

Project Administration Manual

Project Number: 42459-014
Loan Number: 2790-SRI
September 2016

Democratic Socialist Republic of Sri Lanka:
Additional Financing of Local Government
Enhancement Sector Project

ABBREVIATIONS

ADB	=	Asian Development Bank
AFS	=	audited financial statements
CEA	=	Central Environmental Authority
DMF	=	design and monitoring framework
DSC	=	design and supervision consultant
EARF	=	environmental assessment and review framework
EIA	=	environmental impact assessment
EMP	=	environmental management plan
IEE	=	initial environmental examination
IPP	=	indigenous people plan
IPPF	=	indigenous peoples planning framework
LGIIP	=	Local Government Infrastructure Improvement Project
MPCLG	=	Ministry of Provincial Council and Local Governments
MOFP	=	Ministry of Finance and Planning
NSC	=	National Steering Committee
NSWMSC	=	National Solid Waste Management Support Center
NWSDB	=	National Water Supply and Drainage Board
O&M	=	operation and maintenance
PAM	=	project administration manual
PMC	=	project management consultant
PMU	=	project management unit
PSC	=	Provincial Steering Committee
RRP	=	Report and Recommendation of the President to the Board
SOE	=	statement of expenditure
SPCU	=	Subproject Coordination Units
SPS	=	Safeguard Policy Statement
SSS	=	single source selection
UDA	=	Urban Development Authority

CONTENTS

I.	PROJECT DESCRIPTION	1
II.	IMPLEMENTATION PLANS	3
A.	Project Readiness Activities	3
B.	Overall Project Implementation Plan	4
III.	PROJECT MANAGEMENT ARRANGEMENTS	5
A.	Project Implementation Organizations: Roles and Responsibilities	5
B.	Key Persons Involved in Implementation	7
C.	Project Organization Structure	7
IV.	COSTS AND FINANCING	9
A.	Cost Estimates Preparation and Revisions	10
B.	Key Assumptions	11
C.	Detailed Cost Estimates by Expenditure Category	12
D.	Allocation and Withdrawal of Loan Proceeds	13
E.	Detailed Cost Estimates by Financier	14
F.	Detailed Cost Estimates by Outputs and/or Components	15
G.	Detailed Cost Estimates by Year	16
H.	Contract and Disbursement S-Curve	17
I.	Fund Flow Diagram	18
V.	FINANCIAL MANAGEMENT	18
A.	Financial Management Assessment	18
B.	Disbursement	20
C.	Accounting	21
D.	Auditing and Public Disclosure	21
VI.	PROCUREMENT AND CONSULTING SERVICES	22
A.	Advance Contracting and Retroactive Financing	22
B.	Procurement of Goods, Works, and Consulting Services	23
C.	Procurement Plan	23
D.	Consultant's Terms of Reference	24
VII.	SAFEGUARDS	24
VIII.	GENDER AND SOCIAL DIMENSIONS	28
IX.	PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION	32
A.	Project Design and Monitoring Framework	32
B.	Monitoring	32
C.	Evaluation	32
D.	Reporting	33
E.	Stakeholder Communication Strategy	33
X.	ANTICORRUPTION POLICY	34
XI.	ACCOUNTABILITY MECHANISM	34
XII.	RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL	34

APPENDIXES

Appendix 1: Revised Design and Monitoring Framework	35
Appendix 2: List of Local Authorities of the Project (Outputs 1, 2 and 3)	41
Appendix 3: Local Authority and Subproject Selection Criteria	45
Appendix 4: List of Subprojects under Output 1	52
Appendix 5: Planned Capacity Building Programs and Workshops under Output 3	57
Appendix 6: Procurement Plan:	61
Appendix 7: Consultants' Terms of Reference	78
Appendix 8: Consultation and Participation Plan	99
Appendix 9: Outline Quarterly Progress Report Program	107
Appendix 10: Outline of Semi-annual Monitoring Reports	112
Appendix 11: Statement of Audit Needs Template	121

Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the government and Asian Development Bank (ADB). The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Provincial Councils and Local Government, provincial councils, and participating local authorities are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by the Ministry of Provincial Councils and Local Government, provincial councils, and participating local authorities of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations, the borrower and ADB shall agree to the PAM and ensure consistency with the loan agreement. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the PAM and the loan agreement, the provisions of the loan agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP), changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval, they will be subsequently incorporated in the PAM.

I. PROJECT DESCRIPTION

1. **The Original Project.** The Local Government Enhancement Sector Project (LGESP)¹ was approved by ADB on 29 September 2012 with an amount of \$59 million equivalent from ADB's Special Fund Resources. The loan became effective on 29 November 2011 and the loan closing date is 31 December 2016. Ministry of Provincial Council and Local Government (MPCLG) is the executing agency, and subproject coordination unit (SPCU) is established in each provincial council (total seven) to supervise, coordinate, and implement the project. LGESP has been supporting local infrastructure improvement and basic service delivery in less-developed areas in seven provinces (excluding the Northern and Eastern Provinces), based on a bottom-up, demand-driven approach.

2. **Additional Financing.** The additional financing will scale up the well-performing original project. It includes (i) improvement of water supply systems to mitigate the risks of chronic kidney diseases (CKD); (ii) improvement of local infrastructure and basic services delivery; and (iii) advancing policy reform of local government and strengthening their capacity.

3. **Impact and Outcome.** The impact will be local authorities' capacity financially and technically strengthened in less-developed areas of seven provinces in Sri Lanka. The outcome will be improved local infrastructure and services delivered effectively by local authorities or the National Water Supply and Drainage Board (NWSDB) in less-developed areas of seven provinces in Sri Lanka. The impact statement is unchanged. The outcome statement was changed because most of the water supply schemes in areas affected by CKD will be operated by NWSDB. The original and aggregate targets are in the revised design and monitoring framework (Appendix 1).

4. The additional financing has three outputs. Output 1 has been added for the additional financing. The additions and modifications are in the revised DMF.

5. **Output 1: Water supply systems in CKD-affected areas improved.** The additional financing will support development and expansion of water supply systems in CKD-affected areas in the four provinces (Central, North Central, North Western, and Uva) to provide continuous supply of safe drinking water. The schemes include development of new water supply systems and expansion of existing systems, mostly run by NWSDB. Facilities such as raw water intakes, water treatment plants, overhead tanks, and transmission and distribution networks up to household connections are eligible for financing.² About 30 schemes will be developed or expanded, and will be implemented by respective provincial councils with technical inputs and supervision support from NWSDB. Considering the nature and complexity of the schemes, the piped-network will be operated by NWSDB, except a few local authorities which have adequate operational capacity. If local authorities are identified to be the appropriate entity to implement the subprojects, such local authorities will first have to submit a reform plan, as practiced in the original project, prior to the subproject implementation. The additional financing will also ensure efficient use of water through non-revenue water reduction programs.

6. **Output 2: Local infrastructure and basic service delivery improved.** The additional financing will support improvement of social and economic infrastructure in 29 new *Pradeshiya*

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for Local Government Enhancement Sector Project*. Manila.

² When it is too costly to provide drinking water through a piped-network, installation of reverse osmosis plants to purify groundwater and procurement of water tankers to supply the treated water may be necessary. These schemes will be fully financed by the government and not included in the scope of additional financing.

Sabhas from five provinces (Central, North Western, Southern, Uva, and Western) which have not been supported under the LGIIP and LGESP. The approach will remain the same: these *Pradeshiya Sabhas* will first have to submit a reform plan approved through a council resolution, which will be reviewed and confirmed by the Ministerial Committee of the Ministry of Provincial Councils and Local Government to ensure that the minimum reform requirements are met. Then they will be qualified for the provision of a capital grant for infrastructure improvement.

7. Eligible subprojects include (i) environmental infrastructure such as water supply and sanitation (including sewerage), drainage, and solid waste management; (ii) economic infrastructure such as roads and bridges (including suspension bridges); (iii) public health infrastructure such as maternity and health-care centers; and (iv) other local authority facilities such as public markets. To strengthen the focus of the project, other facilities under the responsibility of local authorities, such as local authority office buildings and crematoriums, will be approved only under special circumstances and if clearly justified. For both outputs 1 and 2, only the subprojects that meet the subproject selection criteria as discussed in paragraph 9 will be implemented. Subprojects will be screened initially by the SPCUs to ensure conformity with the subproject selection criteria before they will be endorsed by the PMU. The PMU will engage one Project Management Consultant (PMC) to assist in management of the project and six teams of design and supervision consultants (DSCs) (one per province; except in Sabaragamuwa which has no new subprojects) to support preparation of design and ensure the quality of work.

8. **Output 3: Local government policy reform advanced and capacity strengthened.**

The additional financing will support advancing business process reengineering and additional capacity building measures in the original and new *Pradeshiya Sabhas*.³ The activities will include (i) support for implementing the guidelines developed under the capacity development TA (CDTA);⁴ (ii) establishment and implementation of IT solutions in new *Pradeshiya Sabhas*; (iii) continuation of support and improvement of IT solutions in the original 108 *Pradeshiya Sabhas* including development and installation of additional software to simplify and increase efficiency of local administration; (iv) support for implementing reform plans in the original and new *Pradeshiya Sabhas*; and (v) capacity building programs to strengthen technical, financial, and administrative capacity of the original and new *Pradeshiya Sabhas*, provincial councils, and MPCLG. An indicative list of planned capacity development programs and workshops under this output are in Appendix 5.

9. **Selection of Local Authorities and Subprojects.** Local authorities receiving support under the project are identified in Appendix 2. Eligible subprojects are given in para 7 and detailed in Appendix 3. Subprojects not listed are generally not accepted and may be approved only under special circumstances and if clearly justified. This is subject to ADB's prior approval. Subproject selection criteria, both general ones and sector-specific, have been developed. General criteria include identification of subprojects through participatory processes, consideration to technical, economic, and financial feasibility, addressing gender aspects, and compliance with safeguards requirements. Sector-specific criteria reflect the characteristics of

³ New *Pradeshiya Sabhas* include those 29 under output 2 and those that will implement and operate water supply systems improvement under output 1.

⁴ Thirteen guidelines have been developed by CDTA: (i) tax enforcement and arrears recovery manual; (ii) information sources available for local authorities to increase coverage; (iii) standard agreement template for lease; (iv) service charge rationalization model; (v) extension of built-up locality in *Pradeshiya Sabhas*; (vi) incentive scheme for revenue collectors; (vii) standard request for proposal for selection of survey agency for conducting 3rd party survey; (viii) process awareness; (ix) government information center templates; (x) process for application forms; (xi) rates rationalization; (xii) revised notice of assessment; and (xiii) common tendering process.

sub-sectors and address technical, economic, and financial feasibility as well as due consideration to the technical and financial sustainability of the system. The PMU will submit to ADB for review the proposal of the first two subprojects of each subsector,⁵ together with the checklist to demonstrate compliance with the selection criteria, when (i) feasibility studies are prepared, and (ii) detailed designs are prepared. Subsequently, ADB will review water supply and sewerage subprojects over SLR200 million (excluding the VAT) to be implemented under output 1 or SLR100 million (excluding the VAT) to be implemented under output 2.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Table 1: Project Readiness Activities

Activity	Months (2016)								Responsibility
	3	4	5	6	7	8	9	10	
Recruitment of Consultants									
(i) DSC (WP, SP)	AN		S1		S2, S3	S4, AW			PMU
(ii) PMC/DSC (SSS)			AN		IP	RP	EP, AW		PMU
Submission of draft procurement plan and draft bid document for first works contracts	X								PMU/SPCUs
Issuance of bid documents for first civil works	X								PMU /SPCUs
Submission of Technical Bid evaluation report for first Civil works					X				
Submission of Financial Bid evaluation report for first civil works					X				
Awarding the first works contract					X				
ADB Board Approval							X		
Loan Signing							X		
Government Legal Opinion Provided								X	
Loan Effectiveness								X	

ADB = Asian Development Bank, AN = announcement, DSC = design and supervision consultants, MPCLG = Ministry of Provincial Councils and Local Government, MNPEA = Ministry of National Policies and Economic Affairs, PMC = project management consultant, PMU = project management unit, S1 = Shortlisting of consulting firms and requests for proposals, S2 = Evaluation of technical proposals, S3 = Financial Proposals, Evaluation and Overall Ranking of Proposals, S4 = Draft negotiated contracts, SPCU = subproject coordination unit.

