



Tranche Report

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Sri Lanka: Mahaweli Water Security Investment Program (Tranche 2)

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Asian Development Bank

CURRENCY EQUIVALENTS
(as of 10 October 2017)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0065
\$1.00	=	SLRS153.38

ABBREVIATIONS

ADB	–	Asian Development Bank
EIA	–	environmental impact assessment
km	–	kilometers
MDP	–	Mahaweli Development Program
MFF	–	multitranches financing facility
NWPCP	–	North West Province Canal Project
UECP	–	Upper Elahera Canal Project

NOTES

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

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I. PROPOSAL

1. Conversion of \$210 million into a tranche to finance project 2 of the Mahaweli Water Security Investment Program in Sri Lanka is proposed for Board consideration.

II. BACKGROUND

2. The investment program will accelerate economic activities in Sri Lanka's northern dry zone region by transferring surplus water from the Mahaweli river basin for irrigation, drinking and commercial purposes.¹ It will develop bulk water conveyance and storage infrastructure planned under the North Central Province Canal Program, a high-priority government program that will support completion of the Mahaweli Development Program (MDP), which started in 1973 but its completion was delayed due to conflict.² After the conflict ended in 2009, the government prioritized completion of the MDP by initiating the North Central Province Canal Program. The investment program supports the following government objectives: ensuring water availability to water users; providing water in adequate quantities with improved management; enhancing productivity and water user efficiency; addressing the spatial variation of water availability; and addressing climate change and disaster vulnerability, as described in the Public Investment Programme 2017–2020.³ The outcome will be secured access to water resources for agricultural and drinking purposes in project areas.

3. On 24 June 2015, the Board approved the provision of loans to Sri Lanka under a multitranche financing facility (MFF) of up to \$453 million equivalent to be implemented between July 2015 and December 2024. The MFF comprises three tranches and uses the time-slicing approach to achieve the outputs: (i) new and improved water conveyance and storage infrastructure constructed; (ii) systems for improving water resources management productivity developed that will formulate future investments to improve water and crop productivity of existing irrigation systems within the investment program beneficiary areas; and (iii) multidisciplinary investment program management operational to timely and economical implementation of the MFF. Output 1 of the MFF is implementing three physical projects:

- (i) the Upper Elahera Canal Project (UECP), comprising about 101 kilometers (km) of water conveyance infrastructure linking the existing reservoirs at Kalu Ganga, Moragahakanda, Huruluwewa, Eruwewa, and Mahakanadara, which supply existing irrigation and town supply schemes;
- (ii) the North Western Province Canal Project (NWPCP), which will construct about 91 km of new and rehabilitated conveyance channels and two new reservoirs at Mahakithula and Mahakirula to transfer water from the Dambula Oya River and Wemedilla reservoir to supply existing irrigation and town supply schemes; and
- (iii) the Minipe Left Bank Canal Rehabilitation Project, which will increase storage in its head reservoir and rehabilitate about 74 km of existing canals to improve conveyance and reliability of service to existing farmers. This project is fully financed under tranche 1.

4. Tranche 2 will have two outputs: (i) completion of new and improved water conveyance

¹ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Mahaweli Water Security Investment Program*. Manila.

² Key components were completed in the 1980s, notably several irrigation systems and large dams for hydropower.

³ Ministry of National Policies and Economic Affairs. 2017. *Public Investment Programme, 2017–2020*. Colombo.

and storage infrastructure increased; and (ii) multidisciplinary investment program management operational. Output 1 includes construction of about 21 km (out of 101 km) of conveyance channels under the UECP and the continuation of construction activities under the NWPCP.⁴ The tranche 2 periodic financing request report summarizes the background to and status of the investment program. It also presents a summary of the tranche 2 activities and review of due diligence and relevant approval processes and recommendations.⁵

III. DUE DILIGENCE ON ENVIRONMENTAL IMPACT

5. The proposed tranche project is classified under environmental impact category A under ADB's Safeguard Policy Statement (2009) (footnote 1). Separate environmental impact assessments (EIAs) were prepared for the UECP and the NWPCP. An initial environmental examination was prepared for the Minipe Left Bank Canal Rehabilitation Project.

6. The UECP EIA was prepared in 2014 and was disclosed on ADB's website in January 2015 prior to Board approval of the MFF. About 95% of the channel trace under tranche 2 falls within the jurisdiction of either the Department of Wildlife Conservation or the Forest Department. The main impacts include (i) generation of waste material comprising tunnel spoil requiring disposal (about 27 hectares); (ii) land clearance for construction of access and ventilation shafts to the tunnels, and temporary and permanent access roads; and (iii) other construction-related impacts such as vibration, noise and dust. The tunnel spoil can be reused for road construction; nevertheless, temporary disposal sites are required. Due to design changes made during detailed design conducted under tranche 1, there is a slight increase in tunnel spoil as compared to that documented in the EIA. Thus, new spoil disposal sites have been identified and additional access roads are planned, including widening or rehabilitation of 12 km of existing roads and construction of 2 km of new access roads. The environmental impacts of these design changes are addressed in an addendum to the EIA, which included additional ecological surveys. The EIA addendum, with updated environmental management plans, was disclosed on ADB's website on 11 October 2017.⁶ The semi-annual environmental safeguard monitoring reports are also publicly disclosed.

7. Under tranche 1, all environmental safeguard requirements are being addressed in the designs of the new infrastructure, and are being monitored during implementation, including by: (i) constructing tunnels in lieu of cut-and-cover canals to minimize impacts on forest and wildlife reserves, (ii) applying contract-specific environmental management plans, (iii) holding several training and awareness programs for the executing agency and contractor's environmental staff, and (iv) identifying and translocating priority species based on detailed ecological surveys. Stakeholders have been consulted during planning and design of the project, no safeguards-related complaints have been received to date, and the grievance redress mechanism in operation under tranche 1 will continue under tranche 2. Environmental safeguards are being managed satisfactorily under tranche 1, and the Ministry of Mahaweli Development and Environment has demonstrated it can manage the environmental safeguards satisfactorily. An independent environmental monitor also has been engaged.

IV. RECOMMENDATION

8. The President recommends that the Board authorize the conversion of \$210 million into a tranche to finance project 2 of Mahaweli Water Security Investment Program in Sri Lanka.

⁴ Specifically, tranche 2 will finance (i) partial construction of a 28 km tunnel; (ii) partial construction of about 8.8 km of new tunnels and channels; (iii) continuing construction of the Mahakithula and Mahakirula Reservoirs, and Mahakithula Inlet Tunnel that will be initiated under tranche 1; and (iv) project management recurring costs.

⁵ Periodic Financing Request Report (accessible from the list of linked documents in the appendix).

⁶ Environmental Impact Assessment (accessible from the list of linked documents in the appendix).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=47381-005-MFF> Tranche Report

1. Periodic Financing Request Report
2. Environmental Impact Assessment: Upper Elahera Canal Project