagoon systems. The socioeconomic status and extent of poverty in marine fishing communities depend on ownership of fishing assets. Owners of large sea canoes had comparably more secure incomes than laborers and owners of fiberglass boats, despite high indebtedness due to capital costs of nets, boats, and engines, and are a relatively well-off group. Lagoon fisher men and women are among the poorest income groups because of generally poor catch sizes. Most lagoon households have to complement their livelihoods through migratory wage labor, microbusinesses, or environmentally destructive activities like sand mining or cutting of firewood for sale from forests and mangroves. Poverty in fishing communities is characterized by seasonality of incomes, compounded by an excess of fishing laborers and poor savings habits, with earnings in the high season often becoming repayment for debts incurred in the low season. High rates of alcoholism exacerbate the situation. Mixed forms of farming and fishing were practiced in some areas during the conflict, since fishers faced

<sup>7</sup> The detailed socio-economic profiles are in Supplementary Appendix G.

fishing restrictions while farmers did not have access to their fields, due to mining, the presence of army camps, and the crossfire between the LTTE and the armed forces. With the peace process lifting the restrictions, many people are going back to working as either fishers or farmers, rather than both.

8. **A Coastal Minority Group.** Small groups of coastal Vedda live scattered at the fringes of villages within the DS divisions of Eachilampattai/Muthur in Trincomalee district, and Koralai Pattu North and Koralai Pattu in Batticaloa district. The Government does not consider them as an indigenous community,<sup>8</sup> no separate statistics exist, and the Vedda themselves in most cases would not like to be considered as indigenous people because this leads to stigmatization and underscores their marginalization. They practice group-oriented hunting, gathering, and fishing. They have retained a number of cultural traditions while being partially incorporated into the market economy. They have experienced many centuries of assimilation and integration with the Tamil communities among whom they have resided. Their living conditions are extremely poor compared with those of their neighbors. They lack access to basic amenities and have high numbers of school dropouts. Child labor is prevalent. Alcohol abuse is considerable. In the PPTA focus group discussions, they identified lack of housing and basic infrastructure, insufficient income, alcoholism (among both men and women), dependency, inability to engage in traditional livelihood activities, and stigmatization as their major problems. Their present carefully balanced and extremely diversified livelihoods will not allow them to benefit immediately from the Project. Separate, more holistic project interventions and the recruitment of a nongovernment organization with demonstrated sensitivity in working with small minority groups will be needed to ensure socially and culturally sensitive, and targeted improvement of their living conditions. The proposed Project will not adversely affect the coastal indigenous people, but will ensure, through particular efforts, better outreach to this group. Thus, the preparation of an indigenous people's plan according to ADB's *Policy on Indigenous Peoples* is not necessary.

### C. Social Safeguards and Other Social Risks

Subject	Significant/ Nonsignificant/ None	Strategy to Address Issues	Plan Required
Resettlement	None	Community infrastructure interventions include constructing and rehabilitating of minor roads, culverts, drains, small-scale water supply and sanitation facilities, simple solid waste management schemes, and community buildings. Coastal fishing communities will also be eligible to receive simple fisheries support infrastructure. The selection criteria for community infrastructure interventions (Appendix 5) include the following: (i) The proposed infrastructure should be on public land, or where private land is involved, this must be voluntarily transferred at no cost to the Government. (ii) The proposed infrastructure should be on land free from habitation (and thus would not give rise to any displacement). The rehabilitation activities at the harbor sites will only be undertaken within the confines of the current harbor areas.	No, but resettlement framework prepared

<sup>8</sup> In the official statistics they are classified as Tamils.

Gender	Significant	During the conflict, the workload of women increased and role reversals occurred, but patriarchal values still influence gender relations. An inequitable gender division of labor continues to put additional strain on women in fulfilling supposedly male tasks. In addition, as a consequence of the conflict, high numbers of very poor households headed by females exist. The Project is classified Gender and Development.	Gender strategy and plan prepared
Indigenous Peoples	Not significant	Small but extremely poor and marginalized communities of indigenous coastal Vedda also reside within the project area. Separate livelihood interventions have been developed to ensure that the Vedda's specific needs are addressed in a socially sensitive manner. The Project will support a separate more holistic project intervention through a NGO with demonstrated sensitivity in working with small minority groups and ensuring socially sensitive, targeted improvement of their living conditions.	No
Labor	None	Employment opportunities will be available on an equal basis to all, irrespective of gender, ethnic, or religious groups.	No
Affordability	None	Project design pays particular attention to improving access of the poor and vulnerable groups to goods and services; project interventions are targeted at vulnerable groups.	No
Other Risks/ Vulnerabilities	None	The Project was designed with particular attention to ensuring equitable and inclusive social development, including the most vulnerable groups, with specific focus on different ethnic groups at the community level.	No