⁵ ADB's prior review will not be required if the first two subprojects of the subsector concerned have been reviewed under the original project.

Table 2: Project Implementation Schedule

Project Implementation Schedule																																																
	2016												2017												2018												2019											
Activities	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Output 1: Water supply systems in CKD - affected areas improved																																																
Screening and selecting subprojects																																																
Batch 1 subprojects*: financial / economic analysis, safeguard due diligence and bid doc preparation																																																
Batch 1 subprojects: Review of bid doc and approval by ADB																																																
Batch 1 subprojects: bidding and contract award																																																
Batch 2 subprojects*: detailed design																																																
Batch 2 subprojects: financial / economic analysis, safeguard due diligence and bid doc preparation																																																
Batch 2 subprojects: Review of bid doc and approval by ADB																																																
Batch 2 subprojects: bidding and contract award																																																
Construction of works and completion																																																
Output 2: Local Infrastructure and basic service delivery improved																																																
Reform plan preparation and finalization by new Pradeshiya Sabhas																																																
Review and approval of reform plans by PMU / SPCUs and Ministerial committee																																																
Public consultation, identification and finalization of priority subprojects by new Pradeshiya Sabhas																																																
Review and approval of subprojects by PMU / SPCUs																																																
Undertake feasibility study, financial / economic analysis, safeguard due diligence of subprojects																																																
Detailed engineering design and bid document preparation of subprojects																																																
Bidding and contract award																																																
Construction																																																
Output 3: Local government policy reform advanced and capacity strengthened																																																
Implement capacity development programs for MPCLG, provincial councils and local authorities																																																
Monitor reform plan implementation in Pradeshiya Sabhas																																																
Develop and install information technology systems																																																
Management Activities																																																
Project management																																																
Implement gender action plan																																																

*Batch 1 subprojects are those that have detailed engineering designs (including BOQ and drawings) by Feb 2016.

**Batch 2 subprojects are those that do not have detailed engineering designs as of Feb 2016.

MPCLG = Ministry of Provincial Councils and Local Government, PMU = project management unit, SPCU = subproject coordination unit.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

Table 3: Roles and Responsibilities of Organizations

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> • MPCLG (executing agency)/ministerial committee 	<ul style="list-style-type: none"> ➤ guides and supports the overall project implementation. ➤ (Secretary) chairs the NSC and Ministerial Committee. ➤ makes key policy level decisions to facilitate project implementation. ➤ coordinate with treasury and obtain adequate counterpart funding. ➤ liaise with MOFP and other ministries on matters under their jurisdictions. ➤ approves reform plans and subprojects. ➤ takes the lead in procurement of civil works and equipment contracts (above \$1 million) in close coordination with NWSDB and Provincial Council concerned.
<ul style="list-style-type: none"> • Project Management Unit (in MPCLG) 	<ul style="list-style-type: none"> ➤ coordinates and manages overall project implementation. ➤ coordinates all project activities. ➤ serves as point of contact with ADB (including reporting requirements). ➤ submits withdrawal applications. ➤ engages PMC. ➤ engages DSCs. ➤ reviews documents submitted by SPCUs to ensure they are in order, for submission to ADB. ➤ establishes and manages the imprest account. ➤ assists the provincial councils and local authorities by implementing the capacity development programs. ➤ reviews and endorses reform plans submitted by local authorities through the SPCUs, submit them to the MPCLG for final confirmation, and monitors and assesses the performance of the implementation of reform plans. ➤ Submits audited project accounts and financial statements annually within 9 months after the end of each fiscal year.
<ul style="list-style-type: none"> • National Steering Committee (NSC) 	<ul style="list-style-type: none"> ➤ (Chair: Secretary of MPCLG; members: Senior Members of MPCLG, Ministry of Finance, Ministry of National Policies and Economic Affairs [External Resources Department, National Planning Department, Department of Project Management and Monitoring, and National Budget Department], Ministry of Health and Indigenous Medicine, National Physical Planning Department, Finance Commission, Provincial chief secretaries, Urban Development Authority, NWSDB, Central Environmental Authority, National Solid Waste Management Support Center, Presidential Task Force on CKD Prevention, provincial project directors, and project director [member secretary]). ➤ oversees the project at the national level and take necessary actions/decisions to ensure time implementation of the project. ➤ advises and guides the project on strategic and policy issues. ➤ ensures necessary coordination among different central /provincial government agencies. ➤ monitors the implementation of reform plans by local authorities and provides necessary guidance for effective implementation; ensures

Project implementation organizations	Management Roles and Responsibilities
	that successful implementation of reforms is a key factor in determining the level of budgetary support for the relevant local authority.
➤ Provincial Councils (SPCUs) (total 7)	<ul style="list-style-type: none"> ➤ ensures coherence between the provincial physical development plan and subproject proposals made by local authorities. ➤ undertakes the initial evaluation of subproject proposals submitted by local authorities before submitting them to PMU. ➤ takes the lead in procurement of civil works and equipment contracts (up to \$1 million) in close coordination with participating local authorities and/or NWSDB. ➤ monitors subproject implementation and conducts project quality and assurance, including compliance with safeguard requirements ➤ reviews and endorses reform plans submitted by local authorities, submits them to the PMU, and monitors the implementation of reform plans. ➤ Submits, through PMU, audited project accounts annually within 9 months after the end of each fiscal year.
• PSC	<ul style="list-style-type: none"> ➤ (chair: provincial chief secretary; members: Secretary of the Provincial Local Government Ministry, regional representatives of the CEA, NWSDB, UDA, and Commissioner of Local Government [member secretary]). ➤ regularly reviews the project progress and takes necessary actions on project implementation issues within its authority. ➤ enhances collaboration among relevant departments and organizations. ➤ expedites decision-making processes with an aim at achieving intended project output and outcome. ➤ monitors the implementation of reform plans by local authorities and provides necessary guidance for effective implementation.
• NWSDB	<ul style="list-style-type: none"> ➤ undertakes detailed engineering designs (including cost estimates, drawings, and bill of quantities) of water supply schemes under Output 1 (except for a few schemes that will be implemented by <i>Pradeshya Sabhas</i>). ➤ participates as a member of bid evaluation and procurement committees. ➤ provides technical inputs and supervisory support during construction of water supply schemes it has designed. ➤ operates the water supply schemes it has designed after asset transfer. ➤ appoints a project coordinator to ensure smooth coordination with PMU.
• ADB	<ul style="list-style-type: none"> ➤ supervises the overall project implementation. ➤ reviews procurement and disbursement documents and acts accordingly. ➤ undertakes project review at least twice a year.

ADB = Asian Development Bank, CEA = Central Environmental Authority, DSC = design and supervision consultant, MPCLG = Ministry of Provincial Councils Local Government, MOFP = Ministry of Finance and Planning, NWSDB = National Water Supply and Drainage Board, PMC = project management consultant, PMU = project management unit, SPCU = subproject coordination unit, UDA = Urban Development Authority.

B. Key Persons Involved in Implementation

Executing Agency

MPCLG (executing agency)

Officer's Name: Mr. H. T. Kamal Pathmasiri

Position: Secretary

Telephone: 94-11-2329673

Email address: secretary@pclg.gov.lk

Office Address: 330, Union Place, Colombo 02

Officer's Name: Mr. S.G. Chandradasa

Position: Project Director

Telephone: 94-11-269-1002

Email address: pdlgesp@gmail.com

Office Address: 191 A, J R Jayawadane Centre, 2nd Floor, Dharmapala Mawatha, Colombo 07

Asian Development Bank

South Asia Department, Urban Development and Water Division

Staff Name: Sekhar Bonu

Position: Director

Telephone No.: +63 2 632 5628

Email address: sbonu@adb.org

Sri Lanka Resident Mission (SLRM)

Staff Name: Sri Widowati

Position: Country Director

Telephone: +94 11 4 455455

Email address: swidowati@adb.org

Mission Leader

Staff Name: Jingmin Huang

Position: Principal Urban Development Specialist

Telephone No.: +63 2 632 6181

Email address: jhuang@adb.org

C. Project Organization Structure

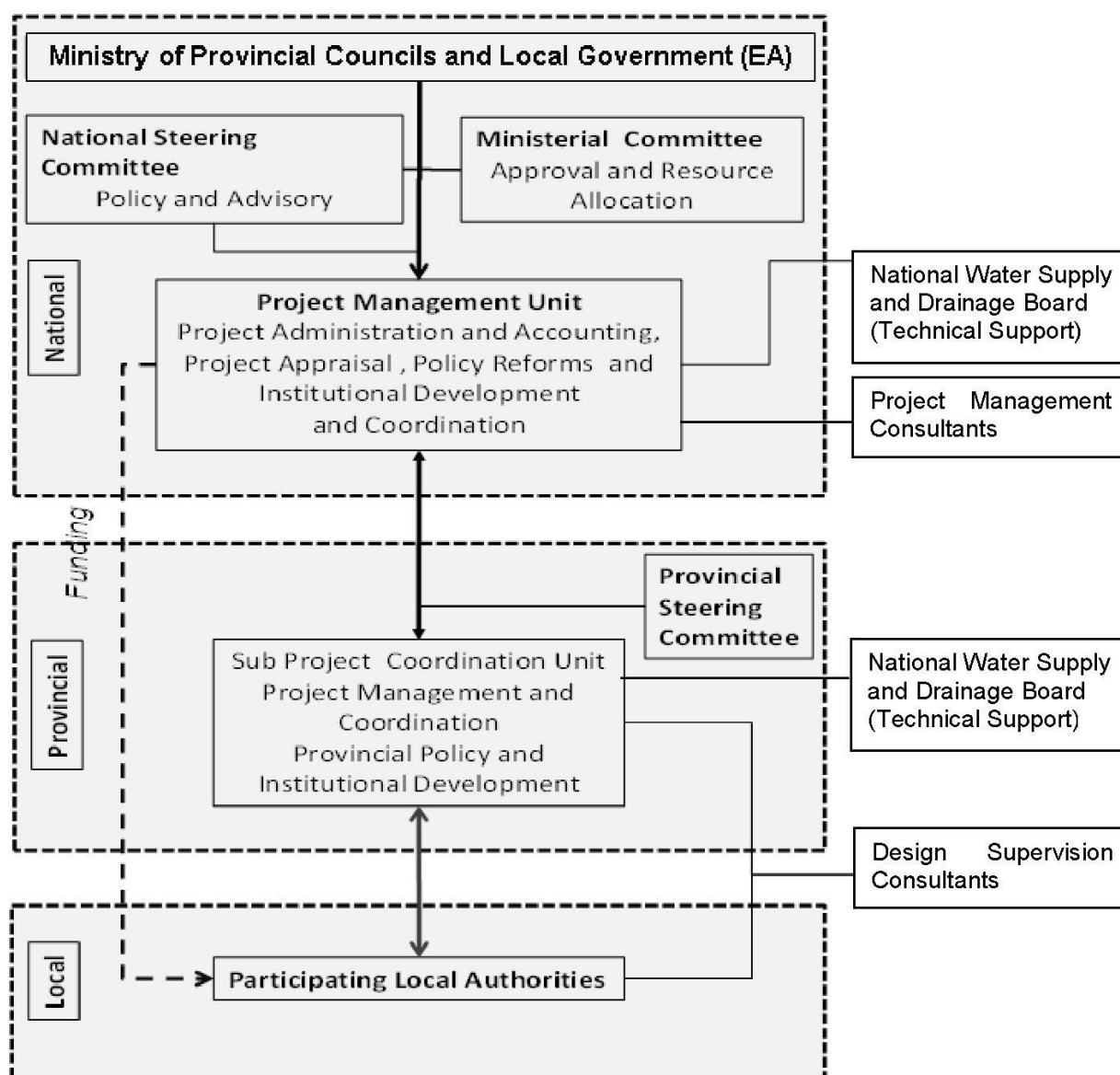
10. The implementation arrangements will follow those established and proven effective under the LGIIP with necessary changes as required to suit the current project. The PCU in the MPCLG, established under the LGIIP, is renamed PMU,⁶ and it will manage overall project implementation, supported by the project management consultant. The SPCU in each province will coordinate and supervise all the project activities including implementation of subprojects and reform plan in local authorities in their jurisdiction. At the central level, a national steering committee (NSC) will continue to be operational, with the secretary of MPCLG as the chair, Senior Officers of MPCLG and representatives of the External Resources Department, National Planning Department, Finance Commission, National Budget Department, Department of Project Management and Monitoring, National Water Supply and Drainage Board (NWSDB), Ministry of National Policies and Economic Affairs, Ministry of Health and Indigenous Medicine,

