ADB ASIAN DEVELOPMENT BANK

Sri Lanka: Green Power Development and Energy Efficiency Improvement Investment Program

Project Name	Green Power Development and Energy Efficiency Improvement Investment Program
Project Number	47037-003
Country	Sri Lanka
Project Status	Active
Project Type / Modality of Assistance	Loan
Source of Funding / Amount	**MFF Facility Concept 0084-SRI: Green Power Development and Energy Efficiency Improvement Investment Program** Ordinary capital resources — US$ 216.00 million concessional ordinary capital resources lending / Asian Development Fund — US$ 84.00 million Agence Francaise de Developpement — US$ 60.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships
Sector / Subsector	**Energy** - Energy sector development and institutional reform
Gender Equity and Mainstreaming	No gender elements
Description	In recent years, Sri Lanka has improved its energy sector and achieved a national electrification ratio of 94% (2012) as compared with 29% in 1990. However, a longer-term challenge is to reduce its high dependence on expensive fossil fuel energy. The energy sector struggles to (a) meet growing demand for electricity at a low cost and acceptable reliability rates, and (b) attain long term sustainability. The share of thermal oil-fired energy in the power generation mix has increased from 6% in 1995 to 59% in 2012 that creates a high energy cost base. Demand growth has been mostly met by expensive oil-fired thermal plants. This is not a viable and sustainable solution to the country's energy security and environment protection in the long term. Diversification of the generation mix primarily to renewable energy sources, improved network efficiency, reduced technical losses and supply and demand side management is the only way to correct this situation. The transmission network needs expansion and modernization, particularly in the former conflict-affected areas in Northern and Eastern provinces. The 33 kilovolt medium voltage network needs to expand power supply into rural areas where many households have poor reliability and inadequate quality of electricity supply. For sustainable functioning of the power sector, the government pursues financial, managerial, and institutional reforms in line with the Sri Lanka Electricity Act, 2009.

Project Rationale and Linkage to Country/Regional Strategy	Sri Lanka has a national investment program that is based on 10-Year Development Framework prepared in 2006 and updated in 2010. The framework includes a long-term energy sector investment program, sector roadmap, and appropriate policy and reform measures that are linked to a National Energy Policy and Strategies. The objective is to (i) increase power supply capacity to around 6,400 MW by 2020 and reduce the generation cost by adding aggregate base load capacity of around 2,000 MW from three coal-fired plants; (ii) increase the share in grid energy supply from nonconventional renewable energy sources to 20% by 2020; and (iii) reduce the total losses in the network to 10.0% by 2020. The government's intention to develop 2000 MW of coal-fired capacity aims to pursue cost recovery in expectation that with the introduction of low-cost coal-fired generation it will be possible to reduce the current high cost of thermal power generation and achieve cost recovery from 2017. It is complimentary to the development of renewable energy to achieve the energy security. As part of its cost recovery strategy, the government increased retail electricity tariffs by 35% on average in April 2013. While the government aims to increase supply capacity and replace expensive and inefficient oil-fired power plants by constructing the coal-fired plants, the remaining supply capacity will come from renewable sources (and conversion of the oil-fired plants to gas-fired plants in the future). The 20% increase in power generation from nonconventional renewable sources will be in addition to 28% (2012) of the conventional hydropower and will ensure that a substantial portion of electricity is generated by domestic clean energy sources in the future. This will address the critical issue of the energy security.
Impact	increased access to clean and reliable power supply.

Project Outcome

Description of Outcome	enhanced clean power generation, system efficiency and reliability.
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Hydropower generation developed and connected to the grid in the Central Province Transmission infrastructure enhanced Efficiency of medium voltage network improved Demand-side management for energy efficiency improved Capacity development support provided to Ceylon Electricity Board.
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	

Summary of Environmental and Social Aspects

Environmental Aspects	Category A
Involuntary Resettlement	Category A
Indigenous Peoples	Category C
Stakeholder Communication, Participation, and Consultation	
During Project Design	Consultations were carried out with various stakeholders, such as village community, local residents, women's group in the villages, representatives of government officials and executing and implementing agencies. Focus group discussions were conducted with 34 communities in various transmission and distribution subproject locations. Stakeholders were informed about the new project and program. Formal and informal consultations were carried out for the hydropower project including the host community. A village committee was formed in the hydropower project area to act as a key stakeholder during land acquisition and resettlement implementation.
During Project Implementation	Consultation will continue with all stakeholders, including civil society, during investment program implementation. For the hydropower project in Moragolla, a housing committee and a resettlement committee, with representation from affected people, will work closely with Ceylon Electricity Board (CEB) on implementation of land acquisition and resettlement issues. Continuing consultations are and will be ongoing with wildlife stakeholder organizations, assessing reservoir safety, and developing an appropriate mechanism to guarantee downstream flows between CEB and the Mahaweli Authority to maintain the endangered fish in the tailrace of the Moragolla dam. Information dissemination will continue during program implementation.

Business Opportunities

Consulting Services	A consulting firm will be recruited for the TA project with 17.5 person-months for international and 19.0 person-months for national consultants. Taking into consideration the complexity of the investment program, the firm will be recruited using quality and cost based selection methodology with an 90:10 technical-cost weighting based on simplified technical proposal. The consulting firm will conduct technical, economic, financial, and governance due diligence, prepare project cost estimates, procurement plan and implementation schedule. The international and national environmental and social development specialists will be recruited on an individual basis to ensure that that they start their field activities early in the process due to the expected environmental and involuntary resettlement categories _A_ for the MFF. Consultants will be recruited following Guidelines on the Use of Consultants by ADB and Its Borrowers, April 2010.
Procurement	Procurement of works, goods, and services will be carried out in accordance with ADB's Procurement Guidelines. ADB will allow advance contracting. ADB's Procurement Guidelines allow for the use of domestic preference to the goods and turnkey contracts. The Government has requested for the domestic preference for goods and turnkey contracts and a provision will be made in the loan agreement and further details of its application will be included in the bidding documents. It will be applicable to domestically manufactured goods in single responsibility turnkey contracts where the cost of the goods and supplies for permanent works is estimated prior to the bidding is equal or exceed 60% of such works. International competitive bidding (ICB) procedures will be used for procurement packages for the hydropower plant, 132 kV and 220 kV transmission lines, 220/132/33 kV grid substations, and 33 kV distribution lines and gantries and DSM pilot subprojects. CEB will recruit consultants to provide technical, supervision and monitoring support for implementation of hydropower power generation and other subprojects as well as capacity building for power sector development. The consultants will be recruited using ADB's Guidelines on Use of Consultants.

Responsible Staff

Responsible ADB Officer	Khamudkhanov, Mukhtor
Responsible ADB Department	South Asia Department
Responsible ADB Division	Energy Division, SARD
Executing Agencies	*Ministry of Power and Renewable Energy* *72 Ananada Kumaraswamy Mawatha* *Colombo 07, Sri Lanka*

Timetable

Concept Clearance	25 Jun 2013
Fact Finding	17 Feb 2014 to 21 Feb 2014
MRM	07 Apr 2014
Approval	15 Jul 2014
Last Review Mission	-
Last PDS Update	29 Sep 2014

MFF Facility Concept 0084-SRI

Financing Plan		Loan Utilization			
	Total (Amount in US$ million)	Date	ADB	Others	Net Percentage
Project Cost	440.00	Cumulative Contract Awards			
ADB	300.00	-	0.00	0.00	%
Counterpart	80.00	Cumulative Disbursements			
Cofinancing	60.00	-	0.00	0.00	%

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