



Project Design Advance

Project Number: 49325-003
March 2017

Democratic Socialist Republic of Sri Lanka: Northern Province Sustainable Fisheries Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 8 March 2017)

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

SLRe1.00 = \$0.00653

\$1.00 = SLRs153.18

ABBREVIATIONS

| | | |
|-----|---|------------------------|
| ADB | – | Asian Development Bank |
| PDA | – | project design advance |
| SDR | – | special drawing right |
| t | – | ton |

NOTE

In this report, "\$" refers to US dollars.

| | |
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I. THE PROPOSED PROJECT

1. The Northern Province Sustainable Fisheries Development Project will support investments to revive the fishery industry in the four conflict-affected coastal districts of Jaffna, Mannar, Mullaittivu, and Kilinochchi.¹ The ensuing project and project design advance are included in the country operations business plan, 2017–2019 of the Asian Development Bank (ADB). The ensuing project cost is estimated at \$125 million. It will be financed, in part, from a loan from ADB's concessional ordinary capital resources (\$63.13 million) and a loan from ADB's regular ordinary capital resources (\$60 million). The project will finance the development of two fishery harbors, rehabilitate other related infrastructure, develop sustainable aquaculture, improve the management of coastal and fishery resources, and strengthen the capacity of the fishery societies and related institutions.

2. The Northern Province, which bore the brunt of a 30-year conflict that ended in 2009, is showing signs of economic recovery owing to development projects initiated by various actors, including the government, development partners, and nongovernment agencies. The province's contribution to the country's gross domestic product rose from 3.2% in 2008 to 3.6% in 2013. The incidence of poverty in the province declined from 30.0% in 2010 to 10.9% in 2013. Despite these positive developments, wide disparities remain within the province. The poverty incidence is 20.1% in Mannar district and 28.8% in Mullaittivu district, significantly higher than the 6.7% national poverty incidence. At SLRs8,330, the monthly per capita household income in the Northern Province is the second-lowest among the nine provinces after the Eastern Province, which was also impacted by the conflict.²

3. Although the fishery industry in Sri Lanka contributed only 1.6%–1.8% annually to the national economy during 2009–2013, it plays a vital role in meeting the basic nutritional and livelihood needs of the population.³ It contributes about 70% of the animal protein in the national diet, and provides direct and indirect employment opportunities to around 0.5 million people (2.5% of the population) and livelihoods to around 2.6 million people. The government plans to increase the annual per capita fish consumption from 11 kilograms to 22 kilograms to mitigate malnutrition.⁴ About 20% of children under 5 years of age are considered underweight.⁵ The current fish production for the domestic market falls short of the consumption needs, and the country imports 70,000–80,000 tons (t) annually.⁶

4. Agriculture, fishery, and livestock are the mainstay of the economy of the Northern Province and comprised 19.6% of the provincial gross domestic product in 2012.⁷ Of the province's 1.2 million people, the majority (85%) lives in rural areas and is engaged in fisheries and agriculture. The Northern Province has 40% of the coastal belt, and before the conflict

¹ The project concept paper and project preparatory technical assistance were approved in December 2015.

² Government of Sri Lanka; Ministry of Policy Planning Economic Affairs, Child Youth and Cultural Affairs; Department of Census and Statistics. 2015. *Household Income and Expenditure Survey—2012/13: Final Report*. Colombo. http://www.statistics.gov.lk/HIES/HIES2012_13FinalReport.pdf.

³ Fishery is divided into three segments: (i) coastal fishery, which is carried out within the 30,000-square-kilometer continental shelf; (ii) offshore fishery, which takes place outside the continental shelf, extending up to the edge of the 517,000-square-kilometer exclusive economic zone using multiday boats; and (iii) inland fishery and aquaculture.

⁴ Department of Fisheries and Aquatic Resources. <http://www.fisheriesdept.gov.lk/index.html>.

⁵ United Nations. Sri Lanka. 2014. *Millennium Development Goals Country Report 2014: Sri Lanka*. Colombo.

⁶ Government of Sri Lanka, Ministry of Fisheries and Aquatic Resources Development. 2015. *Fisheries Statistics—2015*. <http://www.fisheries.gov.lk/elfinder-2.0-rc1/files/stat/Fisheries%20Statistics/Web%20pdf%20Document.pdf>.

⁷ Central Bank of Sri Lanka, Statistics Department. 2013. *Provincial Gross Domestic Product—2012*. News release. 10 September.

escalated in 1983, it recorded a marine fish catch of 75,740 t, accounting for 40% of the national total. In 1995, its marine fish catch dropped to an all-time low of 4,500 t, 2% of the national production. Following the end of the conflict, the lifting of security restrictions on access to coastal waters, and the start of ongoing support toward the sector's revival, production in the Northern Province increased from 13,840 t in 2008 to 55,640 t in 2013 but remains below the 1983 production levels (footnote 6).