⁶ As the LGIIP included a loan portion in infrastructure financing, appraisal of subprojects and disbursement were administered by the Project Appraisal Unit (later renamed Project Management Unit) in the Local Loans and Development Fund, under the overall guidance and supervision by the PCU in the MPCLG. This structure will be streamlined in the project, with PMU in the MPCLG taking responsibility for overall project management and supervision.

Urban Development Authority (UDA), National Solid Waste Management Support Center, National Physical Planning Department, and Central Environmental Authority (CEA), Presidential Task Force on CKD Prevention, provincial chief secretaries, and provincial project directors as members, and the project director as member and the convener of the NSC. The NSC will oversee the project implementation at the national level, ensure institutional coordination, and recommend key policy decisions to ensure smooth and successful implementation of the project. In each province, a provincial steering committee (PSC), established under the LGIIP, will continue to be functional, to discuss project implementation issues, enhance collaboration among relevant departments and organizations, and expedite decision-making processes with an aim at achieving intended project output and outcome. Each PSC will be chaired by the chief secretary of the province, and members will include the Commissioner of Local Government (also as the convener of the PSC), Secretary of the Provincial Local Government Ministry, and regional representatives of the CEA, NWSDB, and UDA and provincial health director. Ministerial Committee in the MPCLG will also be formed, comprising Secretary as the chair, Additional Secretary (Projects), project director of PMU, and chief accountant of the MPCLG as members. The structure is shown in the diagram below. The government shall ensure that the implementation arrangements described above shall continue and the PMU, NSC, PSC and SPCUs shall fully and effectively carry out their respective functions in support of the project.

11. Considering the importance of closely monitoring project progress and providing clear and timely guidance for smooth implementation, monthly progress review meetings will be held at provincial level, chaired by Chief Secretary, and at central level, chaired by Additional Secretary (Projects), MPCLG. Bimonthly (once every two months) NSC meetings will be held at central level, chaired by Secretary, MPCLG.

Figure 1: Project Organization Structure



IV. COSTS AND FINANCING

12. The project is estimated to cost \$67.84 million. The government has requested a loan of \$60 million equivalent (converted to SDR later) from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement.

13. The government has requested a loan in US dollar equivalent to SDR 43,305,000 (\$ 60,000,000 equivalent) from ADB's Special Funds resources to help finance the project. The loan will have a 25 year term including the grace period of 5 years, an interest rate of 2 % per annum during the grace period and thereafter and such other terms and conditions set forth in

the loan agreement. The loan from ADB will finance (i) civil works and equipment costs, (ii) consulting services, (iii) incremental recurrent costs,⁷ and (iv) interest during construction.⁸ The government will contribute \$7.84 million equivalent to cover (i) taxes and duties, (ii) part of contingencies, and (iii) environmental and social mitigation costs, which include administration costs for environmental clearance and costs for land acquisition and resettlement. The Government will meet any financing shortfall to ensure that the project outputs are fully implemented.

**Table 4: Investment Program
(\$ million)**

Item	Amount ^a
A. Base Cost^b	
1. Water supply systems in CKD-affected areas improved	46.78
2. Local infrastructure and basic services delivery improved	11.87
3. Local government policy reform advanced and capacity strengthened	1.55
Subtotal (A)	60.19
B. Contingencies^c	5.15
C. Financing Charges During Implementation^d	2.50
Total Project Cost	67.84

^a In mid 2016 prices; Exchange rate of US\$ 1 = SLR 145 is used.

^b Includes taxes and duties of \$7.4 million to be financed from government resources by cash contribution and ADB. The amount of taxes and duties (i) is within the reasonable threshold identified during the country partnership strategy preparation process, (ii) does not represent an excessive share of the project investment plan, (iii) will only be financed in respect of ADB-financed expenditures. Financing taxes and duties is material and relevant to the success of the project.

^c Physical contingencies are computed at 2%-3% for civil works, equipment, and consulting services. Price contingencies are computed at 1.4%-1.5% on foreign exchange costs and 5.2%-6.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during construction for the ADB loan has been computed at 2.0% per annum.

Source: Asian Development Bank estimates.

Table 5: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds Resources	60.00	88.4
Government	7.84	11.6
Total	67.84	100.0

Source: Asian Development Bank estimates.

A. Cost Estimates Preparation and Revisions

14. The cost estimates have been prepared by PMU based on the detailed project reports, where available, and experience of the original project with regard to incremental recurrent costs and consultancy requirements. The cost estimate model has been prepared using Microsoft Excel, is available with the project team and PMU. The cost estimates shall be further revised during the implementation by PMU.

⁷ Transportation and insurance costs may also be financed.

⁸ Interest during construction will be capitalized and charged to ADB loan.

B. Key Assumptions

15. The following key assumptions underpin the cost estimates and financing plan:

- (i) Exchange rate: SLR145 = \$1.00 (as of March 2016)
- (ii) Price contingencies based on expected cumulative inflation over the implementation period are as follows:

Table 6: Escalation Rates for Price Contingency Calculation

Item	2016	2017	2018	2019	2020	Average
Foreign rate of price inflation	1.5%	1.4%	1.5%	1.5%	1.5%	1.5%
Domestic rate of price inflation	6.5%	5.2%	5.2%	5.2%	5.2%	5.5%

Source: Asian Development Bank estimates.

- (iii) In-kind contributions cannot be easily measured and have not been quantified.

C. Detailed Cost Estimates by Expenditure Category

**Table 7: Cost Estimates by Expenditure Category
(\$ million)**

Items	Gross		Net		Tax	
	\$	%	\$	%	\$	%
A. Investment Costs						
1 Civil Works and Equipment	52.04	100.0%	45.25	87.0%	6.79	13.0%
2 Resettlement	0.20	100.0%	0.20	100.0%	-	-
3 Project Management and Capacity Development	4.55	100.0%	3.96	86.9%	0.60	13.1%
a. Consulting Services	4.10	100.0%	3.50	85.5%	0.60	14.5%
b. Capacity Development	0.46	100.0%	0.46	100.0%	-	-
Subtotal (A)	56.79	100.0%	49.41	87.0%	7.38	13.0%
B. Recurrent Costs						
Incremental Recurrent Costs	3.40	100.0%	3.40	100.0%	-	-
Subtotal (B)	3.40	100.0%	3.40	100.0%	-	-
Total Base Cost	60.19	100.0%	52.81	87.7%	7.38	12.3%
C. Contingencies						
1 Physical Contingencies	1.58	100.0%	1.58	100.0%	-	-
2 Price Contingencies	3.57	100.0%	3.57	100.0%	-	-
Subtotal (C)	5.15	100.0%	5.15	100.0%	-	-
D. Financing Charges During Implementation						
1 Interest during Construction	2.50	100.0%	2.50	100.0%	-	-
Subtotal (D)	2.50	100.0%	2.50	100.0%	-	-
Total Project Cost	67.84	100.0%	60.46	89.1%	7.38	10.9%

Note: 1. Numbers may not sum precisely because of rounding.

2. The costs of the annual audits of the project are minor and will be borne by the government.

3. Environmental monitoring cost and capacity building costs are absorbed in items A1 and 3. Costs associated with assisting implementation of resettlement plans are included in A3. Costs associated with assisting implementation of gender action plan are included in A3. ADB will not finance land acquisition costs.

Source: Asian Development Bank Estimates.

D. Allocation and Withdrawal of Loan Proceeds

16. Allocation and withdrawal of loan proceeds is presented below.

Table 8: Allocation and Withdrawal of Loan Proceeds
(Local Government and Enhancement Sector Project - Additional Financing)

Number	Item	Total Amount Allocated for ADB Financing (SDR) (\$ in parenthesis)	Basis for Withdrawal from Loan Account
1	Civil Works and Equipment	34,825,000 (48,250,000)	87% of total expenditure claimed
2	Consulting Services	2,887,000 (4,000,000)	85% of total expenditure claimed
3	Capacity Building	476,000 (660,000)	100% of total expenditure claimed
4	Incremental Recurrent Costs	2,598,000 (3,600,000)	100% of total expenditure claimed
5	Interest Charge	1,797,000 (2,490,000)	100% of amount due
6	Unallocated	722,000 (1,000,000)	
	Total	43,305,000 (60,000,000)	

Source: Asian Development Bank estimates.

E. Detailed Cost Estimates by Financier

**Table 9: Cost Estimates by Financier
(\$ million)**

Item	ADB		Government of Sri Lanka				Total Costs
	\$	%	Tax	Non-Tax \$	Total	%	
A. Investment Costs							
1 Civil Works & Equipment	45.25	87.0%	6.79	-	6.79	13.0%	52.04
2 Resettlement	-	0.0%	-	0.20	0.20	100.0%	0.20
3 Project Management and Capacity Development	3.96	86.9%	0.60	-	0.60	13.1%	4.55
a. Consulting Services	3.50	85.5%	0.60	-	0.60	14.5%	4.10
b. Capacity Development	0.46	100.0%	-	-	-	-	0.46
Subtotal (A)	49.21	86.6%	7.38	0.20	7.58	13.4%	56.79
B. Recurrent Costs							
Incremental Administrative Costs	3.40	100.0%	-	-	-	-	3.40
Subtotal (B)	3.40	100.0%	-	-	-	-	3.40
Total Base Cost	52.61	87.4%	7.38	0.20	7.58	12.6%	60.19
C. Contingencies							
1 Physical Contingencies	1.50	95.0%	-	0.08	0.08	5.0%	1.58
2 Price Contingencies	3.39	95.0%	-	0.18	0.18	5.0%	3.57
Subtotal (C)	4.90	95.0%	-	0.26	0.26	5.0%	5.15
D. Financing Charges During Implementation							
1 Interest during Construction	2.50	100.0%	-	-	-	-	2.50
Subtotal (D)	2.50	100.0%	-	-	-	-	2.50
Total Project Cost	60.00	88.4%	7.38	0.46	7.84	11.6%	67.84

Note: 1. Numbers may not sum precisely because of rounding.