## SUMMARY ENVIRONMENTAL ANALYSIS

### A. Introduction

1. In accordance with the Asian Development Bank's (ADB) guidelines, initial environmental examinations (IEEs) were prepared as part of project preparation. The IEEs assessed the environmental implications of project interventions, identified mitigation measures, and developed environmental management plans (EMPs). In view of the different typologies and locations of the interventions, five IEEs were prepared to cover project activities in the special management areas (SMAs) and the rehabilitation of two existing fisheries harbors. The typology of community interventions planned outside the SMAs was examined within the framework of the IEEs conducted for the SMAs. The Project is classified as environment category B under *Environmental Considerations in ADB Operations*. Project interventions were screened with reference to the *Environmental Assessment Guidelines of the Asian Development Bank* (2003).

### B. Description of the Environment

2. The project area is located in the dry zone of Sri Lanka. Its landscape is relatively flat. Soils are mostly sandy regosols and recent beach sands with areas of riverine alluvial. The continental shelf is about 80 meters wide and more than 60 meters deep. However, some deep submarine canyons are found close to the shore. The coastline has many fringing coral and barrier reefs and wetlands. There are four major rivers with associated alluvial plains.

3. The coastal habitats of the project area include estuaries and lagoons, beaches, sand dunes, islands, and coral reefs. Large areas of mangrove forest, as well as seagrass beds, occur in the intertidal areas along the shores of bays and estuaries, and in lagoons. Marine coastal ecosystems support high biodiversity and are habitat for economically important species. Coastal marshes and wetlands are feeding grounds for migratory waterfowl. Sand dunes stabilize coastlines, protect interior lands from salty winds and storm waves, and prevent saltwater intrusion. The wetlands have special environmental significance and are threatened by inappropriate solid waste management, pollution, blockage of natural water exchange, algal blooms, invasion of alien species, and habitat destruction through cutting of mangroves and reclamation of lagoon margins. Although under great pressure, mangroves in the project area represent a substantial share of those in the country. Trincomalee Bay and Batticaloa Lagoon are the two most important ecosystems along the eastern coast. Pressure on these areas has intensified as a consequence of the conflict, exacerbated by lack of effective coastal resources management and law enforcement. Within the project area, six sites are formally designated as protected areas, and classified as sanctuaries.

4. Cultural landmarks include temples, mosques, and 16<sup>th</sup>/17<sup>th</sup> century Dutch and Portuguese forts. Southern Ampara lies on a historic pilgrimage route to Kataragama, a Hindu holy site, and also features two important megalithic sites.

### C. Screening of Potential Environmental Impacts

5. **Sustainable Livelihood Improvement (Component 1).** This component will be supported through a microfinance delivery system consisting of individual loans mostly in the range of \$50-100; technical advice; mentoring and capacity building in fisheries, agriculture, agroforestry, and a range of nontraditional activities. The IEEs have prescribed the exclusion of

any sites of ecological, archeological, or historic importance; the adoption of integrated pest management practices; and the use of certified multiplication and stocking materials. The IEEs have also proscribed the introduction of alien species. Support for ecotourism will include capacity building in delivering services and developing community-managed ecotourism and beach-tourism related microenterprises, all based on prudent and regulated access to natural resources, and on culturally acceptable practices. Owing largely to the screening procedures that will be in place; to the small scale, dispersed nature, and low intensity of the enterprises; and to the use of environmental-friendly technologies; no significant or cumulative environmental impacts are expected.

6. Community infrastructure will be financed with a limit of \$20,000 set per GN division and \$35,000 for GN divisions eligible to receive fisheries support infrastructure. Proposed subprojects will be subject to a series of stringent selection criteria (Appendix 5) and subject to environmental review procedures (Supplementary Appendix N). Microprojects eligible for funding include the construction and rehabilitation of minor roads, culverts, drains, small-scale water supply and sanitation facilities, simple solid waste disposal schemes, community buildings, net repair sheds, auction halls, rest houses, and cold storage facilities. Environmental implications have been identified and addressed either by having exclusion criteria in the selection process (Appendix 5) or by recommending mitigation measures supported by appropriate budgetary provisions. The use of asbestos has been proscribed.

