



Technical Assistance Report

Project Number: 51297-001
Transaction Technical Assistance (TRTA)
August 2018

Democratic Socialist Republic of Sri Lanka: Capacity Building for Secondary Towns and Strategic Cities

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 July 2018)

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

ABBREVIATIONS

ADB	–	Asian Development Bank
TA	–	transaction technical assistance

NOTE

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

Vice-President	Wencai Zhang, Operations 1
Director General	Hun Kim, South Asia Department (SARD)
Director	Sekhar Bonu, Urban Development and Water Division, SARD
Team leader	Ron H. Slangen, Senior Urban Development Specialist, SARD
Team members	Saswati Belliappa, Safeguards Specialist, SARD
	Kamal Dahanayake, Senior Project Officer (Urban and Water Supply-Sanitation), SARD
	Shinjini Mehta, Urban Development Specialist, SARD
	Jaemin Nam, Financial Management Specialist, SARD
	Emma Rita Ramona Nava, Senior Operations Assistant, SARD
	Ninette Pajarillaga, Environment Specialist, SARD
	Nirojan Sinclair, Associate Project Officer, SARD
	Asghar Syed, Senior Counsel, Office of the General Counsel

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I. THE PROPOSED PROJECT

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

2. The attached transaction technical assistance (TA) will support output 3 (institutional capacity of project agencies strengthened) of the facility in the following areas: (i) capacity building and implementation support conducted for project management units and relevant project agencies covering procurement, contract management, safeguards, financial management, climate and disaster resilience, innovative approaches, project performance monitoring, urban governance, and gender mainstreaming;² (ii) a governance improvement program for ensuing Asian Development Bank (ADB) projects (footnote 1) designed; and (iii) guidelines for mainstreaming gender in the design of urban projects prepared and disseminated.

II. THE TECHNICAL ASSISTANCE

A. Justification

3. The role of the attached TA under the facility is to provide capacity building to strengthen project agencies in the design and execution of urban infrastructure projects and urban governance improvement programs, including the introduction of innovative approaches for ensuing ADB projects (footnote 1).

4. **Limited capacity of urban agencies to prepare and implement projects.** The urban sector in Sri Lanka is constrained by weak implementing agencies, requiring significant hand-holding support, especially in detailed engineering, procurement, contract management, safeguards, and gender mainstreaming. Implementing agencies also need increased capacities to address issues critical for good project design, operation, strategic investment planning, and introducing innovative approaches and smart city principles.

5. **Weak local finance and governance.** Local capacity for economic and financial management, revenue generation, asset management, and ensuring sustainability also needs to be strengthened. The central government supplements the budgets of provincial councils, which support local authorities because revenues for capital investment, services delivery, and operation and maintenance are insufficient.³ Improving urban services delivery depends on enabling local governance, strengthening own-source revenues, and building capacity to manage municipal finances. Investment in urban infrastructure will be more effective and sustainable when

¹ ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila. The facility will prepare two projects listed in 2020/2021: (i) the Secondary Towns Sustainable Development Project (\$180 million) under the Ministry of Provincial Councils, Local Government, and Sports; and (ii) the Western Megapolis Urban Infrastructure Development Project (\$200 million) under the Ministry of Megapolis and Western Development.

² Relevant agencies for capacity building include the Ministry of Megapolis and Western Development, the Ministry of Provincial Councils, Local Government, and Sports, National Planning Department, provincial councils, the Urban Development Agency, and local authorities.

³ The 13th amendment to the constitution in 1987 created nine provincial councils. Sri Lanka currently has nine provinces, 25 districts, and 336 local authorities (23 municipal councils, 41 urban councils, and 272 *Pradeshiya Sabhas* [third tier municipalities in the country]). Although under the purview of provincial councils, local authorities continue to be governed by laws enacted by the central government before 1987 and are bound by national policies.

services are demand-driven and linked with local government reform and capacity strengthening. To achieve these goals, local authorities need capacity strengthening in various areas, including (i) diversifying their revenue bases; (ii) improving the management and reliability of infrastructure services; (iii) creating mechanisms for citizen participation, gender mainstreaming, and grievance redressal; and (iv) fostering environmental sustainability, including climate and disaster resilience. The design of the TA focuses on strengthening local authority capacity in these areas, including local fiscal improvement and governance reforms.