2. The costs of the annual audits of the project are minor and will be borne by the government.

3. Environmental monitoring cost and capacity building costs are absorbed in items A1 and 3. Costs associated with assisting implementation of resettlement plans are included in A3 and B. Costs associated with assisting implementation of gender action plan are included in A3. ADB will not finance land acquisition costs.

Source: Asian Development Bank Estimates.

F. Detailed Cost Estimates by Outputs and/or Components

**Table 10: Detailed Cost Estimates by Components
(\$ million)**

Items		Output 1		Output 2		Output 3 Local government policy reform advanced and capacity strengthened		Total Costs
		Water supply systems in CKD- affected areas improved		Local infrastructure and basic services delivery improved				
		\$	%	\$	%	\$	%	
A.	Investment Costs							
1	Civil Works and Equipment	42.06	80.8%	9.98	19.2%	-	0.0%	52.04
2	Resettlement	0.15	75.0%	0.05	25.0%	-	0.0%	0.20
3	Project Management and Capacity Development	2.87	63.0%	0.82	18.0%	0.87	19.0%	4.55
	a. Consulting Services	2.87	70.0%	0.82	20.0%	0.41	10.0%	4.10
	b. Capacity Development	-	-	-	0.0%	0.46	100.0%	0.46
	Subtotal (A)	45.08	79.4%	10.85	19.1%	0.87	1.5%	56.79
B.	Recurrent Costs							
	Incremental Administrative Costs	1.70	50.0%	1.02	30.0%	0.68	20.0%	3.40
	Subtotal (B)	1.70	50.0%	1.02	30.0%	0.68	20.0%	3.40
	Total Base Cost	46.78	77.7%	11.87	19.7%	1.55	2.6%	60.19
C.	Contingencies							
1	Physical Contingencies	1.35	85.1%	0.22	14.1%	0.01	0.8%	1.58
2	Price Contingencies	2.89	80.8%	0.68	19.2%	-	-	3.57
	Subtotal (C)	4.23	82.1%	0.91	17.6%	0.01	0.2%	5.15
D.	Financing Charges During Implementation							
1	Interest during Construction	2.02	80.8%	0.48	19.2%	-	-	2.50
	Subtotal (D)	2.02	80.8%	0.48	19.2%	-	-	2.50
	Total Project Cost	53.03	78.2%	13.25	19.5%	1.56	2.3%	67.84

Note: 1. Numbers may not sum precisely because of rounding.

2. The costs of the annual audits of the project are minor and will be borne by the government.

3. Environmental monitoring cost and capacity building costs are absorbed in items A1 and 3. Costs associated with assisting implementation of resettlement plans are included in A3. Costs associated with assisting implementation of gender action plan are included in A3. ADB will not finance land acquisition costs.

Source: Asian Development Bank Estimates.

G. Detailed Cost Estimates by Year**Table 11: Detailed Cost Estimates by Year
(\$ million)**

Item	Total	2016	2017	2018	2019	2020
A. Investment Costs						
1 Civil Works and Equipment	52.04	2.10	16.53	21.21	8.83	3.36
2 Resettlement	0.20	0.10	0.10	-	-	-
3 Project Management and Capacity Development	4.55	-	1.57	1.36	0.96	0.66
4 a. Consulting Services	4.10	-	1.28	1.20	0.96	0.66
b. Capacity Development	0.46	-	0.30	0.16	-	-
Subtotal (A)	56.79	2.20	18.21	22.56	9.79	4.03
B. Recurrent Costs						
Incremental Administrative Costs	3.40	-	0.95	0.95	1.02	0.48
Subtotal (B)	3.40	-	0.95	0.95	1.02	0.48
Total Base Cost	60.19	2.20	19.16	23.51	10.81	4.50
C. Contingencies						
1 Physical Contingencies	1.58	0.06	0.50	0.61	0.29	0.12
2 Price Contingencies	3.57	0.07	0.85	1.41	0.82	0.42
Subtotal (C)	5.15	0.13	1.35	2.02	1.11	0.54
D. Financing Charges						
1 Interest During Implementation	2.50	0.02	0.23	0.66	1.00	0.58
Subtotal (D)	2.50	0.02	0.23	0.66	1.00	0.58
Total Project Cost	67.84	2.36	20.74	26.19	12.93	5.62

Notes: 1. Numbers may not sum precisely because of rounding.

2. The costs of the annual audits of the project are minor and will be borne by the government.

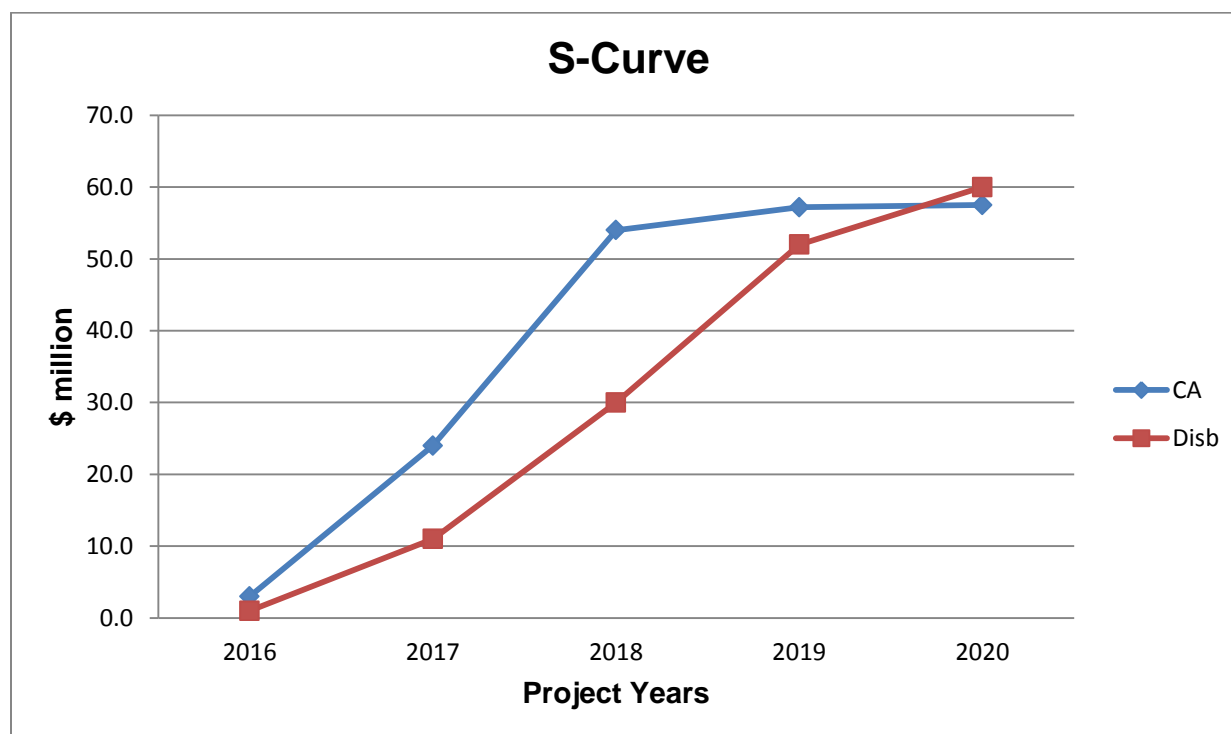
3. Environmental monitoring cost and capacity building costs are absorbed in items A1 and 3. Costs associated with assisting implementation of resettlement plans are included in A3. Costs associated with assisting implementation of gender action plan are included in A3. ADB will not finance land acquisition costs.

Source: Asian Development Bank Estimates.

H. Contract and Disbursement S-Curve

17. Contract awards and disbursement over the life of the project are projected as shown below.

Figure 2: Contract and Disbursement S-Curve



Source: Asian Development Bank Estimates.

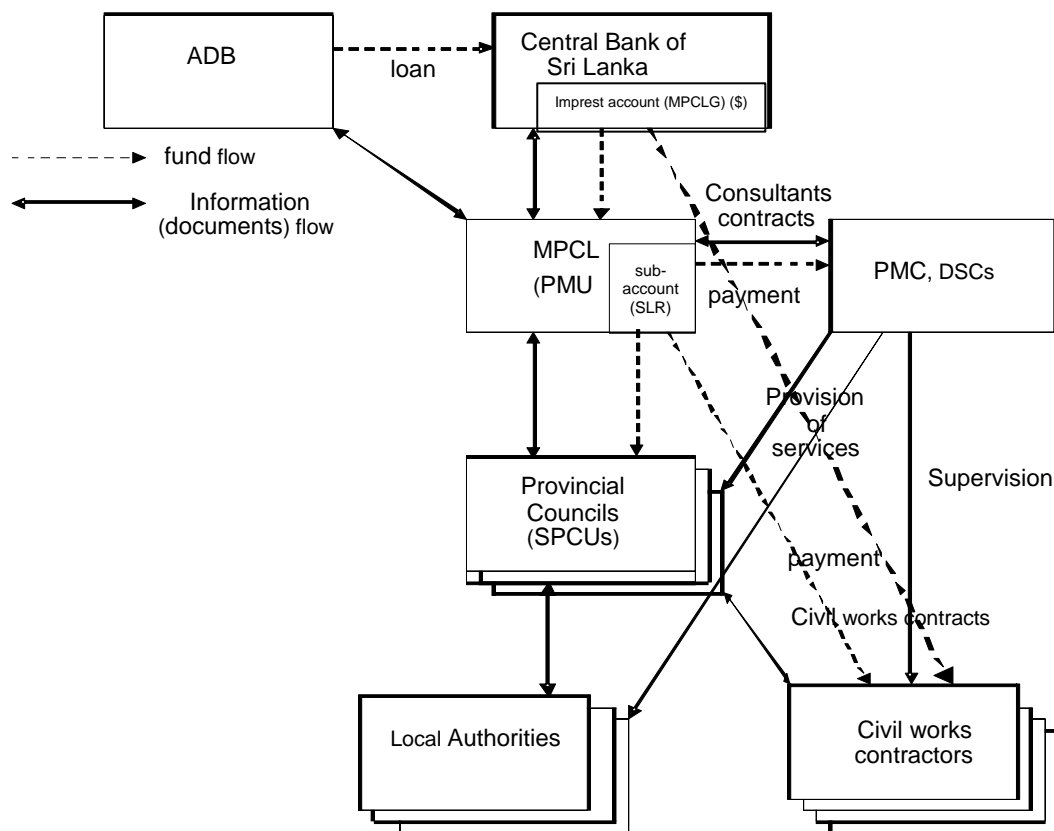
Table 12: Contract Awards and Disbursement (\$ Million)

	Contract awards					Disbursement				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2017	7.5	5.0	7.0	7.0	26.5	2.0	2.0	3.0	4.0	11.0
2018	7.0	8.0	8.0	7.0	30.0	4.0	5.0	5.0	5.0	19.0
2019	2.3	0.3	0.3	0.3	3.2	5.0	5.0	6.0	6.0	22.0
2020	0.3	0	0	0	0.3	3.0	3.0	2.0	0	8.0
Total					60.0					60.0

Source: Asian Development Bank Estimates.

