



Report and Recommendation of the President to the Board of Directors

INTERNAL

Project Number: 56175-001
August 2022

Proposed Loan and Administration of Grant Democratic Socialist Republic of Sri Lanka: Food Security and Livelihood Recovery Emergency Assistance Project

Distribution of this document is limited until it has been approved by the Board of Directors. Following such approval, this document will be reclassified as *public* and disclosed in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 August 2022)

Currency unit	–	Sri Lanka rupees (SLRe/SLRs)
SLRe1.00	=	\$0.00277
\$1.00	=	SLRs361.06

ABBREVIATIONS

ADB	–	Asian Development Bank
CERC	–	contingent emergency response component
COVID-19	–	coronavirus disease
DCS	–	Department of Census and Statistics
EAL	–	emergency assistance loan
GAP	–	Good Agricultural Practices
IMF	–	International Monetary Fund
IT	–	information technology
JFPR	–	Japan Fund for Prosperous and Resilient Asia and the Pacific
MOA	–	Ministry of Agriculture
MOF	–	Ministry of Finance, Economic Stabilization and National Policies
MOWCS	–	Ministry of Women, Child Affairs and Social Empowerment
NPD	–	Department of National Planning
PAM	–	project administration manual
PCU	–	project coordination unit
PIU	–	project implementation unit

NOTE

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

Vice-President	Shixin Chen, Operations 1
Director General	Kenichi Yokoyama, South Asia Department (SARD)
Deputy Director General	Manmohan Parkash, SARD
Directors	Gi Soon Song, Human and Social Development Division (SAHS), SARD Chen Chen, Sri Lanka Resident Mission (SLRM), SARD
Team leader	Asako Maruyama, Senior Education Specialist, SAHS, SARD
Co-team leader	Sudarshana Anojan Jayasundara Halgamage Don, Senior Social Development Officer (Gender), SLRM, SARD
Team members	Bernadett Avance, Senior Project Assistant, SAHS, SARD Ricardo Carlos Barba; Principal Safeguards Specialist; Office of the Director General, Portfolio, Results, and Quality Control Unit (SAOD-PR), SARD Wathumullage K. M. Dabare, Associate Project Officer (Rural Development), SLRM, SARD Nelly Elza Defo, Financial Control Specialist, Loan Administration Division, Controller's Department Ma. Charmayne M. Galarpe, Safeguards Analyst, SAOD-PR, SARD Yukiko Ito, Principal Social Development Specialist, Social Development Thematic Group, SDTC, (SDTC-SOC), Sustainable Development and Climate Change Department (SDCC) Nirukthi P. Kariyawasam, Associate Economics Analyst, SLRM, SARD Utsav Kumar, Principal Country Economist, SLRM, SARD Yonghwi Kwon, Financial Sector Specialist (Digital Payment), Finance Sector Group, SDCC Kyla May S. Matias, Associate Climate Change Officer, SAOD-PR, SARD Anne Michelle Mendoza, Financial Management Specialist, SAOD-PR, SARD Jocelyn A. Mendoza, Associate Safeguards Officer (Resettlement), SAOD-PR, SARD Taisuke Miyao, Senior Procurement Specialist, Procurement Division 1, Procurement, Portfolio, and Financial Management Department (PPFD) Aruna Uddeeptha Nanayakkara, Senior Project Officer (Transport), SLRM, SARD Ma. Agnes A. Navera, Senior Operations Officer, SAOD-PR, SARD Roshan Ouseph, Senior Counsel, Office of the General Counsel Lalinka Yana M. Padrinao, Associate Environment Officer, SAOD-PR, SARD Santosh Pokharel, Senior Private Sector Development Specialist, SLRM, SARD Irene Julitta Ponniah; Senior Financial Management Specialist; SAOD-PR, SARD Indunil Kumari Ranatunge, Associate Financial Management Officer, SLRM, SARD

One ADB team

Sanath Ranawana; Principal Water Resources Specialist; Environment, Natural Resources, and Agriculture Division; SARD

Jose Luis Syquia, Principal Public Management Specialist, Governance Thematic Group, SDTC, SDCC

Francesco Tornieri, Principal Social Development Specialist (Gender and Development), SAOD-PR, SARD

Paul P. Vandenberg, Principal Economist, Economic Analysis and Operational Support Division, Economic Research and Regional Cooperation Department

Meredith Wyse, Senior Social Development Specialist (Elderly Care), SDTC (SDTC-SOC), SDCC

Angelique Dawn Badelles, Strategy and Policy Officer; Strategy, Policy, and Business Process Division (SPBP); Strategy, Policy and Partnerships Department (SPD)

Anshuman Bardhan; Financial Management Specialist; Public Financial Management Division; PPF

Charlotte Benson, Principal Disaster Risk Management Specialist, Climate Change and Disaster Risk Management Division, SDCC

Marina Rose Best, Senior Social Development Specialist (Civil Society and Participation), NGO and Civil Society Center, SDTC, SDCC

Ashish Bhateja; Principal Planning and Policy Specialist, SPBP, SPD

Zaruhi Hayrapetyan, Social Development Specialist (Safeguards), Safeguards Division (SDSS), SDCC

Narayan S. Iyer, Senior Natural Resources and Agriculture Specialist (Agribusiness), Rural Development and Food Security (Agriculture) Thematic Group, SDTC (SDTC-AR), SDCC

Yoonhee Kim, Financial Sector Specialist, Finance Sector Group, SDCC

Duncan Lang, Senior Environment Specialist, SDSS, SDCC

Rui Liu, Health Specialist, Health Sector Group, SDSC, SDCC

Rhina Ricci Lopez-Tolentino, Associate Financing Partnerships Officer, Partner Funds Division (SDPF), SDCC

Hung Ba Nguyen, Senior Regional Cooperation Specialist, Regional Cooperation and Integration Thematic Group, SDTC, SDCC

Keiko Nowacka, Senior Social Development Specialist (Gender and Development), Gender Equality Thematic Group, SDTC, SDCC

Suzanne Kay Robertson, Principal Environment Specialist, Environment Thematic Group, SDTC (SDTC-ENV), SDCC

Yusuke Sekiguchi, Financing Partnerships Specialist, SDPF, SDCC

Meekyung Shin, Education Specialist, Education Sector Group, SDSC, SDCC

Shiela dela Torre, Partnerships Officer, Strategic Partnerships Division, SPD

Navin Twarakavi, Senior Digital Agriculture Specialist, SDTC-AR,
SDCC

Alexandra Vogl, Principal Planning and Policy Specialist, SPBP,
SPD

Geoffrey Wilson, Senior Water Resources Specialist, Water Sector
Group, SDSC, SDCC

Qingfeng Zhang, Chief of Rural Development and Food Security
Thematic Group concurrently Officer-in-Charge, Chief of
Environment Thematic Group, SDTC-AR/SDTC-ENV, SDCC

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Project Description	6
C. Value Added by ADB	8
D. Summary Cost Estimates and Financing Plan	8
E. Implementation Arrangements	9
III. DUE DILIGENCE	10
A. Technical	10
B. Economic and Financial Viability	10
C. Sustainability	11
D. Governance	11
E. Poverty, Social, and Gender	12
F. Safeguards	12
G. Summary of Risk Assessment and Risk Management Plan	13
IV. ASSURANCES	14
V. RECOMMENDATION	14
APPENDIXES	
1. Design and Monitoring Framework	15
2. List of Linked Documents	19