6. **Government strategy.** In its Vision 2025 and Public Investment Program (2016–2018), the government articulates its goals and strategy for stimulating inclusive and balanced geographic development for achieving upper middle-income status.⁴ As part of this strategy, the government prioritizes (i) 24-hour water supply and full sanitation coverage, especially in underserved urban areas; (ii) improving environmental and disaster management in and around cities; and (iii) strengthening the capacity of local institutions for improved service delivery. The government identifies climate change mitigation and adaptation as priorities in its national policy on disaster management.⁵ As part of Sri Lanka’s nationally determined contribution, it aims to reduce greenhouse gas emissions by 20% through renewable energy initiatives. The government also aims to build resilience against climate change in vulnerable communities by improving urban infrastructure planning and designs considering climate change. The facility will support growth by boosting urban agglomerations to attract high-quality investments and improve urban governance through planned, environmentally sustainable development consistent with the government’s growth strategy. The facility is closely aligned with the country partnership strategy, 2018–2022.⁶

B. Outputs and Activities

7. **Output 1: Institutional capacity to design and manage urban infrastructure projects strengthened.** Output 1 will provide training (workshops, exposure visits) and implementation support to project management unit staff and relevant project agencies (the National Planning Department, provincial councils, and local authorities) in key areas of ADB project design and implementation, including procurement, safeguards, financial management, gender mainstreaming, climate and disaster resilience, financial management, project performance monitoring, and innovative approaches.⁷

8. **Output 2: Institutional capacity to design and implement urban governance improvement programs strengthened.** Output 2 will (i) enhance the awareness of key stakeholders (ministry, provincial council, local authorities) in good urban governance, including innovative areas of revenue generation, financial management, citizen participation, e-governance, operation and maintenance, asset management, and strategic planning; (ii) prepare a design for an urban governance improvement program for support under the ensuing ADB projects with gender considerations; and (iii) prepare guidelines for mainstreaming gender in the design of urban projects for dissemination to urban agencies.

⁴ Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

⁵ Government of Sri Lanka. 2010. *National Policy on Disaster Management*. Colombo.

⁶ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

⁷ Exposure visits may be both within and outside of Sri Lanka.

C. Cost and Financing

9. The TA is estimated to cost \$1.1 million, of which \$1.0 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-6). The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, office accommodation for consultants, space for training and workshops, and other in-kind contributions. The TA proceeds will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

D. Implementation Arrangements

10. ADB will administer the TA. The Urban Development and Water Division of the South Asia Department will select, supervise, and evaluate consultants. The executing agencies are the Ministry of Provincial Councils, Local Government, and Sports and the Ministry of Megapolis and Western Development. The TA will be implemented over 36 months, from September 2018 to September 2021.

11. The implementation arrangements are summarized in the table.

Table: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	September 2018–September 2021		
Executing agencies	Ministry of Provincial Councils, Local Government and Sports, and the Ministry of Megapolis and Western Development		
Implementing agencies	Project management units of the Ministry of Provincial Councils, Local Government and Sports, and Ministry of Megapolis and Western Development		
Consultants	To be selected and engaged by ADB		
	Individual consultant selection	79 person-months	\$1.0 million
Advance contracting	Advance contracting will be used for consultant recruitment.		
Disbursement	The transaction TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

12. **Consulting services.** The TA will require about 79 person-months of consulting services (about 36 person-months international and 43 person-months national). ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. The individual experts will be recruited using individual consultant selection.⁸

⁸ Terms of Reference of Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	500.0
ii. National consultants	250.0
b. Out-of-pocket expenses	
i. International and local travel	50.0
ii. Training, seminars, conferences, exposure visits	120.0
iii. Surveys	35.0
2. Contingencies	45.0
Total	1,000.0

Note: The technical assistance is estimated to cost \$1.1 million, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation for consultants, space for training and workshops, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total technical assistance cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-6).

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

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

1. Outline Terms of Reference for Consultants