I. Fund Flow Diagram

Figure 3: Fund Flow Diagram



ADB = Asian Development Bank; DSC = design and supervision consultant; MPCLG = Ministry of Provincial Councils and Local Government; PMC = project management consultant; PMU = project management unit; SLR = Sri Lankan Rupee, SPCU = Subproject Coordination Unit.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

18. The financial management assessment (FMA) was conducted in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note. The FMA considered the capacity of the Executing Agency, i.e. Ministry of Provincial Councils and Local Government (MPCLG) and the agencies involved in implementation and operation after construction, i.e. Provincial Councils, *Pradeshiya Sabhas*, and National Water Supply and Drainage Board (NWSDB), including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements in relation to administering the proposed additional financing.

19. The major risk factors identified during the assessment that need to be addressed include:

- (i) Inadequate staff with less capacity in the internal audit divisions of Provincial Councils, which will affect the quality and delay in submission of audit reports; and
- (ii) Delay in submitting accounts and limitations in the chart of accounts to accommodate project activities in Provincial Councils.

20. Despite the highlighted risks, with the ongoing actions by MPCLG in addressing the issues and with the risk mitigation measures proposed, the financial management arrangements are considered satisfactory. In line with the on-going LGESP, the proposed project will provide continuous support to all stakeholders for improving financial management. **The overall risk assessment for the project is Moderate.** The action plan under process to reduce the above risks includes;

- (i) Strengthening the internal audit divisions in FMA by recruiting new staff in Provincial Councils, and adequate training for them with the support of MPCLG and the proposed additional financing of LGESP; and
- (ii) Procure appropriate accounting package and train staff for the use of the package in Provincial Councils.

21. **Action Plans:** Following implementation units agreed to an action plan to address issues that the financial management assessment has identified.

Table 13: Action Plan

Area	Current scenario	Risk	Mitigation measures	Target date
A. internal audit division				
1. Provincial Councils	Lack of staff and knowledge on internal audit. No proper internal audit program.	This may delay the audit activities.	Strengthening the internal audit department by recruiting new staff / training to the existing staff.	Recruitment of the new staff by end of 2016
2. <i>Pradeshiya Sabhas</i>	Lack of knowledge with the staff on internal auditing.	Outcome of the internal audit to the management may not be useful.	On-going LGESP and proposed additional funding will support training PSs staff. Training of staff and advice to be obtained from LGESP.	Staff training by end of 2016
B. Reporting & Monitoring				
1. MPCLG, PMU	Inadequate budget preparation format for monitoring	Could not facilitate the monitoring as present budgets do not include targets for physical progress in line with the financial	Suitable accounting package has to be procured for better reporting and monitoring system for PMU.	December 2016

Area	Current scenario	Risk	Mitigation measures	Target date
2. PMU /SPCUs	Manual system of accounting and lack of backup procedure in the PMU.	progress targets, with procedures of monitoring mechanisms. Delay in submission of accounting and MIS reports.	Changed to computerized accounting system to facilitate a timely reporting, monitoring and backup procedure in the PMU.	December 2016

MPCLG = Ministry of Provincial Councils Local Government, PMU = project management unit, PS = Pradeshiya Sabhas

B. Disbursement

1. Disbursement Arrangements for ADB Funds

22. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.⁹ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

23. PMU will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents, and (iv) preparing and sending withdrawal applications to ADB.

24. **Imprest fund procedure.** A separate imprest account will be established and maintained by MPCLG at the Central Bank of Sri Lanka. The currency of the imprest account is the US dollar. The imprest account is to be used exclusively for ADB's share of eligible expenditures. The MPCLG who establishes the imprest account in its name is accountable and responsible for proper use of advances to the imprest account including advances to the sub-accounts.

25. The total outstanding advance to the imprest account should not exceed the estimate of ADB's share of expenditures to be paid through the imprest account for the forthcoming 6 months. The MPCLG may request for initial and additional advances to the imprest account based on an Estimate of Expenditure Sheet¹⁰ setting out the estimated expenditures to be financed through the account for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by the MPCLG in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time) when liquidating or replenishing the imprest account.

26. A separate sub-account will be established and maintained by PMU to facilitate payments in SLR. The sub-account is to be used exclusively for ADB's share of eligible expenditures. The MPCLG (PMU) should ensure that every liquidation and replenishment of the sub-account is supported by sufficient documentation in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

⁹ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning_

¹⁰ ADB. 2015. *Loan Disbursement Handbook*. 10B.

27. **Statement of expenditure (SOE) procedure.**¹¹ The SOE procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the imprest account. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

28. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is set in accordance with ADB's *Loan Disbursement Handbook*. Individual payments below this amount should be paid (i) by the MPCLG and subsequently claimed to ADB through reimbursement, or (ii) through the imprest fund procedure, unless otherwise accepted by ADB.

2. Disbursement Arrangements for Counterpart Fund

29. PMU will be responsible for (i) preparing disbursement projections, and (ii) requesting budgetary allocations for counterpart funds. The government will finance local taxes and duties under the project.

C. Accounting

30. The PMU and SPCUs will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accrual-based accounting system following the International Financial Reporting Standards and the equivalent national accounting standards. The PMU will prepare consolidated project financial statements in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices.

D. Auditing and Public Disclosure

31. The MPCLG and provincial councils will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing and/or in accordance with the government's audit regulations by an independent auditor acceptable to ADB. The audited project financial statements together with the auditor's opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by the MPCLG.

32. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable).

¹¹ SOE forms are available in Appendix 9B of ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

33. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

34. The government, MPCLG, and provincial councils have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.¹² ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

35. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.¹³ After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.¹⁴

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

36. All advance contracting and retroactive financing will be undertaken in conformity with ADB's Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The borrower, MPCLG and provincial councils have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project.

37. **Advance contracting.** Advance contracting is approved for procurement of civil works packages for the water supply systems improvement in areas affected by chronic kidney diseases (CKD).

38. **Retroactive financing.** Retroactive financing is allowed for expenditures for works, goods, and services up to 20% of the total ADB loan amount incurred prior to loan effectiveness, but not earlier than 12 months prior to the signing of the loan agreement.

¹² ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
- (iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

¹³ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

¹⁴ This type of information will generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

B. Procurement of Goods, Works, and Consulting Services

39. All procurement of goods and works will be undertaken in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).

40. International competitive bidding (ICB) procedures will be used for civil works contracts estimated to cost \$ 15 million or more, and supply contracts valued at \$2 million or higher. National competitive bidding (NCB) procedures will be used for civil works contracts worth less than \$15 million, and supply contracts worth less than \$2 million. Shopping will be used for contracts for procurement of works and equipment worth less than \$100,000. All contracts will be less than the above threshold for ICB. No contracts under the project are expected to be above the NCB threshold. Post review (sampling) will apply to contracts for works less than \$2.0 million and those for goods less than \$0.4 million.

41. Before the start of any procurement, ADB and the government will review the public procurement laws of the central and state governments to ensure consistency with ADB's Procurement Guidelines (2015, as amended from time to time).

42. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

43. All consultants will be recruited according to ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).¹⁵ The terms of reference for all consulting services are detailed in Section D.

44. An estimated 711 person-months (24 international, 687 national) of consulting services are required to (i) facilitate project management and implementation, (ii) carry out feasibility studies, detailed engineering designs, and construction supervision, and (iii) undertake validation and entry of local authorities' data with respect to tax and licenses. Two packages of consulting firms (36 person months) will be engaged using the quality- and cost-based selection (QCBS) method with a standard quality:cost ratio of 80:20 under the current loan and to be extended to Additional Financing. Another 5 Packages (4 DSC and 1 PMC) plus 4 individual consultants, 675 person-months including 651 national and 24 international) will be recruited through single source selection (SSS) method and individual consultant Selection method, since the additional financing project is continuing with the original project activities in non-stop nature and the present consultants has satisfactory performance. Four individual consultants (114 person months) will also be engaged to support project management. It is necessary to engage the same or better experts to ensure technical soundness, and such individuals will be selected through individual consultants selection.

C. Procurement Plan

45. The procurement plan is prepared in accordance with the country-specific templates prepared by the Operations Services and Financial Management Department.¹⁶ (Appendix 6)

¹⁵ Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>.

¹⁶ Procurement plan template: http://wpqr2.asiandevbank.org/LotusQuickr/cosopedia/PageLibrary48257599000668D1.nsf/h_Toc/5EA6EACF755AA652482575D9002FCB8F/?OpenDocument.

D. Consultant's Terms of Reference

46. The outline terms of reference for project management consultants and design and supervision consultants are in Appendix 7.

VII. SAFEGUARDS

47. Safeguards frameworks, specifically an environmental assessment and review framework (EARF), a resettlement framework, and an indigenous peoples planning framework (IPPF), have been prepared for the Project. The frameworks will apply to all subprojects prepared for the Project consistent with ADB's Safeguards Policy Statement, 2009.

48. **Environmental Safeguards.** The PMU will be staffed with an Environment Safeguards Manager to support the Project Director in addressing project environmental issues. The PMU will be supported by Project Management Consultants (PMC) which will include a Safeguard Expert. Consistent with the safeguards frameworks, three initial environmental examinations (IEEs) have been prepared for sample subprojects (as linked documents).

49. The Subproject Coordination Units (SPCU) will conduct environmental assessments and prepare IEEs for all category B subprojects and due diligence reports (DDRs) for category C subprojects consistent with the EARF in close collaboration with the local authorities. Each IEE includes an environmental management plan (EMP). The SPCU will be supported by DSC through their environment specialists in updating and finalizing IEEs prepared during project preparation, and IEEs and DD Rs for all other subprojects. The SPCU with assistance from DSCs will also conduct other assessments required for clearances. The SPCU will oversee disclosure and consultations, and incorporate mitigation measures in design and construction; and undertake baseline and construction-stage environmental quality monitoring. The PMU supported by PMC will monitor the implementation of EMPs. The construction contractors will implement mitigation measures in construction and follow the regulations of Central Environment Authority (CEA) on construction.

50. Implementation of mitigation and monitoring measures during the operation and maintenance (O&M) of infrastructure will be the responsibility of the NWSDB or local authorities. Government regulatory agencies such as the CEA will also monitor the environmental performance according to the government regulations. SPCU, NWSDB and/or local authorities should follow the CEA regulations on O&M.

51. **Social Safeguards (Involuntary Resettlement and Indigenous Peoples).** The PMU will be staffed with a Social Safeguards and Gender Manager to support the Project Director in addressing project social safeguards issues. The PMU will be supported by PMC which will include a Safeguard Expert. The SPCU will be staffed with a Safeguards Manager who will lead the preparation of resettlement plans and indigenous peoples plans (IPP) as required, conduct continued consultations and disclosure, and monitor implementation of social safeguards plans as required consistent with the resettlement framework and the IPPF, in close collaboration with the local authorities. The SPCU will be supported by the DSCs through its Safeguards Specialist. SPCU will prepare a resettlement plan for category B subprojects and DD Rs for category C subprojects consistent with the resettlement framework. The PMU will do overall monitoring of social safeguards implementation in the Project. Construction contractors will implement assistance measures during construction.