PROJECT AT A GLANCE

1. Basic Data		Project Number: 56175-001	
Project Name	Food Security and Livelihood Recovery Emergency Assistance Project	Department/Division	SARD/SAHS
Country	Sri Lanka	Executing Agency	Ministry of Finance
Borrower	Democratic Socialist Republic of Sri Lanka		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=56175-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=56175-001-PortAtaGlance		
2. Sector		Subsector(s)	ADB Financing (\$ million)
✓ Public sector management	Social protection initiatives		164.00
Agriculture, natural resources and rural development	Agricultural policy, institutional and capacity development		36.00
		Total	200.00
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities	GHG reductions (tons per annum)		0
✓ OP2: Accelerating progress in gender equality	Climate Change impact on the Project		Low
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ OP5: Promoting rural development and food security	ADB Financing		
✓ OP6: Strengthening governance and institutional capacity	Adaptation (\$ million)		3.43
	Mitigation (\$ million)		0.00
	Cofinancing		
	Adaptation (\$ million)		0.86
	Mitigation (\$ million)		0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.2, 1.3, 1.5	Effective gender mainstreaming (EGM)		✓
SDG 2.1, 2.4			
SDG 5.2			
SDG 10.1	Poverty Targeting		
SDG 13.a	Household Targeting		✓
4. Risk Categorization:		Complex	
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign Special assistance (Regular Loan): Ordinary capital resources		200.00	
Cofinancing		278.00	
Japan Fund for Prosperous and Resilient Asia and the Pacific - Project grant (Full ADB Administration)		3.00	
World Bank - Special assistance loan (Not ADB Administered)		275.00	
Counterpart		0.36	
Government		0.36	
Total		478.36	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed emergency assistance loan (EAL) to the Democratic Socialist Republic of Sri Lanka for the Food Security and Livelihood Recovery Emergency Assistance Project. The report also describes the proposed administration of a grant to be provided by the Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) for the Food Security and Livelihood Recovery Emergency Assistance Project, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the administration of the grant.

2. The Government of Sri Lanka requested emergency assistance in May 2022 in response to a food insecurity crisis in the country to ensure access to food and protect livelihoods for the poor and vulnerable.¹ From May 2022 to date, food security and livelihoods have continued to deteriorate, and the situation may worsen through 2022. Against this background of a national emergency, the project aims to improve food security and protect the livelihoods of the poor and vulnerable nationwide, especially women and children, by temporarily expanding direct financial support to compensate for food price increases, supporting livelihood development activities to counteract food shortages and income losses, and enhancing social protection systems to ensure that the project reaches its intended beneficiaries and to strengthen resilience to future emergencies.

II. THE PROJECT

A. Rationale

3. **National food insecurity emergency.** Sri Lanka is facing a nationwide food insecurity emergency. Food price inflation reached 58.0% in May 2022, year-on-year, and soared to 75.8% in June 2022.² During June 2022 alone, significant increases have been recorded in food prices (7.25%). The food insecurity emergency has been caused by the convergence of multiple factors. A sharp rise in global food and fuel prices beginning in March 2022 (caused by the Russian Federation's invasion of Ukraine) has aggravated rising prices of imported basic food items and locally produced food commodities in Sri Lanka that began in 2021. This has increased the cost of living and reduced access to nutritious food, especially for the poor and vulnerable. The spike in food and fuel prices has coincided with ongoing struggles to recover from the coronavirus disease (COVID-19) pandemic, which left a significant portion of the population with reduced incomes and savings due to employment losses and disruptions. Surveys conducted in May 2020–April 2022 revealed that about 11% of households have stopped earning income, about 62% have reduced income, and about 86% have resorted to negative coping mechanisms, including borrowing money and selling belongings.³ Fuel shortages and daily power cuts since March 2022 have triggered further disruptions in daily lives, livelihoods, and domestic supply chains, particularly related to agricultural products, further contributing to income losses, increased food prices, and food shortages. The result has been a dramatic deterioration of food security. The World Food Programme estimates that 38% of households (or 6.3 million people, including 3.3 million women and girls) are facing moderate or severe food insecurity, with 65,600

¹ The government made the official request for the proposed emergency assistance loan, with surplus loan proceeds that have been cancelled and repurposed from ongoing projects, in the letter to the Asian Development Bank (ADB) dated 20 May 2022.

² Government of Sri Lanka, Department of Census and Statistics (DCS). 2022. [National Consumer Price Index \(NCPI\), June 2022, 21, July 2022](#). Colombo.

³ United Nations Children's Fund. 2022. [Household Impact Survey Round 6 2022](#). Colombo.

people considered severely food insecure.⁴ Food insecurity is particularly prevalent among households in rural and estate areas, households headed by women, and households with irregular incomes.⁵ The proposed emergency assistance project will address the food insecurity emergency where it is most sharply felt, by providing support to the poor and vulnerable, particularly women and children.

4. **Nutrition crisis.** The assessment conducted in April 2022 (footnote 5) showed that household expenditure on food has jumped sharply to around 75.0% of total expenditure, compared to 35.1% in 2019.⁶ Households have coped with rising food prices and income losses by reducing their food consumption and/or purchasing cheaper but less nutritious food. The 2022 assessment revealed that about 95% of households are eating less preferred or less expensive food, 83% are limiting the portion size of meals, and 66% are reducing the number of meals per day. Most households have also reduced the consumption of milk and dairy products, poultry, meat, fish, and eggs. The prolonged increase in food prices—which started to rise in 2021 and continued in 2022—is aggravating malnutrition among vulnerable households, with detrimental impacts on health, especially of children. Even before the pandemic, low-nutrition diets among children were prevalent, resulting in high child undernutrition rates, with significant prevalence among children under 5 years of age of stunting (17.3%), wasting (15.0%), and underweight (20.5%).⁷

5. **Growing numbers of vulnerable women and children.** A national survey conducted prior to the COVID-19 pandemic showed that 39.8% of women had endured physical, sexual, emotional, and/or economic violence, and/or controlling behaviors by a partner in their lifetime.⁸ There were 10,632 children (6,615 girls) placed in institutional care in 2019, mostly (70.1%) due to poverty.⁹ Since the start of the pandemic, household economies have come under severe strain and their emotional, psychological, and social wellbeing has diminished. Consequently, gender-based and domestic violence and high-risk child protection incidents (e.g., sexual assault, physical abuse, and child negligence) have increased significantly, with growing numbers of women and children requiring protection and services. Many cases of domestic violence and child protection remain unreported, due to lack of effective outreach and support mechanisms.

6. **Agricultural production crisis.** A worsening agricultural production crisis also contributes to livelihood, food, and nutrition insecurity. The crisis is affecting 2.2 million people who engage in agriculture (27.1% of the employed population).¹⁰ Rice is the main food crop grown in two cultivation seasons—the *Maha* season (September–March) and the *Yala* season (May–August). Until the 2020–2021 cultivation season, chemical fertilizers were heavily subsidized in

⁴ World Food Programme (WFP). 2022. [WFP Sri Lanka: Situation Report 6 July 2022](#). Colombo. According to WFP's consolidated approach for reporting indicators of food security, households are classified by level of food security using indicators of food consumption (measuring the status of food security), and economic vulnerability and asset depletion (measuring the coping capacity). Households classified as moderately food insecure have significant food consumption gaps or are marginally able to meet minimum food needs only with irreversible coping strategies. Households classified as severely food insecure have extreme food consumption gaps or extreme loss of livelihood assets, leading to food consumption gaps or worse. WFP. 2021. [Technical Guidance for WFP Consolidated Approach for Reporting Indicators of Food Security \(CARI\). Third Edition](#). December 2021. Rome.

⁵ Government of Sri Lanka, Department of National Planning (NPD) and World Food Programme. 2022. [Sri Lanka Joint Rapid Food Security Assessment](#). Colombo (April).

⁶ Government of Sri Lanka, DCS. 2022. [Household Income and Expenditure Survey - 2019. Final Result](#). Colombo.

⁷ Government of Sri Lanka, DCS. 2017. [Sri Lanka Demographic and Health Survey 2016](#). Colombo.

⁸ Government of Sri Lanka, DCS. 2020. [Women's Wellbeing Survey–2019: Findings from Sri Lanka's first dedicated National Survey on Violence against Women and Girls. Final Report](#). Colombo.