7. **Resource Management in Three SMAs (Component 2).** This component involves activities whose precise locations are still to be specified, and should therefore be considered as prototypes. Mangrove rehabilitation, wetland management, and protection of coastal sand dunes and other habitats of ecological and biological significance will support habitat conservation and rehabilitation. Provided appropriate consultative processes are undertaken and no alien species are introduced, these activities will have mainly positive environmental impacts. Environmental improvements will include introduction of fuel-efficient stoves and renewable energy sources, waste recycling, and small-scale solid waste management (SWM). Environmental implications of SWM have been identified and mitigation measures prescribed. This component will also improve institutional capacity for environmental management and community-based conservation, and will lead to improved local-level resource management.

8. **Coastal Resource Planning (Component 3).** This component involves strengthening of planning capacities, improving decision making, and establishing functional monitoring and regulatory systems, all of which will contribute to improved natural resource management.

9. **Rehabilitation of the Fisheries Harbors (Component 4).** The IEEs identified environmental impacts that could arise from (i) location, in terms of construction of a mooring jetty and new buildings; (ii) design, in terms of possible minor changes in the sediment equilibrium due to the construction of the jetty; (iii) implementation, in terms of social impacts due to mobilization of large construction teams, and localized pollution caused by careless handling of construction materials; and (iv) operations, in terms of pollution due to poor management of solid waste and effluents. Mitigation measures have been prescribed and include modeling possible changes to the hydrology and sediment equilibrium to design the mooring jetty; contractors adopting safety precautions and managing their work force accordingly; careful handling and disposal of construction debris (e.g., asbestos); and establishing facilities and procedures for handling human effluents, solid waste, workshop by-products and residues resulting from fisheries handling/processing. Civil works will temporarily increase suspended sediments and turbidity in the lagoon, but effects on the overall lagoon ecosystem will be negligible. No significant disruption to traffic and utilities is expected to occur.

during the construction phase of the harbor rehabilitation. An environmental protection license will be necessary for the ship repair yard/workshop to become operational.

#### **D. Environmental Management Plans**

10. Within the coastal zone, development activities are subject to the issuance of permits by Coastal Conservation Department of the Ministry of Fisheries and Ocean Resources or—in selected cases—by the district secretariats. Elsewhere within the project area, undertakings are subject to the provisions of the National Environment (Amendment) Act No. 53 of 2000. Both cases require the preparation of environmental analysis at varying levels of detail depending on the environmental implications of the intervention.

11. Preliminary EMPs have been developed as part of the five initial IEEs. For each sub-project, more detailed instruments will be prepared at the detailed design stage with the assistance of an environmental engineer hired as part of the consultant support team. The EMPs will refer to standards set out by the Central Environmental Authority. Environmental monitoring will be conducted by divisional environmental officers supported by the services of an accredited laboratory based in Batticaloa. Within SMAs, local communities will play an active role in monitoring resource use and access, as their skills will be enhanced as part of the SMA process. Project implementing partners will be provided with global positioning systems and trained to precisely locate resources and associated environmental issues. Records will be compiled and transmitted to the divisional coordinating committee and to the district coordinating committee for monitoring purposes. In its progress reports, the North East Provincial Council (NEPC) will include a detailed report on the experience with implementation of the EMPs.

#### **E. Public Consultation and Information Disclosure**

12. A number of consultations carried out during project preparation involved various stakeholders including district-based nongovernment organizations. Public notices in English, Tamil, and Sinhala were posted in national newspapers and IEEs were uploaded on the web of the NEPC in August 2003. Hard copies of the reports were made available to the public in Colombo, and at district and provincial levels. Follow-up public hearings were held in the three SMAs in September 2003.

#### **F. Conclusions and Recommendations**

13. Environmental benefits from the Project will result from (i) direct protection of sensitive and valuable natural resources; (ii) rehabilitation of altered or damaged habitats; (iii) building public awareness of the need for environmental protection and management; (iv) building institutional capacity for effective environmental planning and management; (v) implementation of measures that are designed to minimize pollution and manage waste streams; and (vi) promotion of livelihoods that are environmentally friendly. The IEE studies have shown that environmental impacts associated with the proposed Project are manageable and can be mitigated. In addition, Supplementary Appendix N assures that national legislation and ADB's environmental policies are adhered to and that no work will be undertaken until appropriate approvals have been granted. The Project has sufficient contingencies should additional studies and mitigation measures be necessary.

14. The overall finding of the IEEs is that the Project will not cause significant environmental problems and that potential adverse impacts are manageable through proper site location,

design, construction, and management. The Project can therefore be classified under Category B: projects judged to have some adverse environmental impacts, but of lesser degree or significance than those for category A projects. The IEEs are considered adequate and the preparation of a full environment impact assessment is not required.