52. No involuntary resettlement impacts are identified in the three sample subprojects proposed. DDRs to conform the absence of IR impacts were prepared in accordance with ADB's Safeguard Policy Statement (SPS), 2009, and government laws. The DDRs will be updated/confirmed and submitted to ADB for review, approval, and disclosure prior to the starts of civil works. The PMU and SPCUs will prepare and submit the required safeguard documents for the remaining subprojects activities when the detailed designs are completed. The PMU and SPCU will also ensure that if any involuntary resettlement impacts are identified in any subproject activities during the project implementation period, the required mitigation plan will be prepared and the physically or economically affected persons will be compensated prior to displacement in components ready for construction in accordance to the Resettlement Framework prepared for the project.

53. No negative impacts on Indigenous People also envisaged in the proposed subproject activities. The recognized Sri Lanka's Indigenous People communities are mainstreamed and will receive equal benefits from the proposed subproject activities. In the events of any IP issues are identified during project implementation the required mitigation plan will be prepared in accordance with the Indigenous People Planning Framework prepared for the project.

54. The following are institutional roles and responsibilities to ensure social safeguards requirements are followed during design and construction stages.

55. The PMU will:

- (i) ensure that the Resettlement Framework provisions are adhered to and the DDRs prepared during project processing are updated based on detailed designs and the required safeguard documents (DDR or resettlement plans) will be prepared and submitted to ADB for the remaining of subprojects activities;
- (ii) screen and ensure application of safeguards requirement on Indigenous People and prepare the IPP in accordance with the IPPF if indigenous people impacts are identified during project implementation;
- (iii) engage in ongoing meaningful consultations with stakeholders and affected persons particularly through implementation of the consultation and participation;
- (iv) review, approve, prepare resettlement plans/PPs/DDR for new subprojects with support from the national social safeguards specialists of PMC;
- (v) prepare, review and monitor the corrective action plan for any unanticipated involuntary resettlement/indigenous people impacts during project implementation;
- (vi) ensure provision of timely payments to the affected persons before displacement/impact occurs in sections ready for construction;
- (vii) ensure all grievances are addressed;
- (viii) ensure that the project GRM is implemented, conduct oversight and develop effective mechanism to monitor implementation of resettlement plans/ indigenous people plan (if any) to ensure smooth project implementation; and
- (ix) review the consolidated monthly reports by PMC social safeguards specialist and submit semi-annual monitoring reports to ADB. The monitoring reports should record the progress of resettlement activities (if any), policy compliance issues/status, grievances, corrective actions taken, follow-up actions required and status of compliance with relevant loan covenants.

56. The SPCU will:

- (i) screen, assess and identify of any involuntary resettlement and indigenous peoples impacts in any of subproject activities and prepare the required

- safeguard documents (resettlement plan/IPP/DDR) in accordance with LGESP resettlement framework, ADB's Safeguards Policy Statement (SPS, 2009) based on final detailed designs with supports from DSC and/or turnkey contractors;
- (ii) Submit the final DDRs/ resettlement plans/ IPPs to PMU to be submitted to ADB for review, final approval, and disclosure prior to award of contract;
- (iii) Implement the resettlement plan/IPP in line with the relevant departments and officials;
- (iv) assist in disbursement of compensation and resettlement assistances;
- (v) hold periodical and meaningful consultations with the affected people;
- (vi) prepare resettlement plan/IPP implementation and physical and financial progress reports;
- (vii) lead the GRM implementation and record keeping at the SPCU level; and
- (viii) prepare and implement any corrective action plan, when required, consistent with the frameworks requirements.

57. **Requirements for land donation.** For the proposed project sites that are not fully owned by the government, the participating *Pradeshiya Sabha* may provide a letter from land owners regarding land donation to PMU/SPCUs to confirm the land availability of the proposed project activities. A third party independent report confirming appropriate processes for land donation needs to be attached to such letter.

58. **Grievance Redress Mechanism.** A project-specific grievance redress mechanism (GRM) has been established to receive, evaluate, and facilitate the resolution of affected person's concerns, complaints and grievances about the social and environmental performance of LGESP. The existing system of GRM is performing well. Nine cases of grievance recorded during the implementation of the original project were satisfactorily resolved. The project GRM aims to provide a time-bound and transparent mechanism to voice and resolve social and environmental concerns linked to the project. The GRM is project-specific and not intended to bypass the government's own redress process; rather it is intended to address affected people's concerns and complaints promptly, making it readily accessible to all segments of the affected people and is scaled to the risks and impacts of the project. The PMU and SPCUs will make the public aware of the GRM through public awareness campaigns. Grievances can be filed in writing using the Complaint Register and Complaint Forms or by phone with any member of the PMU or SPCU. The contact details of the respective SPCUs will serve as a main avenue for complaints and will be publicized through display on notice boards outside their offices and at construction sites. The safeguard documents made available to the public in an accessible version will include information on the GRM and will be widely disseminated throughout the corridor by the safeguards officers in the PMU and SPCUs.

- (i) **First tier of GRM.** SPCU is the first tier of GRM. The SPCU Safeguards Manager – Social and Gender will be designated as the key officer for grievance redress. Investigation of grievances will involve site visits and consultations with relevant parties (e.g., affected persons, contractors, traffic police, etc.). The Community Development Officer of the local authority, or in the absence of Community Development Officer, any officer who is given the responsibility of this, would coordinate with SPCU in redressing the grievances. Grievances will be documented and personal details (name, address, date of complaint, etc.) will be included unless anonymity is requested. A tracking number will be assigned for each grievance. Shall the grievance remain unresolved it will be escalated to the second tier.

- (ii) **Second Tier of GRM.** The SPCU Safeguards Manager – Social and Gender will activate the second tier of GRM¹⁷ by referring the unresolved issue (with written documentation) to the local Grievance Redress Committee (GRC). A hearing will be called with the GRC, if necessary, where the affected person can present his and/or her concern or issues. This local GRC will meet as necessary when there are grievances to be addressed. The local GRC will suggest corrective measures at the field level and assign clear responsibilities for implementing its decision at the earliest. The contractor will have observer status on GRC. If unsatisfied with the decision, the existence of the GRC will not impede the complainant's access to the Government's judicial or administrative remedies.
- (iii) **Third tier of GRM.** In the event that a grievance cannot be resolved directly by the SPCUs (first tier) or GRC (second tier), the affected person can seek redress through third tier at the central level GRC consisting of (i) Project Director as Chairman; and (ii) Legal Officer of MPCLG as member and Social Safeguard and Gender Officer of PMU as Member Secretary. In case the grievance is not solved at this level, then the complainant can refer the same to the court of law.

59. In the event that the established GRM cannot resolve the issue, the affected persons can also use the ADB Accountability Mechanism.¹⁸ However, before submitting a complaint to the Accountability Mechanism, it is recommended that affected persons make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, they could approach the Accountability Mechanism. The affected persons may directly contact (in writing) the Complaint Receiving Officer (CRO) at ADB headquarters or the ADB Sri Lanka Residence Mission (SLRM). The complaint can be submitted in any of the official languages of ADB's developing member countries. The ADB Accountability Mechanism information will be included in the project-relevant information to be distributed to the affected communities, as part of the project GRM.

60. **Capacity Building.** The project has developed institutional capacity building on safeguards. However since additional financing will scale up the investment activity, PMU and SPCU safeguards officers will continue to be trained and assisted by PMC's national social safeguards expert.¹⁹ The PMU - SPCU safeguard officers, will further brief/train the SPCU staff, design engineers, as well the contractors. Typical training modules would be as follows: (i) introduction and sensitization to ADB SPS on involuntary resettlement and indigenous people policies and requirements and resettlement framework/IPPF; (ii) review, updating and preparation of the resettlement plans and IPPs (as required) upon the completion of project detailed design; (iii) improved coordination within nodal departments; (iv) monitoring and reporting system, and (v) project GRM. Briefings on safeguards principles and GRM will also be conducted to the contractors upon their mobilization by SPCU safeguards officers.

61. **Civil Works Contracts.** The PMU and SPCUs will ensure that bidding and contract documents include specific provisions requiring contractors to comply with all (i) applicable labor

¹⁷ The GRC will consist of the following persons (i) Commissioner of Local Government of the Province as Chairman, (ii) Divisional Secretary of the area; (iii) Chairman of the respective *Pradeshiya Sabha*; (iv) representative of nongovernment organizations and/or community based organizations working in the area as nominated by CLG; (v) Member of clergy of *Pradeshiya* area; (vi) Chairman of Samatha mandal; (vii) Grama Niladhari of the area; (viii) NGO or representative of the affected persons; and (ix) Social Safeguard and Gender Manager—as Member Secretary of the GRC. The functions of the local GRC are as follows: (i) resolve problems quickly and provide support to affected persons arising from various issues including environmental and social issues.

¹⁸ For further information see: <http://compliance.adb.org/>.

¹⁹ Additional fact/issue based training will also be provided when the needs arise during the project implementation.

laws and core labor standards on prohibition of child labor as defined in national legislation for construction and maintenance activities, on equal pay for work of equal value regardless of gender, ethnicity or caste, and on elimination of forced labor, and (ii) the requirement to disseminate information on sexually transmitted diseases including HIV/AIDS to employees and local communities surrounding the Project sites. Relevant provisions of the gender action plan (GAP) will be shared with the contractors' responsibilities by the PMU - SPCUs and Project *Pradeshiya Sabhas*. Contractors will carry out all environmental and social mitigation and monitoring measures outlined in their contract. PMC specialists will assist the PMU and SPCUs in monitoring contractor's compliance activities.

62. **Prohibited investment activities.** Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement (2009).

VIII. GENDER AND SOCIAL DIMENSIONS

63. The summary poverty reduction and social strategy is prepared for the project. The project will focus its support to the local authorities in less developed areas where poverty is high and basic infrastructure services are lacking, and will support capacity development of financially weak local authorities for performing the mandated services more efficiently and effectively. It aims to provide direct benefits through access to quality basic infrastructure and services; and create a stronger investment climate to accelerate economic growth in backward areas. Key benefits expressed by stakeholders through focus group discussions held during project preparation include enabling small producers to access markets directly with better transportation and roads; increased time for productive labor for income generation and improved health from access to quality drinking water.

64. Subprojects will be implemented through stakeholder participation and consultations using a community-driven development approach which has proven to be successful in the previous Local Government Infrastructure Improvement Project (LGIIIP) as well as by donor-funded projects in pro-poor physical infrastructure development projects. The Consultation and Participatory Plan²⁰ includes the following key aspects: (i) community consultations and mobilization in subproject identification, formulation, design, and implementation; (ii) community participation in subprojects through active civic and community-based organizations to empower them to take over the O&M of projects after completion; (iii) training local authorities' leaders to apply participatory approaches in community activities, including common decision making and subproject monitoring and evaluation; (iv) encouraging women, youths, and other marginalized social groups to be actively involved and take leadership of subproject planning and implementation; and (v) the inclusion of indicators of social development and poverty reduction as essential to the monitoring and evaluation of the project.