⁹ Government of Sri Lanka, DCS. 2021. [Census of Children in Child Care institutions 2019](#). Colombo.

¹⁰ Government of Sri Lanka, DCS. 2021. [Sri Lanka Labour Force Survey Annual Report–2020 \(With Provincial and District level data\)](#). Colombo.

Sri Lanka, leading to excessive application of fertilizers, soil degradation, and groundwater pollution. The government banned imports of chemical fertilizers and pesticides in May 2021 without adequate preparation and farmer training, resulting in rice production losses of 40%–50% in 2021–2022 (footnote 5). Although the ban was lifted in December 2021, shortages and high prices of fuel, fertilizers, and other agricultural inputs have negatively impacted crop yields in 2022 and increased import requirements, especially of rice (Sri Lanka was previously self-sufficient in rice). Moreover, increased temperatures during the rice growing seasons as a result of climate change are projected to negatively impact rice yields.¹¹ Exorbitant costs of agricultural inputs and lower yields have forced farmers to move out of the sector in search of employment and other livelihood opportunities. The 2022 *Yala* season began with no chemical fertilizers available to farmers and the crop is expected to widely fail, which will exert further pressure on food security.

7. **Economic crisis.** Sri Lanka's dwindling foreign currency reserves have made the import of essential items such as food, fuel, and fertilizers challenging, triggering acute shortages and price hikes. Longstanding fiscal and current account deficits have been exacerbated by recent events, including (i) the low tax regime introduced in December 2019, which has resulted in falling public revenue; (ii) negative impacts of the COVID-19 pandemic on the fiscal balance, resulting from weak economic activity and a decline in tax revenues, and increased expenditure due in part to pandemic-related spending; (iii) a sharp reduction in tourist arrivals, causing substantial forgone foreign exchange earnings (about 5% of gross domestic product); (iv) the ban on chemical fertilizers from May 2021 to November 2021, resulting in poor agricultural production; and (v) the Russian Federation's invasion of Ukraine, which has escalated global commodity prices, particularly of oil and food.

8. **Government social assistance programs.** During the COVID-19 lockdowns in 2020 and 2021, the government provided direct financial assistance and other in-kind support for households and individuals to compensate for income losses by expanding existing social assistance programs, namely: (i) the Samurdhi subsidy program (monthly cash grants for low-income families), which is the key component of the main national poverty alleviation program; (ii) senior citizen allowances (monthly cash grants for low-income elders); (iii) disability assistance program (monthly cash grants for low-income persons with disabilities); and (iv) assistance for kidney disease patients (monthly cash grants for low-income chronic kidney disease patients).¹² About 66% of households in Sri Lanka received cash transfers.¹³ Although these measures helped mitigate the negative impacts of the pandemic on households and individuals, various surveys suggest that some households and individuals affected by the pandemic were excluded, including children, households headed by women, and households with irregular incomes. Existing social assistance programs are highly fragmented (they are administered by multiple government agencies), and often do not reach the most vulnerable. The governance assessment conducted for the proposed project identified weaknesses in the operational rules, procedures, and systems for the existing programs, especially regarding the (i) selection, monitoring and evaluation, and updating of beneficiaries; (ii) grievance redress mechanisms; and (iii) cash delivery mechanisms.

¹¹ The World Bank Group and ADB. 2020. [Climate Risk Country Profile: Sri Lanka](#). Washington DC and Manila.

¹² Chronic kidney disease is prevalent among male paddy farmers in the dry zone of Sri Lanka and is suspected to be caused by geo-environmental (e.g., long-term consumption of untreated groundwater) and occupational (e.g., chronic exposure to nephrotoxic elements like agrochemicals, heat stress under the hot climatic conditions, and low water intake) factors.

¹³ S. Kidd et al. 2020. [Tackling the COVID-19 economic crisis in Sri Lanka: Providing universal, lifecycle social protection transfers to protect lives and bolster economic recovery](#). United Nations Working Paper. Colombo: United Nations Office in Sri Lanka.

Moreover, without effective strategies, these programs mostly fail to help beneficiaries develop sustainable livelihoods and improve food security.¹⁴

9. **Discontinued or scaled-down government programs.** Since late 2021, some government programs—including nutrition programs for children and pregnant and lactating women, and women and child protection services—have been discontinued or scaled-down in response to the unavailability of raw materials, rising food prices, and growing government budget constraints. These vulnerable groups are largely not covered by existing social assistance programs. Many government women’s shelters, children’s homes, and care homes for the elderly and people with disabilities currently depend on donations and are unable to meet increasing demands for protection and services.

10. **Government support for agricultural and food production.** The government has expanded home garden programs nationwide in response to the ongoing food insecurity crisis. To address the crisis, cash grants were provided to farmers in 2020–2021 to cover the cost of seeds and promote organic fertilizer production. In the upcoming *Maha* season, the government plans to provide subsidized fertilizers and other agricultural inputs to farmers with the support of development partners. However, rice seeds are likely to be in short supply and expensive. With persistent fuel shortages, farmers are expected to have difficulties with land preparation.

11. **Government measures to address the economic crisis.** The Ministry of Finance and the Central Bank of Sri Lanka have taken several measures to address macroeconomic imbalances, following the International Monetary Fund’s (IMF) Article IV consultation.¹⁵ In April 2022, the government announced the suspension of payments on selected commercial and official bilateral debts, and initiated steps to restructure sovereign debt. However, loan repayments to ADB and other international financial institutions remain current. Shortly after, it approached the IMF for a program to access external financing, while committing to medium-term reforms. The government adopted further measures, including (i) abandonment of the de facto exchange rate peg to narrow the gap between official and parallel market rates and attract foreign exchange through formal channels, (ii) policy rate hikes to stem inflation, and (iii) partial reversal of the tax measures introduced in 2019 to reduce deficit monetization. As of August 2022, discussions are ongoing between the government and the IMF to design a new IMF-financed program whose objectives are expected to include (i) restoration of macroeconomic stability and debt sustainability while ensuring adequate protection for the poor and vulnerable, (ii) safeguarding financial stability, (iii) reducing corruption vulnerability, and (iv) embarking on growth-enhancing structural reforms to unlock Sri Lanka’s growth potential.¹⁶

12. **Emergency assistance coordination.** In April 2022, at the government’s request, the Asian Development Bank (ADB) began preparing an emergency assistance package in close coordination with the World Bank, the Asian Infrastructure Investment Bank, and the United Nations agencies to mitigate adverse impacts of the multiple crises on the poor and vulnerable. ADB has coordinated with these development partners in preparing emergency assistance, as well as with the Embassy of Japan and the Japan International Cooperation Agency in Sri Lanka in designing the JFPR grant component. As the proposed EAL will be financed with surplus loan

¹⁴ BRAC Ultra-Poor Graduation. 2021. [Graduation and Food Security](#). Dhaka.

¹⁵ IMF. 2022. [IMF Executive Board Concludes 2021 Article IV Consultation with Sri Lanka](#). Washington DC.