5. The conflict caused widespread social vulnerability and economic instability in the province. Families were displaced multiple times. Most of the internally displaced people were resettled by 2012, but a few families have yet to be resettled. Some of the returnees have been displaced from their original lands for more than 15 years. Widowed and single women, who comprise about 5% of the population, are vulnerable and require focused support. Economic activities were affected and the fisheries industry in particular was heavily impacted. Fishing vessels, equipment, and related infrastructure were damaged or destroyed. Cooperative societies, once the strength and pride of the northern fisherfolk, ceased to function and lost all of their assets.

6. Coastal livelihoods are dependent on natural resources. Given the limited development that took place during the 30-year conflict, the natural resource base has been largely undisturbed. However, some threats to the resources are emerging, including (i) damage to corals and other organisms in the seabed because of illegal fishing methods such as trawler and dynamite fishing, (ii) destruction of mangroves, (iii) coastal erosion, and (iv) illegal mining of sand dunes. Furthermore, climate-induced risks, such as sea level rise, increased frequency of storms, and rising ocean temperatures, may impact marine habitats and coastal infrastructure.

7. Since 2009, the government and development partners have supported the recovery of the fisheries industry by providing boats, engines, nets, and credit; rebuilding infrastructure; and reestablishing cooperative societies. Nonconventional aquaculture with high export and income-earning potential—such as sea cucumber production, seaweed culture, and crab fattening—are currently being pilot-tested. Improvements to the roads and railways have reconnected the Northern Province with the rest of the country, which has resulted in greater access to markets and promoted private sector investments. Many public and private banks have opened offices in the province, enabling access to financial services.

8. Although these developments created an enabling environment to develop the fishing industry, the Northern Province still needs essential infrastructure and capacity strengthening of its fishery societies and related institutions. While Sri Lanka has 20 major fishery harbors, the Northern Province has none. The lack of harbor facilities and multiday boats makes it impossible to engage in deep-sea fishing. To further develop the fishery industry in the province, investments are required to (i) rebuild large-scale infrastructure such as harbors, anchorages, and associated facilities; (ii) introduce new fishery technologies; (iii) expand aquaculture sustainably; (iv) strengthen community-based organizations and related institutions; (v) develop a fisheries management and zoning plan to ensure that resources are not overexploited; and (vi) develop economic activities for households headed by women. The government has requested Asian Development Bank (ADB) support to help rebuild the fishery industry, which provides livelihoods for more than 40,000 families in the Northern Province.

9. The ensuing project and the project design advance (PDA) are consistent with the priorities for the agriculture and natural resources sector in ADB's country operations business

plan, 2017–2019, and support the key pillar on inclusive and sustainable economic growth.⁸ It is aligned with the key priorities of promoting natural resource management and increasing productivity and resilience,⁹ and complements other post-conflict developments that ADB has supported in the Northern Province.

10. The project's impact will be improved nutritional status, food security, and incomes of fisher communities, aligned with the Government of Sri Lanka's Ten Year Development Policy Framework of the Fisheries and Aquatic Resources Sector, 2007–2016.¹⁰ The outcome will be that fisheries production in the Northern Province is sustainably increased. The proposed outputs are: (i) climate-resilient infrastructure developed and operational; (ii) aquaculture developed; (iii) entrepreneurial skills, market links, and credit access for local communities, including women, strengthened; and (iv) management of coastal and fishery resources improved. The project area is defined as the coastal belt of the districts of Jaffna, Mullaittivu, Mannar, and Kilinochchi. On land, it includes the *grama niladhari* divisions¹¹ fronting the shoreline and those surrounding inland lagoons and other important coastal systems, such as estuaries. In the sea, it includes the area defined under the Coast Conservation Act, 1981.¹²

11. A project preparatory technical assistance is being implemented from July 2016 to March 2017 to develop a feasibility study. The PDA loan of \$1.3 million from ADB's concessional ordinary capital resources is proposed to finance the preparation of detailed designs of harbors, anchorages, and landing sites. The ensuing investment loan is programmed for approval in 2018. The consulting services for the detailed designs will include a national consultancy firm and two individual international consultants. The call for expressions of interest from consultancy firms to undertake the detailed designs under the PDA was issued on 25 July 2016. Requests for proposals were issued to shortlisted firms on 21 October 2016, and it is expected that the consultancy contract will be awarded in March 2017.

II. ACTIVITIES TO BE FINANCED BY THE PROJECT DESIGN ADVANCE

12. The PDA will finance consultancy services to undertake the detailed engineering design, which includes updating costs and environmental and social safeguard assessments, preparing bidding documents, and supporting the bidding process. The key PDA outputs will be detailed designs and bidding documents. The PDA will not finance land acquisition, resettlement, or civil works. The PDA will speed up contract awards and disbursements by ensuring that the detailed designs are complete, and the contracts are ready for award by the time of loan effectiveness.