65. Gender action plan is prepared for the project, as shown in the Table 14 below. It has the following three major activities: (i) making local authorities gender-responsive and socially inclusive; (ii) creating an environment conducive to the representation of and participation by women and other socially marginalized groups in the project scope; and (iii) addressing needs of women and socially marginalized groups in selecting infrastructure subprojects. The PMU and SPCUs will ensure the implementation of the action plan. In order to address the affordability issues, poor and vulnerable families are allowed to pay water connection charges in installments.

²⁰ The consultation and participation plan is in Appendix 8.

Table 14: Gender Action Plan

Activity/Measures		Indicators/Targets	Responsibility
Output 1: Water supply systems in CKD affected areas improved.			
<i>Ensure gender responsive consultations are held in implementation of identified water projects in CKD affected areas.</i>			
1.	Make the community consultation and/or facilitation process gender sensitive and socially inclusive.	Ensure at least 40% women's participation in consultation processes of CKD water supply schemes and in public consultations for each subproject. (Where possible, consultation times should be gender responsive and sensitive to when women are available for consultations.)	SPCUs/DSCs
2.	Increase awareness on preventive measures in respect of CKD diseases.	At least 50% participants in awareness and/or training programs on preventive measures of CKD conducted through/by existing CBOs and/or relevant agencies are women. Ensure that 50% women potential trainers are identified from the above mentioned training programs and trained to continue awareness and/or training to their communities (two training programs for the trainers). Male and female (50%) trainers are assisted in planning further training programs. Male and female trainers are trained on water quality parameters and encouraged to verify water quality reports at least once in 3 months.	SPCUs SPCUs SPCUs/DSCs
3.	Conduct sample surveys before and after the subprojects on women's time use in providing safe drinking water and benefits of subprojects	Women benefit from a reduction in time spent to provide safe drinking water and water for domestic consumption.	SPCUs/DSCs
4.	Include Social and Gender responsive provisions in bidding documents for water supply subprojects.	In all (100%) contracts women are given equal pay for work of equal value. This provision will be included in the contractual agreement	PMU/SPCU/Contractors (to comply)
5.	Provide women with access to safe drinking water supply	90,000 women in CKD-affected areas benefit from the project.	PMU/SPCU/DSCs
Output 2: Local infrastructure and basic service delivery improved.			
<i>(a) Addressing needs and priorities of women and socially marginalized groups in selecting infrastructure subprojects of: (i) water supply and sanitation (including sewerage), (ii) roads and bridges, (iii) solid waste management, (iv) public health-care facilities, and (v) other infrastructure and facilities including public markets.</i>			
1.	Make the community consultation and/or	All participating local authorities conduct socially inclusive and gender responsive community consultations.	PMU/SPCU/local authorities

Activity/Measures		Indicators/Targets	Responsibility
	facilitation process gender sensitive and socially inclusive.	Ensure that there is 40% female participation in community consultation meetings in each subproject. In 95% of the participating local authorities, the Planning Committee has a female representative (baseline: 75%). Mid-wives and/or Public Health Nurses, and Public Health Inspectors are consulted as key informants to identify subprojects which are gender-responsive and socially inclusive. The disabled, widows, female-heads of households, elderly women, women in very poor families, and women from ethnic minorities are included in the CCMs to obtain their views and address their needs.	
2.	Take affirmative action to ensure that the local authorities address women's needs in infrastructure and public services.	Subprojects that particularly benefit women (such as maternity and health related subprojects) are implemented by participating local authorities.	PMU/SPCU/local authorities
3.	Ensure wage parity during the implementation of infrastructure subprojects.	All contracts (100%) provide women with equal pay for work of equal value. This provision is included in the contractual agreements.	PMU/SPCU
4.	Gender-sensitive facilities to be constructed,	All (100%) public facilities e.g. health care centers, public markets etc. financed by the project have separate toilets for women, men and the disabled.	PMU/SPCU
5.	Provide women with access to safe drinking water supply	14,000 women benefit from the project.	PMU/SPCU/DSCs
(b) Making local authorities gender-responsive and socially inclusive.			
1.	Conducting gender sensitization and training programs for local authority members and technical and management staff.	50% of relevant local authority personnel (local authority chairman, members and technical staff) of participating local authorities have participated in gender sensitization programs. A sex- disaggregated database on project activities is established and maintained by all participating local authorities.	PMU and SPCU (gender and social safeguards managers)/DSCs
Output 3: Local government policy reform advanced and capacity strengthened. Creating an environment conducive to the representation of and participation by women and other socially marginalized groups in the project scope.			
1.	Employing a well-qualified gender and social development specialist.	A social safeguard and gender manager is employed in the PMU and SPCUs during the project period. (Target: gender and social safeguards manager in PMU and all SPCUs).	PMU/SPCUs
2.	Creating and maintaining	Physical facilities provided for men and women in the project office are	PMU (Safeguards)

Activity/Measures		Indicators/Targets	Responsibility
	gender sensitive and women friendly environment in the project offices.	appropriate and equitable.	Specialist)/SPCU (gender and social safeguards manager)
		All the project staff have participated in gender and social inclusion training workshops. The staff is made aware of ADB and government policies and provisions on gender equality.	
3.	Gender sensitive monitoring and evaluation system.	Sex-disaggregated data pertaining to project activities and results are appropriately and duly reflected in the PPMS. The progress in gender mainstreaming (and social inclusion) is reported in the project quarterly progress reports using the Gender Action Plan (GAP) Monitoring Matrix.	PMU/PMC/SPCU/DSC

ADB = Asian Development Bank, CBO = community-based organization, CCM= community consultative meeting, CKD = chronic kidney disease, DSC = design and supervision consultants, GAP = Gender Action Plan, PMC = project management consultant, PMU = project management unit, PPMS = project performance management system, SPCU = subproject coordination unit.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

66. The Design Monitoring Framework (DMF) has been provided in Appendix 1.

B. Monitoring

67. **Project performance monitoring** Within 6 months of loan effectiveness, the PMU will establish a project performance management system using the targets, indicators, assumptions, and risks in the DMF. The baseline data corresponding to indicators and targets set out in the DMF will be gathered during the detailed design stage, disaggregated by income levels, sex, and ethnicity, as appropriate. After the initial baseline survey, the PMU will conduct monitoring using the same indicators and submit the reports to ADB through quarterly progress reports throughout project implementation. Results of a comprehensive completion survey will be included in the project completion report. These quarterly reports will provide information necessary to update ADB's project performance reporting system.²¹

68. **Compliance monitoring.** Status of compliance with loan covenants—policy, legal, financial, economic, environmental, and others—will be reviewed at each ADB review mission. All non-compliance issues, if any, will be updated in quarterly progress reports together with remedial actions.

69. **Safeguards monitoring.** The PMU with assistance from PMC will consolidate periodic environmental and social monitoring reports from SPCUs (assisted by DSCs) and submit semi-annual monitoring reports to ADB (environmental and social). Safeguards Managers in SPCUs will supervise design and construction works and facilitate preparation of all safeguard documents. Details on environmental and social safeguards monitoring are in safeguards frameworks (environmental assessment and review framework [EARF]; indigenous peoples planning framework [IPPF]; and resettlement framework), which are available as linked documents to the RRP.

70. **Gender and social dimensions monitoring.** The PMU with assistance from PMC will consolidate in the quarterly progress reports the status of the implementation of gender action plan with inputs from SPCUs (assisted by DSCs). This will be discussed at each ADB review mission.

C. Evaluation

71. The government and ADB will jointly review the Project at least twice a year. This includes (i) the performance of the PMU, SPCUs, participating local authorities, consultants, and contractors; (ii) compliance with grant eligibility mechanism and subprojects selection criteria; (iii) physical progress of subprojects; (iv) performance of implementation of reform plans; (v) effectiveness of capacity building programs for local authorities and progress of reform agenda; (vi) inclusion of women and vulnerable groups including the poor in subproject planning and implementation; (vii) compliance with loan covenants; and (viii) assessment of subproject sustainability in technical and financial terms. In addition to the regular reviews, the

²¹ ADB's project performance reporting system is available at:
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>.

government and ADB will undertake a comprehensive midterm review in the third year of Project implementation to identify problems and constraints encountered and suggest measures to address them. Specific items to be reviewed will include (i) appropriateness of scope, design, implementation arrangements, and schedule of activities; (ii) assessment of implementation pace and achievements against project indicators; (iii) effectiveness of capacity building programs for local authorities; (iv) compliance with safeguard measures; (v) extent to which the gender action plan is being followed; (vi) achievement of reforms in local authorities; (vii) needs for additional support for O&M of the facilities established under the project to ensure operational sustainability; (viii) lessons learned, good practices, and potential for replication; and (ix) changes recommended. Within 6 months of physical completion of the project, the MPCLG will submit a project completion report to ADB.²²

D. Reporting

72. The MPCLG will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for the next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure that projects will continue to be both viable and sustainable, project accounts and the executing agency audited financial statement together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

73. The Project intends to maximize transparency by communicating relevant project information to stakeholders in various means. The PMU will set up a website within 6 months from the loan effectiveness and disclose all key project-related information, including the scope, cost, and financial and institutional arrangements of the Project, project safeguard reports including the IEE and resettlement plans, procurement plan, and project progress. The website will include information on Project procurement including the list of participating bidders, name of each winning bidder, basic details on bidding procedures adopted, the value of each contract awarded, and the list and value of goods/services procured and the intended utilization of Loan proceeds under each contract being awarded. The website shall also include general Project information, Project progress, and contact details for the Executing Agency's counterpart staff in Sri Lankan and English languages, and shall link to ADB's Integrity Unit website at <http://www.adb.org/Integrity/complaint.asp> for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project and/or Project activities. The Borrower shall cause the Executing Agency to ensure that all Project staff are fully aware of ADB's procedures, including, but not limited to, procedures for implementation, procurement, use of consultants, disbursements, reporting, monitoring, and prevention of fraud and corruption.

74. Each SPCU and participating local authorities will also fully disclose relevant project-related information—such as subproject name and cost, information on bidding, contractor's name, contract price, progress of construction—through public briefings and bulletin boards.

²² Project completion report format is available at:
<http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

X. ANTICORRUPTION POLICY

75. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.²³ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.²⁴

76. To support these efforts, relevant provisions are included in the loan agreement and the bidding documents for the project. The Borrower shall ensure that all representation letters from the project auditor are submitted to ADB and any outstanding issues attended to within one (1) month of receipt by the MPCLG, unless otherwise agreed with ADB.

77. Furthermore, the Project intends to maximize transparency, as described in Section IX E above. Full information disclosure and participatory monitoring at both the central and the local levels are expected to be effective in reducing the risk of corruption and improving governance at central and local levels.

78. Within 6 months of project effectiveness, the PMU will finalize a grievance redress mechanism, acceptable to ADB, and ensure that there is an appointed officer, with the requisite capacity, in each SPCU to receive, resolve or act upon, both independently and expeditiously, complaints or grievances or reports from stakeholders on misuse of funds and other irregularities relating to the Project or the specific subprojects in each provincial council, including but not limited to grievances due to resettlement and environmental issues. Each SPCU shall inform stakeholders of their right to submit complaints or grievances relating to the Project.

XI. ACCOUNTABILITY MECHANISM

79. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.²⁵

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

80. The draft Project Administration Manual (PAM) has been prepared at the loan fact-finding in March 2016.

²³ Anticorruption Policy: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

²⁴ ADB's Integrity Office web site: <http://www.adb.org/integrity/unit.asp>.