¹⁶ IMF. 2022. [IMF Staff Concludes Visit to Sri Lanka. 30 June 2022. Press Release No. 22/242](#). Washington DC.

proceeds that have been cancelled and repurposed from ongoing projects (footnote 1), it will not impose additional aggregate debt burden on the government.¹⁷

13. **Emergency assistance loan modality.** The project will provide immediate, short-term, and targeted assistance to the poor and vulnerable, especially women and children, to address food insecurity emergency, while enhancing resilience to future emergencies, including climate-related disasters. The national food insecurity emergency and resulting nutrition crisis fall within the scope of emergencies to be addressed through the EAL modality, as set out in the Revised Disaster and Emergency Assistance Policy (R-DEAP).¹⁸ The definition of “emergency” provided under the R-DEAP specifically includes situations relating to food and health (footnote 18, para. 42(ii)). The R-DEAP also identifies food insecurity and health emergencies as concerns to be addressed within the policy framework, and specifically through the EAL (footnote 18, para. 70). This feature is furthermore reflected in the Revised Emergency Assistance Loan Policy (R-EAL), which defines the scope of the EAL on the same terms. Namely, the R-EAL defines the EAL as an instrument for emergency support to address situations including those triggered by food insecurity and health emergencies (along with situations including technological and industrial accidents, and post conflict situations).¹⁹ The proposed project meets these requirements (footnote 19, para. 37). In addition, all the eligibility requirements for an emergency assistance loan have been met (footnote 19, para. 39): (i) the government’s request for assistance has been received (footnote 1); (ii) the potential impact on economic, social, and governance needs and priorities have been identified in a damage and needs assessment;²⁰ (iii) the current crises involve significant economic dislocation and the project will address immediate needs (paras. 3–7); (iv) no security risks to ADB staff are anticipated;²¹ and (v) the level of burden and risk-sharing among the stakeholders is appropriate (para. 12).²²

14. **ADB’s emergency response package.** The project forms part of ADB’s emergency response package to the multifaceted challenges facing Sri Lanka, combining assistance through different financing modalities. In the short-term, pending the conclusion of the IMF program negotiations, ADB has been addressing immediate needs, such as essential medical supplies, by identifying and reallocating (within the previously approved scope) surplus loan proceeds from ongoing projects.²³ ADB’s Trade and Supply Chain Finance Program has been supporting imports

¹⁷ The financing cost to the government may be significantly lower than other financing options such as borrowing from international or domestic markets. Repayment of the emergency assistance loan will start only after a grace period of 8 years. Therefore, the immediate burden of debt servicing to the government will not increase.

¹⁸ ADB. 2021. [Revised Disaster and Emergency Assistance Policy](#). Manila.

¹⁹ ADB. 2021. [Revised Emergency Assistance Loan Policy](#). Manila.

²⁰ United Nations Office for the Coordination of Humanitarian Affairs. 2022. [Sri Lanka: Food Security Crisis. Humanitarian Needs and Priorities 2022 \(June–September 2022\)](#). Colombo; World Bank. 2022. Contingent Emergency Response Component (CERC) Emergency Action Plan: Minimizing the Impacts of the Economic Crisis and Restoring Social Stability. Colombo. Findings and recommendations of these assessments are summarized in the summary of impacts and needs assessment (accessible from the list of linked documents in Appendix 2).

²¹ Under the guidance of ADB Management, a special working group on the Sri Lanka Resident Mission (SLRM) business continuity and staff welfare, comprising members from the Budget, People, Management Systems Department; Corporate Service Department; South Asia Department; and SLRM, was established in July 2022. The group meets regularly to review the country situation, identify immediate and near-term measures (including security-related measures), and facilitate and monitor the progress against specific actions. For example, the group facilitated the enhancement of security measures for SLRM premises to respond to the escalating security risks. In addition to measures for SLRM staff, SLRM has strengthened the management of and support to visiting staff from ADB Headquarters.

²² Emergency Assistance Coordination (accessible from the list of linked documents in Appendix 2).

²³ A total of \$83.88 million surplus loan proceeds have been identified and reallocated to address immediate needs under the following ongoing projects: (i) \$66.88 million for essential medicines and medical supplies under L4121-SRI: Health System Enhancement Project–Additional Financing; (ii) \$13.50 million for affordable working capital

of essential items such as food, fuel, and medicines. In sectors where ADB has no ongoing operations, such as social protection and agriculture, surplus loan proceeds from other sector operations have been cancelled and repurposed upon the government's request.²⁴ Additionally, discussions are ongoing to expand nonsovereign operations in support of agricultural imports. In the medium-term, ADB will prepare assistance in close coordination with the IMF and other development partners, including policy-based lending, to support structural reforms. ADB's emergency response package is consistent with the country partnership strategy for Sri Lanka, 2018–2022 (pillar 2: improve the quality of growth by promoting inclusiveness),²⁵ and the International Financial Institution Action Plan to Address Food Insecurity.²⁶ It is also aligned with the following operational priorities of ADB's Strategy 2030: (i) addressing remaining poverty and reducing inequalities and accelerating progress in gender equality by improving food security and protecting the livelihoods of the poor and vulnerable, especially women and children; (ii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability by adopting climate adaptation measures; (iii) promoting rural development and food security by disseminating good agricultural practices to advance precision agriculture and enhance crop productivity; and (iv) strengthening governance and institutional capacity by upgrading information technology (IT) systems and digital tools for the government social assistance programs, and agriculture and agrarian development.

B. Project Description

15. The project is aligned with the following impact: adverse effects of food insecurity mitigated.²⁷ The project will have the following outcome: food security and livelihoods of the poor and vulnerable, especially women and children, improved. The project will have three outputs.²⁸

16. **Output 1: Direct financial support for the poor and vulnerable temporarily scaled up and broadened.** To compensate for sharp rises in food prices, the project will support the continuation, for at least 3 months, of the temporary increase in the monthly benefit level and the number of beneficiaries of existing social assistance programs for the poor and vulnerable, including the Samurdhi subsidy program (about 2.4 million families), senior citizens allowance (about 0.6 million elders), disability assistance program (about 132,000 persons), and assistance for kidney disease patients (about 43,000 patients). Additionally, to reduce malnutrition among infants, the project will support a temporary increase in the monthly benefit level and the number of beneficiaries of the food voucher program for pregnant and lactating women and children (about 300,000 individuals) for at least 3 months by temporarily replacing vouchers with cash grants due to the unavailability of the recommended food items at participating retail shops. These

finance for micro, small, and medium-sized enterprises in tourism, agriculture, and other export-oriented sectors under L4007-SRI: Small and Medium-Sized Enterprises Line of Credit Project–Third Additional Financing; and (iii) \$3.50 million for water treatment chemicals and house connections materials under L3348-SRI: Greater Colombo Water and Wastewater Management Improvement Investment Program–Tranche 3. Additionally, \$50.00 million loan proceeds have been identified to support agricultural production and import of fertilizers under L3625-SRI: Mahaweli Water Security Investment Program–Tranche 2.

²⁴ On 6 June 2022, the government requested a partial cancellation of loan proceeds from six ongoing projects in order to use the funds for the proposed project. ADB processed the requested partial cancellation after examining its impact on the expected outputs and outcome of the projects, and informed the government on 7 July 2022.

²⁵ ADB. 2017. [Country Partnership Strategy. Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status](#). Manila.

²⁶ African Development Bank, ADB, European Bank for Reconstruction and Development, Inter-American Development Bank, International Fund for Agricultural Development, International Monetary Fund, and the World Bank Group. 2022. [International Financial Institution \(IFI\) Action Plan to Address Food Insecurity](#). 18 May 2022. Washington DC.

²⁷ Prime Minister's statement on the roadmap to revive the economy, made at the Parliament on 5 July 2022: Economynext. 2022. [Sri Lanka Prime Minister's full statement on IMF negotiations](#). Colombo (July 6).