III. COST ESTIMATES AND FINANCING ARRANGEMENTS

13. A PDA concessional loan of \$1.3 million from ADB's ordinary capital resources will be provided. The PDA loan will have an interest rate charged at 2% per annum; however, the payment of interest is deferred until the PDA loan is refinanced from the proceeds of the ensuing loan, or until other repayment terms take effect in line with the PDA loan agreement. The PDA loan is expected to be repaid from the proceeds of the ensuing loan on the date of

⁸ ADB. 2016. *Country Operations Business Plan: Sri Lanka, 2017–2019*. Manila.

⁹ ADB. 2015. *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*. Manila.

¹⁰ Government of Sri Lanka, Ministry of Fisheries and Aquatic Resources. 2007. *Ten Year Development Policy and Framework of the Fisheries and Aquatic Resources Sector, 2007–2016*. Colombo.

¹¹ The smallest administration unit, comprising two or three villages.

¹² As defined under the Coast Conservation Act, the seaward boundary is the limit of 2 kilometers seaward of the mean low water line.

effectiveness of the ensuing loan.¹³ The PDA loan will finance all costs relating to preparation of detailed design, except for project management costs, taxes, and duties. The PDA cost estimates are summarized in Table 1.

Table 1: Investment and Financing Plan for the Project Design Advance^a
(\$ million)

| Item | Cost ^b | ADB | Government |
|---|-------------------|-------------|-------------|
| A. Base Cost^c | | | |
| 1. Consulting firm | 1.16 | 0.99 | 0.17 |
| 2. Individual consultants | 0.26 | 0.22 | 0.04 |
| 3. Project management staff and office expenses | 0.06 | 0.00 | 0.06 |
| Subtotal (A) | 1.48 | 1.21 | 0.27 |
| B. Contingencies^d | 0.11 | 0.09 | 0.02 |
| Total (A+B) | 1.59 | 1.30 | 0.29 |

ADB = Asian Development Bank, PDA = project design advance.

^a A PDA loan carries interest charges where applicable, and the payment of these charges is deferred until the PDA loan is repaid from the ensuing financing, or until other repayment terms take effect.

^b Includes taxes and duties of \$0.21 million to be financed from government resources via cash contribution.

^c In mid-2016 prices.

^d Physical contingencies computed at 7.5% for consulting services.

Source: Asian Development Bank.

IV. IMPLEMENTATION ARRANGEMENTS

14. The implementation arrangements are summarized in Table 2 and described in detail in the PDA project administration manual.

Table 2: Implementation Arrangements for Project Design Advance

| Aspects | Arrangements | | |
|-------------------------------|--|---|-------------|
| PDA implementation period | March 2017–June 2018 | | |
| Estimated PDA completion date | 30 June 2018 | | |
| Management | | | |
| (i) Oversight body | Design Coordinating Committee Ministry of Fisheries and Aquatic Resources Development (chair) and representatives from the Ceylon Fisheries Harbor Corporation; Coast Conservation Department; Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs; and Department of External Resources (members) | | |
| (ii) Executing agency | Ministry of Fisheries and Aquatic Resources Development | | |
| (iii) Implementation unit | Project implementation and monitoring unit in Colombo, which will include five key staff and two supporting staff | | |
| Consulting services | 90:10 QCBS | 91 person-months | \$1,247,000 |
| | ICS | 2 international experts, 3.5 person-months each | \$280,000 |
| Advance contracting | All consultancy services are proposed for advance contracting. | | |
| Disbursement | Disbursements under the PDA will be made in accordance with the Asian Development Bank <i>Loan Disbursement Handbook</i> (2015, as amended from time to time). | | |

ICS = individual consultant selection, PDA = project design advance, QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

¹³ Expected to be in April 2018.

V. SAFEGUARDS

15. The ensuing project's safeguard impacts are being assessed under the ongoing project preparatory technical assistance. The proposed initial safeguard categorizations of the ensuing project following ADB's Safeguards Policy Statement (2009) are (i) *category B* for the environment, (ii) *category B* for involuntary resettlement, and (iii) *category C* for indigenous people. The PDA-financed consultants will update the initial environmental examination report and resettlement plan based on the final detailed designs. The consultancy team includes an environment specialist and a social safeguard specialist.

VI. DECISION

16. Management has approved the provision of a loan of \$1.3 million to the Democratic Socialist Republic of Sri Lanka from ADB's concessional ordinary capital resources, in the form of a project design advance for the Northern Province Sustainable Fisheries Development Project; and the President hereby reports this action to the Board.