²⁸ The design and monitoring framework is in Appendix 1.

cash grants will be deposited into the accounts of beneficiaries in the Samurdhi Bank network.²⁹ The information on the temporary financial support will be disseminated widely through different channels to reach out to eligible groups.³⁰ Under the JFPR grant component, the project will (i) support basic needs (e.g., food, hygiene kits, medicines) and livelihood development of vulnerable women and children (about 18,000), including those in women's shelters and children's homes,³¹ and children and youth at risk of being placed in institutional care; and (ii) strengthen referral and support mechanisms and services for victims of gender-based and domestic violence.³²

17. Output 2: Improved support for livelihood development activities of the poor and vulnerable provided. To restore livelihoods and enhance coping capacity and food security, the project will provide improved support for livelihood development activities of the poor and vulnerable, especially farmers and low-income families, through a combination of financial support, training, technical and knowledge support, and mentoring and coaching. Financial support of up to SLRs20,000 per hectare will be provided for the maximum of 2 hectares of land cultivated per farmer in higher-yield zones (about 600,000 farmers) to compensate for the rising costs of agricultural production and incentivize food production during the *Maha* season in September 2022–March 2023. The project will also support the development and piloting of upgraded livelihood development programs comprising a set of sequenced interventions for low-income families in selected districts over 18–20 months to help them develop sustainable livelihoods and enhance food security, complemented by climate adaptation measures. Participating low-income families (about 7,500) will be provided with livelihood assistance grants of up to SLRs100,000 for productive asset creation, and training will be provided to managers and field level officers to provide improved support for low-income families. To promote advanced practices and technologies for precision agriculture and improved crop productivity among farmers and farmer groups, especially female farmers, the JFPR grant will support the upgrading and delivery of the Good Agricultural Practices (GAP) certification program. Additionally, specialists and field-level officers will be trained on the methodology for assessing risks and vulnerabilities of agricultural operations (e.g., climate risks, disaster risks).

18. Output 3: Social protection systems enhanced. To ensure that the project reaches its intended beneficiaries and build resilience to future emergencies in social protection systems, the project will enhance cash grant beneficiary selection, verification, monitoring, and communication, and increase efficiency and transparency in cash transfer processes and mechanisms by upgrading the existing IT systems and digital tools for the Samurdhi program and the Department of Agrarian Development. These include additional modules for the Samurdhi Customer Relationship Management system (i.e., family profile data processing for the verification and updating of the list of Samurdhi subsidy beneficiaries, monitoring of livelihood development program participants, and handling of grievances) and for the agriculture and agrarian information (GeoGoviya) platform to facilitate the selection, verification, and monitoring of cash grant beneficiaries and provide climate-smart agronomic advisory services for farmers, specialists and field-level officers, and policy makers. To ensure the effective use of upgraded IT systems and digital tools, training will be provided for national, local, and field-level offices and officers.

²⁹ Samurdhi Banks have fewer requirements to open an account and are located closer to the village level than conventional banks.

³⁰ The stakeholder information and communication plan is in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

³¹ Children's homes provide protection and services for children and youth up to 18 years of age. Livelihood development activities will be supported only for youth at children's homes who are above the minimum age for employment.

³² JFPR Grant (accessible from the list of linked documents in Appendix 2).

C. Value Added by ADB

19. The One ADB team has been mobilized to provide sector expertise in preparing the project. Lessons from ADB emergency assistance projects in other developing member countries (e.g., importance of systematic and integrated approaches), as well as ADB's support for social protection programs (e.g., cash transfers, food vouchers, livelihood development, and graduation approaches); digital payments and solutions; and sustainable, climate-smart, and digital agriculture, have been incorporated into the project design. Under ongoing technical assistance projects,³³ ADB will support the design and piloting of upgraded livelihood development programs, and the expansion of automated teller machine pilots at several Samurdhi Banks with higher transaction volumes to simplify and reduce the workload of Samurdhi Bank officers and ease financial transactions for customers. Additionally, the project will complement the World Bank's contingent emergency response component (CERC, \$275 million) approved on 9 May 2022 to minimize the impacts of the economic crisis and restore social stability. Through this financing, the World Bank supports the provision of essential items, including cash transfers for the poor and vulnerable (May–August 2022), cooking gas, and fertilizers. The proposed ADB project will (i) continue the temporary increase in the monthly benefit level and the number of beneficiaries of the existing social assistance programs (Samurdhi, senior citizens, persons with disabilities, and kidney disease patients) initiated with the support of the World Bank for at least 3 months from September 2022; (ii) extend support to pregnant and lactating women and undernourished children, and other vulnerable groups; and (iii) help restore and improve the livelihood of the poor and vulnerable, including farmers.

D. Summary Cost Estimates and Financing Plan

20. The project is estimated to cost \$203.36 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).³⁴

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Scaled-up and broadened direct financial support for the poor and vulnerable provided	155.52
2. Livelihood development activities of the poor and vulnerable better supported	31.40
3. Social protection systems enhanced	2.65
Subtotal (A)	189.56
B. Contingencies^c	1.61
C. Financial Charges During Implementation^d	12.19
Total (A+B+C)	203.36

^a Includes taxes and duties of \$0.34 million. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties of \$0.34 million through cash contribution.

^b In mid-2022 prices as of 11 July 2022.

^c Physical and price contingencies, and a provision for exchange rate fluctuation are included.

^d Includes interest and commitment charges on loan.

Source: Asian Development Bank estimates.

21. The government has requested a regular loan of \$200 million from ADB's ordinary capital resources and a grant not exceeding \$3 million from the JFPR to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate determined in

³³ ADB. 2020. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Support for Human Capital Development Initiative*. Manila (TA 9956-SRI); and ADB. 2021. *Leveraging Financial Markets and Instruments for Meeting the Sustainable Development Goals*. Manila (TA 6760-REG).

³⁴ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

accordance with ADB's Flexible Loan Product; a commitment charge of 0.15% per year (the interest and other charges during implementation to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the custom-tailored repayment method, the average maturity is 19 years, and the maturity premium payable to ADB is 0.20% per year.

22. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to emergency cash assistance, data collection, monitoring and evaluation, training, IT products and services, IT equipment, contingencies, and financial charges during implementation. The JFPR grant will finance the expenditures in relation to grants for vulnerable women, children, and other groups; training; consulting services; and contingencies. The government will finance taxes and duties, and contingencies. The World Bank (through CERC) is providing non-ADB-administered parallel loan cofinancing equivalent to \$275 million to support cash transfers to the poor and vulnerable in May–August 2022 and ensure timely supply of agricultural inputs.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan) ^a	200.00	98.35
Japan Fund for Prosperous and Resilient Asia and the Pacific (grant) ^b	3.00	1.48
Government	0.36	0.18
Total	203.36	100.00

^a Surplus loan proceeds that have been cancelled from six ongoing projects (footnote 24).

^b Fully administered by the Asian Development Bank.

Source: Asian Development Bank.

23. Food security investments are estimated to cost \$200.86 million, comprising \$200.00 million in the ordinary capital resources loan and \$0.86 million in the JFPR grant. The investments will contribute to improved access to nutritious food, especially for people facing moderate and severe food insecurity, the restoration of livelihoods, particularly related to agricultural and food production, and the promotion of good agricultural practices and climate-smart agriculture.

24. Climate adaptation is estimated to cost \$4.30 million. ADB and JFPR will finance 100% of adaptation costs.

E. Implementation Arrangements

25. The Ministry of Finance, Economic Stabilization and National Policies (MOF) will be the executing agency and will establish a project steering committee to provide overall directions and guidance for project implementation. The MOF has set up a coordination unit within the Department of National Planning (NPD), MOF, for the World Bank's CERC which will also serve as a project coordination unit (PCU). The Ministry of Women, Child Affairs and Social Empowerment (MOWCS) and the Ministry of Agriculture (MOA) will be the implementing agencies and will establish project implementation units (PIUs) to carry out day-to-day management and implementation of project activities. Implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 34).

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	August 2022–February 2024
Estimated completion date	29 February 2024
Estimated loan and grant closing date	31 August 2024

Aspects	Arrangements		
Management			
(i) Oversight body	Project steering committee Secretary, MOF (chair) Representatives from the Treasury Department, Department of National Budget, Department of Treasury Operations, Department of Project Management and Monitoring, Department of External Resources, Department of National Planning, MOF; MOWCS; and MOA (members)		
(ii) Executing agency	MOF		
(iii) Key implementing agencies	MOWCS and MOA		
(iv) Implementation units	MOWCS: 6 staff and MOA: 5 staff		
Procurement (loan)	Open competitive bidding (internationally advertised)	2 contracts	\$1.80 million
	Open competitive bidding (nationally advertised)	1 contract	\$0.11 million
	Direct Contracting	2 contracts	\$0.68 million
Consulting services (grant)	Single Source Selection	32.5 person-months (national)	\$45,000
	Individual Consultant Selection	63.0 person-months (national)	\$103,500
Retroactive financing	ADB may finance eligible expenditures (emergency cash assistance), up to 30% of the loan amount, provided the expenditures have been incurred after the onset of the emergency and not more than 12 months before the signing of the loan agreement.		
Disbursement	Disbursement of the loan and grant proceeds will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, MOA = Ministry of Agriculture, MOF = Ministry of Finance, Economic Stabilization and National Policies, MOWCS = Ministry of Women, Child Affairs and Social Empowerment.

Source: ADB estimates.

III. DUE DILIGENCE

A. Technical

26. The project will build resilience to future emergencies by training national, local, and field-level officers, and upgrading the IT systems and digital tools for the government social assistance programs, and agriculture and agrarian development. Additional modules will be developed to enhance cash grant beneficiary selection, verification, monitoring, and the grievance redress mechanism; and increase efficiency and transparency in cash transfer processes and mechanisms. The project will support climate adaptation measures, including (i) training of national, local, and field-level officers, and farmers for the GAP certification program, and risk and vulnerability assessments of agricultural operations; (ii) climate risk and adaptation screening and training as part of the upgraded livelihood development programs; (iii) development of modules to provide climate-smart agronomic advisory services for farmers, specialists and field-level officers, and policy makers; and (iv) training on proper handling and maintenance of IT equipment and systems.

B. Economic and Financial Viability

27. The economic situation has deteriorated rapidly in the first half of 2022, with considerable negative effects on households and farmers, especially those on low-income. The project will provide direct financial support to families and individuals to sustain food consumption, medical expenses, and other necessities. Adequate food consumption sustains work effort and thus worker income. Cash transfers to farmers and for livelihood development contribute to the income of families. Cost-benefit and cost-effectiveness analyses were not undertaken given the difficulty of estimating benefits of the emergency social assistance programs. Economic conditions leading

up to and during the current crisis have been assessed, and the beneficiaries and the costs of cash grants established.³⁵

C. Sustainability

28. The financial sustainability risk is *low*, as the assets to be created under the project will be insignificant (\$2.42 million or 1.0% of the total project cost), comprising IT equipment and systems. The upgraded IT systems and digital tools are likely to contribute to a reduction in administrative costs, as many manual processes will be eliminated, thereby enhancing the robustness and efficiency of the social protection programs and their management systems and contributing to their sustainability. The incremental recurrent costs are expected to be negligible.

D. Governance

29. The pre-mitigation financial management risk is *high* because of (i) inherent risk associated with cash transfers, which are susceptible to misappropriation and/or misuse; (ii) weak internal controls and limited governance and regulations of Samurdhi Banks; (iii) the involvement of multiple government agencies in project activities; and (iv) the limited capacity of some of those agencies. The risk will be addressed by centralizing financial management at NPD, which is experienced with similar development partner-funded projects and has adequate capacity. In addition to the annual audit of the project financial statements, a special audit will be conducted, covering the systems, processes, and organizations involved in the existing social assistance programs and cash transfers to farmers with a view to strengthening them.

30. The procurement risk is *moderate* mainly because of the agencies' limited experience with ADB projects. The risk will be mitigated by (i) engagement by ADB of a national procurement consultant to support procurement and consultant recruitment processes undertaken by MOWCS and MOA, and (ii) limiting the number and size of procurement and consulting service packages. All procurement will be conducted in accordance with ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). Value for money will be achieved by adopting suitable procurement methods, including direct contracting, and packaging for open competitive bidding to expedite the processes and minimize delays.

31. A governance assessment has been conducted, focusing on the existing social assistance programs and cash transfers to farmers. The pre-mitigation governance risk is *high* mainly due to (i) lack of formal and/or standardized institutional arrangements for these programs; (ii) limited regularity, objectivity, and standardization of the systems to identify, enroll and graduate beneficiaries; (iii) lack of a grievance redress mechanism; (iv) absence of a formal monitoring and reporting system that assesses the compliance and effectiveness of processes, and the achievement of program outputs and outcomes; and (v) lack of independent third-party monitoring and evaluation. Samurdhi Banks are not subject to the regulations and supervision of the Central Bank of Sri Lanka nor external audit by the National Audit Office. The risks will be mitigated by (i) developing formal rules and procedures regarding enrollment, updating and graduation of beneficiaries, and the grievance redress mechanism; (ii) upgrading the Samurdhi Customer Relationship Management System and the GeoGoviya platform; (iii) using an independent auditor to conduct a special audit, covering the fund flows in the Samurdhi Bank network, and spot checks in selected aspects of the programs; and (iv) developing a monitoring and reporting system that covers process, outputs, and outcomes.

³⁵ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

32. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOF. The specific policy requirements and supplementary measures are described in the PAM (footnote 34).

E. Poverty, Social, and Gender

33. Due to worsening food insecurity and widespread livelihood and income losses, the poverty rate—which increased during the COVID-19 pandemic from 9.2% in 2019 to 11.7% in 2020 based on the international poverty line of \$3.2 per day—may further rise in 2023.³⁶ Between May 2020 and April 2022, about 11% of households have stopped earning income, about 62% have reduced income, and about 86% have resorted to negative coping mechanisms, including borrowing money and selling belongings. Households have also reduced their food consumption and/or replaced with cheaper but less nutritious food. Food insecurity is particularly prevalent among children, households in rural and estate areas, households headed by women, and households with irregular incomes. As a result of mounting strains on household economies, gender-based and domestic violence and child protection incidents have also increased. Yet government nutrition programs, and protection and services for poor and vulnerable groups have become increasingly unavailable. The project will provide immediate short-term support for the poor and vulnerable by scaling up and broadening the existing social assistance programs. At the same time, a set of sequenced interventions will be designed and implemented over 18–20 months on a pilot basis to assist their economic and social independence through sustainable livelihood development and improved food security.

34. The project is categorized *effective gender mainstreaming*. In recognition of the particular vulnerability of women and girls in the context of crises, the project has incorporated gender targets and activities in the gender equality and social inclusion action plan to address food insecurity, gender-based and domestic violence, and poverty.³⁷ These include: (i) cash grant assistance for the poor and vulnerable, including pregnant and lactating women and undernourished children under 2 years of age; (ii) support for basic and livelihood development needs of vulnerable children, women, and persons, including those in women's shelters, children's homes, and care homes; (iii) strengthening of referral and support mechanisms and services for victims of gender-based and domestic violence; (iv) promotion of improved agricultural practices and livelihoods among farmers, especially female farmers; (v) development and delivery of upgraded livelihood development programs for low-income families, including those headed by women; (vi) strengthening of gender-sensitive and socially inclusive data collection and management in social protection programs; and (vii) capacity development of the PCU and PIUs for the implementation, monitoring, and reporting of the gender equality and social inclusion action plan.

F. Safeguards

35. In compliance with ADB's Safeguard Policy Statement (SPS) (2009), the project's safeguard categories are as follows.³⁸

³⁶ World Bank. 2021. [The COVID-19 Impact on Livelihoods and Poverty in Sri Lanka: Background Note to Sri Lanka Poverty Assessment](#). Washington DC. The World Bank's latest estimate indicates that the poverty rate in 2022 will remain at least as high as it was in 2016 (11.0%) and will not recover in 2023 due to food insecurity (World Bank. 2022. [Reshaping Norms: A New Way Forward](#). South Asia Economic Focus. Spring 2022. Washington DC).

³⁷ Gender Equality and Social Inclusion Action Plan (accessible from the list of linked documents in Appendix 2).

³⁸ ADB. 2009. [Safeguard Policy Statement](#). Manila

36. **Environment (category C).** The project activities will have no or very minimal environmental impacts. No civil works are anticipated.

37. **Involuntary resettlement (category C).** The project activities will not involve civil works or trigger land acquisition or involuntary resettlement.

38. **Indigenous peoples (category C).** The scope of the project is nationwide and does not specifically target indigenous peoples, who may participate in and benefit from the project activities. The project will not directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples, or affect the territories or natural or cultural resources that indigenous peoples own, use, occupy, or claim as their ancestral domain.

39. MOF will ensure, through the PCU and PIUs, that all activities to be supported under the livelihood development programs will be classified category C for environment, involuntary resettlement, and indigenous peoples in accordance with ADB's SPS (2009). MOF will also monitor and report to ADB on an annual basis to confirm, through the PCU and PIUs, that all activities supported under the livelihood development programs remain classified as category C.

G. Summary of Risk Assessment and Risk Management Plan

40. Key risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³⁹

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Political instability may slow government decision-making, hampering timely and effective actions.	ADB's Sri Lanka Resident Mission will closely monitor the political situation. If the leadership changes, ADB, with other development partners, will swiftly engage in dialogue with the government.
Continuous shortages and high prices of fuel may disrupt and slow project activities, reducing their effectiveness and delaying project implementation.	The use of information technology and digital tools will be supported to mitigate negative impacts of fuel shortages on project activities, including cash transfers, data collection, monitoring and evaluation, and training. Monthly progress review meetings with the PCU and PIUs will resolve project implementation bottlenecks.
The current fiscal position of the government may impact timely allocation and release of funds for project activities.	Budget allocation and timely release of funds for project activities will be monitored and reviewed in the quarterly project progress report. Loan and grant proceeds will be disbursed using the advance fund, statement of expenditure, and direct payment procedures under ADB's close monitoring and supervision.
As the project will support the existing government programs, the project funds may not be adequately segregated, without a dedicated project code and separate bank accounts.	A dedicated budget code will be created for this project. Two separate advance accounts will be opened and managed by the PCU and four separate advance subaccounts dedicated to the project funds will be opened and managed by the PIUs.
Existing social assistance programs—including cash transfers to farmers—lack formal rules, procedures, and requirements for beneficiary enrollment, updating, and graduation; monitoring and evaluation; and grievance redress mechanisms.	The standardization of rules, procedures, and requirements will be supported through the development of additional modules of the Samurdhi Customer Relationship Management system and GeoGoviya platform. A formal and consistent set of rules and procedures for all aspects of cash transfer programs will be issued and implemented. National, local, and field-level officers will be trained on the procedures and tools.
The Samurdhi Bank is not regulated by the Central Bank of Sri Lanka or subject to external audit of the National Audit Office.	Discussions are ongoing between the Central Bank of Sri Lanka and the Samurdhi Bank. A centralized mechanism for directly depositing cash grants into beneficiaries' Samurdhi Bank accounts is being implemented, which will improve transparency, monitoring, and reporting. A special audit will be conducted by an independent auditor, acceptable to ADB, covering the systems and processes of fund flows in the Samurdhi Bank network.

³⁹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

ADB = Asian Development Bank; PCU = project coordination unit; PIU = project implementation unit.
Source: ADB.

IV. ASSURANCES

41. The government have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the PAM and loan documents.

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

V. RECOMMENDATION

43. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$200,000,000 to the Democratic Socialist Republic of Sri Lanka for the Food Security and Livelihood Recovery Emergency Assistance Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's Flexible Loan Product; for 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 presented to the Board.

Masatsugu Asakawa
President

18 August 2022

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Adverse effects of food insecurity mitigated (Prime Minister's statement on the roadmap to revive the economy) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome Food security and livelihoods of the poor and vulnerable, especially women and children, improved</p>	<p>By 2025</p> <p>a. The number of people facing moderate and severe food insecurity, including women and girls, reduced by 30% (2022 baseline: 6.26 million people; 3.26 million women and girls^b)</p> <p>b. At least 80% of the land in high-yield zones cultivated during the <i>Maha</i> (September–March) season (2022 baseline: 73% of the land expected to be cultivated)</p> <p>c. Paddy production in <i>Maha</i> season recovered to at least 75% of that in 2020–2021 <i>Maha</i> season (2020–2021 <i>Maha</i> season baseline: 3,061,394 metric tons)</p> <p>d. At least 3,000 low-income families in the upgraded livelihood development programs (including 500 low-income families headed by women) have improved their livelihoods based on a set of indicators (2022 baseline: 0) (OP 1.3)^c</p>	<p>a. Food security assessment to be conducted by the government and/or development partners in 2024 and/or 2025</p> <p>b. DAD's report for 2023–2024 <i>Maha</i> season</p> <p>c. DCS paddy statistics for 2023–2024 <i>Maha</i> season</p> <p>d. Quarterly data generated on Samurdhi CRM system; annual livelihood development program monitoring and evaluation reports</p>	<p>R: Political instability may slow decision-making in the government, hampering timely and effective actions.</p> <p>A: The government, World Bank, and other development partners ensure affordable and timely supply of fertilizers and other agricultural inputs to farmers.^d</p>
<p>Outputs 1. Direct financial support for the poor and vulnerable temporarily scaled up and broadened</p>	<p>By 2024</p> <p>1a. 1.76 million low-income families already enrolled in the Samurdhi program received monthly cash grants of temporarily increased value and 0.73 million additional low-income families received temporary monthly cash grants for at least 3 months (2022 baseline: 1.76 million low-income families and 0.73 million additional low-income families received cash grants until August 2022) (OP 1.1)^e</p> <p>1b. 0.42 million low-income elders, 71,000 low-income persons with disabilities, and 38,000 low-income kidney patients already enrolled in the allowance programs received monthly cash grants of temporarily increased value and 0.24 million additional low-income elders, 61,000 low-income persons with disabilities, and 5,000 low-income kidney patients received temporary monthly cash grants for at least 3 months (2022 baseline: the same number of beneficiaries received cash grants until August 2022) (OP 1.1)^f</p> <p>1c. At least 300,000 pregnant and lactating women and undernourished</p>	<p>1a-b. Monthly data generated on Samurdhi CRM system in September–December 2022</p> <p>1c. Monthly data of NSEC or monthly data</p>	<p>R: Continuous shortages and high prices of fuel may disrupt and slow project activities, reducing their effectiveness and causing delays in project implementation.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>2. Improved support for livelihood development activities of the poor and vulnerable provided</p> <p>3. Social protection systems enhanced</p>	<p>children under the age of 2 (at least 50% of whom are girls) received temporary monthly cash grants (instead of food vouchers) of SLRs5,000 for at least 3 months (2019 baseline: 300,246 pregnant and lactating women received vouchers of SLRs2,000 per month) (OP 1.1; OP 2.5)</p> <p>1d. 18,000 vulnerable children (including teenage mothers), women, persons with disabilities, elders, and their families received financial support and protection from gender-based and domestic violence as well as livelihood development, psychological and other support (2022 baseline: 0) (OP 1.1; OP 2.2.3)^g</p> <p>2a. At least 600,000 farmers received financial support and engaged in agricultural production during 2022–2023 <i>Maha</i> season (2022 baseline: 0) (OP 5.1)</p> <p>2b. At least 150,000 farmers (30% women) reported increased knowledge regarding climate-smart and environmentally sustainable agricultural practices (2022 baseline: 0) (OP 2.5; OP 3.2)^g</p> <p>2c. At least 9,000 specialists and field-level officers (50% women) demonstrated skills as trainers of the Good Agricultural Practices certification program, and improved knowledge regarding the methodology for assessing risks and vulnerability of agricultural operations (2022 baseline: 0) (OP 3.2)^g</p> <p>2d. At least 7,500 families received a set of sequenced interventions under the upgraded livelihood development programs for at least 18 months, of which 1,500 were low-income families headed by women (2022 baseline: 0) (OP 2.5; OP 3.2)^h</p> <p>2e. At least 1,500 managers and field-level officers (50% women) reported improved knowledge and skills regarding delivery of livelihood development support for low-income families (2022 baseline: 0)</p> <p>3a. Additional IT-enabled modules of the Samurdhi Customer Relationship Management system for monitoring family profile, status and progress of</p>	<p>generated on Samurdhi CRM system in 2022–2024</p> <p>1d. Monthly DPCS and Women’s Bureau reports in 2022–2024</p> <p>2a. Data generated on GeoGoviya in September 2022–March 2023</p> <p>2b-c. Pre- and post-training assessments; quarterly DOA reports</p> <p>2d. Quarterly data generated on Samurdhi CRM system</p> <p>2e. Pre- and post-training assessments; quarterly DSD reports</p> <p>3a. Data generated on Samurdhi CRM system; quarterly DSD reports</p>	

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	<p>program beneficiaries, including low-income families headed by women and grievances, operationalized (2022 baseline: additional modules not developed) (OP 1.1.3; OP 6.2.1)</p> <p>3b. Additional IT-enabled modules of the GeoGoviya platform for data exchange among farmers, agrarian service centers, district offices, DAD, DOA, and MOA and climate-smart agronomic advisory services operationalized (2022 baseline: additional modules not developed) (OP 6.2.1)</p> <p>3c. At least 25,000 national, local, and field-level officers (50% women) acquired knowledge regarding the operation of the upgraded IT systems and digital tools (2022 baseline: 0) (OP 6.1.1)</p>	<p>3b. Data generated on GeoGoviya platform; quarterly DAD reports</p> <p>3c. Pre- and post-training assessments; quarterly reports of DSD and DAD</p>	

Key Activities with Milestones

1. Direct financial support for the poor and vulnerable temporarily scaled up and broadened

- 1.1 Disseminate widely the information on temporary financial support through different channels to reach out to eligible groups (Q3 2022–Q3 2023)
- 1.2 Ensure timely deposits of monthly cash grants into the accounts of low-income families, elders, disabled persons, and kidney patients through the Samurdhi Bank network, as well as monitoring and reporting on cash transfers (Q3–Q4 2022)
- 1.3 Enroll pregnant and lactating women and children under the age of 2 in the food voucher (nutrition allowance) program with adequate verification procedures for their eligibility, and ensure timely deposits of temporary cash grants into the accounts of pregnant and lactating women and children under the age of 2 through the Samurdhi Bank network, as well as monitoring and reporting on cash transfers (Q3 2022–Q3 2023)
- 1.4 Assist women's shelters and children's homes and associated divisional secretariats in preparing plans to support the basic and livelihood development needs of vulnerable women and children, review and approve the plans, transfer cash grants, and monitor the implementation of the plans (JFPR) (Q3 2022–Q2 2024)

2. Improved support for livelihood development activities of the poor and vulnerable provided

- 2.1 Enroll eligible farmers in the financial support program with adequate verification procedures for their eligibility and prepare a list of beneficiary farmers in the GeoGoviya, and ensure timely deposits of the first and second installments of financial support into the bank accounts of beneficiary farmers, as well as monitoring and reporting on financial support and usages (Q3–Q4 2022)
- 2.2 Update training modules on the GAP certification program, train specialists and field-level officers of DOA and DAD as trainers of the upgraded GAP certification program, and conduct training for farmers on the upgraded GAP certification program (JFPR) (Q3 2022–Q3 2024)
- 2.3 Prepare training modules and materials on the methodology for assessing risks and vulnerabilities of agricultural operations, and train specialists and field-level officers of DOA and DAD on the methodology for assessing risks and vulnerabilities of agricultural operations (JFPR) (Q4 2022–Q3 2024)
- 2.4 Upgrade livelihood development programs for low-income families with a set of well-sequenced interventions and clear operational procedures, including a livelihood assistance grant operations manual; select low-income families in pilot districts; train managers and field-level officers of DSD and Samurdhi Banks to provide improved support for low-income families; implement interventions for beneficiary low-income families; and monitor the status and progress (Q3 2022–Q3 2024)

3. Social protection systems enhanced

- 3.1 Engage an IT firm, and develop a "family profile" module, a module to monitor the status and progress of livelihood development program participants, and a module to handle grievances for the Samurdhi CRM system (Q3–Q4 2022)
- 3.2 Procure IT equipment, and train field-level officers on data collection and entry in the Samurdhi CRM system (Q4 2022–Q2 2023)
- 3.3 Engage an IT firm, and develop additional modules for the GeoGoviya (Q3 2022–Q2 2024)

3.4 Procure IT equipment, and train field-level officers in the use of the upgraded GeoGoviya for data collection, monitoring and evaluation (Q4 2022–Q4 2023)

Project Management Activities

Prepare and submit quarterly project progress and financial reports, and annual safeguard monitoring reports to ADB
 Prepare annual project financial statements and submit annual audit reports to ADB
 Coordinate the conduct of special audit and submit audit reports to ADB
 Implement, monitor, and report on the gender equality and social inclusion action plan

Inputs

ADB: \$200 million (loan)
 Government: \$0.36 million
 JFPR: \$3 million (grant fully administered by ADB)

A = assumption, ADB = Asian Development Bank, CRM = Customer Relationship Management, DAD = Department of Agrarian Development, DCS = Department of Census and Statistics, DOA = Department of Agriculture, DPCS = Department of Probation and Childcare Services, DSD = Department of Samurdhi Development, GAP = Good Agricultural Practices, IT = information technology, JFPR = Japan Fund for Prosperous and Resilient Asia and the Pacific, MOA = Ministry of Agriculture, NSEC = National Secretariat for Early Childhood Development, OP = operational priority, Q = quarter, R = risk.

^a Prime Minister's statement on the roadmap to revive the economy, made at the Parliament on 5 July 2022: Economynext. 2022. [Sri Lanka Prime Minister's full statement on IMF negotiations](#). Colombo (July 6).

^b Department of National Planning, Government of Sri Lanka and World Food Programme. 2022. [Sri Lanka Joint Rapid Food Security Assessment](#). Colombo.

^c A set of indicators to evaluate the results of the programs will be developed as part of the upgraded livelihood development programs. Indicators may include measures of increased assets, increased incomes, diversified sources of income, increased consumption, savings, increased food security, and other social indicators.

^d The government plans to provide subsidized fertilizers and other agricultural inputs to farmers with the support of development partners. The World Bank is providing non-ADB-administered parallel loan cofinancing equivalent to \$275 million to ensure timely supply of agricultural inputs, in addition to supporting cash transfers to the poor and vulnerable.

^e Low-income families already enrolled in the Samurdhi program receive different amounts of monthly cash grants depending on family size, while additional low-income families receive monthly cash grants of SLRs5,000 regardless of family size. Details are in the project administration manual (accessible from the list of linked documents in Appendix 2).

^f Low-income elders above 70 years of age, elders above 100 years of age, persons with disabilities, and kidney disease patients already enrolled in the allowance programs receive monthly cash grants of varying amounts, while additional elders, persons with disabilities, and kidney disease patients receive monthly cash grants of SLRs5,000. Details are in the project administration manual (accessible from the list of linked documents in Appendix 2).

^g Financed by the JFPR grant.

^h Interventions will include a combination of cash assistance, training, technical and knowledge support, and mentoring and coaching, complemented by climate adaptation measures.

Contribution to Strategy 2030 Operational Priorities

Expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=56175-001-3>

1. Loan Agreement
2. Grant Agreement
3. Summary of Impacts and Needs Assessment
4. Project Administration Manual
5. Emergency Assistance Coordination
6. Economic and Financial Analysis
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. Contribution to Strategy 2030 Operational Priorities
10. Japan Fund for Prosperous and Resilient Asia and the Pacific
11. Gender Equality and Social Inclusion Action Plan