²⁵ Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.

Appendix 1: Revised Design and Monitoring Framework

Impact the Project is Aligned with Current project Local authorities' capacity financially and technically strengthened in less-developed areas of seven provinces in Sri Lanka (defined by project). Overall project Unchanged			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Current project Improved local infrastructure and services delivered effectively by local authorities in less-developed areas of seven provinces in Sri Lanka.	Current project By the end of the project (2016): a. Travel time to markets is reduced by 20% on average in local authorities implementing road subprojects (2011 baseline: 27 minutes in the sample local authorities). ^a b. Population served by piped water systems increased by 20% on average in local authorities implementing water supply subprojects (2011 baseline: 27% in sample local authorities). ^a c. New systems and processes introduced for taxation, licensing, and approval as a result of business process reengineering (2011 baseline: old and inefficient systems). d. Final accounts of participating local authorities are audited within 6 months of the end of fiscal year (2011 baseline: delay in preparation of final accounts and audits).	a. Project-specific evaluation survey at the completion of each road subproject b. Project-specific evaluation survey at the completion of each water supply subproject c. Project quarterly progress reports and one completion report issued by MPCLG d. Annual audit reports issued by the Auditor General's Department	Audits by the Auditor General's Department are delayed.
Overall project Improved local infrastructure and services delivered effectively by local authorities or the	Overall project By the end of the project (2020): a. to d. Unchanged e. Drinking water that meets	e. Project quarterly	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
National Water Supply and Drainage Board in less-developed areas of seven provinces in Sri Lanka.	quality standards benefited 200,000 people (100,000 women) in CKD-affected areas.	progress reports and one completion report for each subproject and total project issued by MPCLG	
Outputs Output 1 Current project None	Current project None	For all output indicators: Project quarterly progress reports and one completion report for each subproject and total project issued by MPCLG	
Overall project 1. Water supply systems in CKD-affected areas improved ^b	Overall project By the end of the project (2019): 1a. 40,000 new household connections (including 90,000 women) provided in CKD-affected areas. (Baseline: 0) 1b. 800 km of water distribution network laid. (Baseline: 0)		
Output 2 Current project 2. Local infrastructure and basic services delivery improved	Current project By the end of the project (2016): 2a. Improved water supply schemes in 10 local authorities (6,000 households newly served). 2b. Improved solid waste management systems, including composting in 40 local authorities. 2c. Constructed or improved 15 km of local roads. 2d. Constructed or improved 25 public primary health		

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Overall project Unchanged</p>	<p>care facilities.</p> <p>2e. Constructed or improved 40 public markets</p> <p>2f. Local authorities have implemented subprojects particularly benefiting women, such as maternity centers.</p> <p>2g. Public facilities financed by the project have separate toilets for men and women.</p> <p>2h. Women representation in the planning committee of local authorities in 50% of participating local authorities.</p> <p>Overall project By the end of the project (2019):</p> <p>2a. Improved water supply schemes in 10 local authorities (6,000 households including 14,000 women newly served).</p> <p>2b. Improved solid waste management systems, including composting in 50 local authorities.</p> <p>2c. Constructed or improved 25 km of local roads.</p> <p>2d. Constructed or improved 30 public primary health care facilities.</p> <p>2e. Constructed or improved 45 public markets.</p> <p>2f. Unchanged.</p> <p>2g. Unchanged.</p> <p>2h. Women representation in the planning committee of</p>		

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	local authorities in 95% of participating local authorities (2016 baseline: 75%).		
Output 3 Current project 3. Local government policy reform advanced and capacity strengthened	Current project By the end of the project (2016): 3a. Bylaws and regulations are prepared in accordance with the amendments of acts and ordinances related to the local government (2011 baseline: No bylaws and regulations). 3b. Bottlenecks in current tax, licensing, and approval systems of local governments are analyzed and necessary improvements proposed (2011 baseline: old system). 3c. Information technology system is developed, including the updating and computerization of databases on taxes, licenses, and financial accounting; and an asset management system in select local authorities in seven provinces (2011 baseline: manual system).		Amendments to acts and ordinances governing the local government are not approved as planned and in a timely manner.
Overall project Unchanged	Overall project By the end of the project (2019): 3a. Unchanged. 3b. Bottlenecks in current tax, licensing, and approval systems of local governments are analyzed and training provided to 140 local authorities (2011 baseline: old system; no local authorities trained).		

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>3c. Unchanged.</p> <p>3d. 80% of actions in reform plans implemented in 75% of the project local authorities (2016 baseline: No reform plans in additional local authorities).</p> <p>3e. Sex-disaggregated data pertaining to project activities are collected and reflected in the project performance management system (baseline: No sex-disaggregated data collected).</p>		<p>Change in leadership in local authorities may derail reform plan implementation.</p>
<p>Key Activities with Milestones</p> <ol style="list-style-type: none"> 1. Water supply systems in CKD-affected areas improved. <ol style="list-style-type: none"> 1.1 Screening and selection of subprojects (Q1 2016) (changed). 1.2 Subproject financial and economic analysis and safeguard reports (Q4 2016) (changed). 1.3 Complete detailed design and bid documents (Q4 2016) (changed). 1.4 Bidding and contract award (Q2 2017) (changed). 1.5 Complete construction works (Q4 2019) (changed). 2. Local infrastructure and basic services delivery improved. <ol style="list-style-type: none"> 2.1 Participating new local authorities make a reform plan and identify priority subprojects (Q2 2016) (changed). 2.2 SPCUs and PMU review reform plans and subprojects (Q3 2016) (changed). 2.3 Public consultation, identification and finalization of new projects (Q2 2016) (unchanged). 2.4 Review and approval of subprojects by SPCU/PMU (Q3 2016) (unchanged). 2.5 Undertake feasibility and safeguard analysis (Q4 2016) (unchanged). 2.6 Complete detailed design and bid documents (Q4 2016) (changed). 2.7 Bidding and award of all works (Q2 2017) (changed). 2.8 Complete construction works (Q4 2018) (changed). 3. Local government policy reform advanced and capacity strengthened. <ol style="list-style-type: none"> 3.1 Support reform plan implementation (Q2 2019) (changed). 3.2 Develop and install information technology system (Q2 2019) (changed). 3.3 Implement capacity development programs for MPCLG, provincial councils, and local authorities (Q2 2019) (changed). <p>Project Management Activities PMU and SPCUs fully staffed. Engaged consultants and contractors. Implemented gender action plan. Undertaken project-specific evaluation survey.</p>			

Inputs	
Loan	Technical Assistance Grant
ADB	ADB
\$52.37 million (current)	\$540,000 (current)
\$60 million (additional)	\$0 (additional)
\$112.37 million (overall)	\$540,000 (overall)
Government	Government
\$8.63 million (current)	\$100,000 (current)
\$7.84 million (additional)	\$0 (additional)
\$16.47 million (overall)	\$100,000 (overall)
Assumptions for Partner Financing	
Current project	
Not applicable	
Overall project	
Unchanged	

ADB = Asian Development Bank, CKD = chronic kidney disease, km = kilometer, MPCLG = Ministry of Provincial Councils and Local Government, PMU = project management unit, Q = quarter, SPCU = subproject coordination unit.

^a Baseline survey of 1,000 households in 10 local authorities were undertaken under the current project preparatory technical assistance. ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Local Government Enhancement Sector Project*. Manila (TA 7877).

^b New output 1 scales up activities that are under output 2 (performance indicator 2[a]) of the current project.

Source: Asian Development Bank.

Appendix 2: List of Local Authorities of the Project (Outputs 1, 2 and 3)

A. Local Authorities of Output 1

SI No	Name of the Pradeshiya Sabha	District
North Central Province		
1.	Padaviya PS	Anuradhapura
2.	Kebiththogolowa PS	Anuradhapura
3.	Kaurawalagaswewa PS	Puttalam

B. Local Authorities of Output 2

SI No	Name of the Pradeshiya Sabha	District
Central Province		
1.	Kundasale PS	Kandy
2.	Udunuwara PS	Kandy
3.	Matale PS	Matale
4.	Pallepola PS	Matale
5.	Nuwareliya PS	Nuwaraeliya
North Central Province		
	LGIIP and LGESP together covers all Pradeshiya Sabhas under the Province	
North Western Province		
6.	Kurunagela PS	Kurunagela
7.	Naramalla PS	Kurunagela
8.	Polgahawela PS	Kurunagela
9.	Nattandiya PS	Puttalam
10.	Puttalam PS	Puttalam
Sabaragamuwa Province		
	LGIIP and LGESP together covers all Pradeshiya Sabhas under the Province	
Southern Province		
11.	Ambalangoda PS	Galle
12.	Baddegama PS	Galle
13.	Balapitiya PS	Galle
14.	Bentota PS	Galle
15.	Habaraduwa PS	Galle
16.	Rathgama PS	Galle
17.	Matara PS	Matara
18.	Weligama PS	Matara
19.	Tangalle PS	Hambantota
UVA Province		
20.	Passara PS	Badulla
Western Province		
21.	Homogama PS	Colombo
22.	JaEla PS	Gampaha
23.	Katana PS	Gampaha
24.	Kelaniya PS	Gampaha
25.	Mahara PS	Gampaha
26.	Wattala PS	Gampaha

SI No	Name of the Pradeshiya Sabha	District
27.	Beruwela PS	Kaluthara
28.	Kalutara PS	Kaluthara
29.	Panadura PS	Kaluthara

C. Local Authorities of Output 3

1. All local authorities supported under outputs 1 and 2 above.
2. Local Authorities implementing water supply scheme in CKD areas under the original project

SI No.	Name of the Pradeshiya Sabha	District
UVA Province		
1.	Mahiyangana PS	Badulla
North Western		
2.	Mahawa PS	Kurunegara
3.	Mihintale PS	Anuradhapura
North Central		
4.	Thamnakaduwa PS	Polonnaruwa
5.	Hingurakkgodra PS	Polonnaruwa

3. 108 LAs supported under the original project listed below

Province	Local Authorities (Pradeshiya Sabhas)	District	Total Number of Local Authorities
Western Province	Walallavita	Kalutara	10
	Palindanuwara	Kalutara	
	Madurawala	Kalutara	
	Agalawatta	Kalutara	
	Diulapitiya	Gampaha	
	Dodangoda	Kalutara	
	Meerigama	Gampaha	
	Mathugama	Kalutara	
	Seethawaka	Colombo	
	Biyagama	Gampaha	
North Central Province	Padaviya	Anuradhapura	13
	Kebethigollawa	Anuradhapura	
	Horowapathana	Anuradhapura	
	Thirappane	Anuradhapura	
	Welikanda	Polonnaruwa	
	Galenbindunuwewa	Anuradhapura	
	Dimbulagala	Polonnaruwa	
	Ipalogama	Anuradhapura	
	Galnewa	Anuradhapura	
	Lankapura	Polonnaruwa	
	Palagola	Anuradhapura	
	Rambewa	Anuradhapura	
	Rajanganaya	Anuradhapura	
Uva Province	Ridimaliyadda	Badulla	16
	Meegahakiula	Badulla	
	Madulla	Monaragala	
	Kandeketiya	Badulla	

Province	Local Authorities (Pradeshiya Sabhas)	District	Total Number of Local Authorities
	Haldummulla	Badulla	
	Badalkumbura	Monaragala	
	Uva-Paranagama	Badulla	
	Thanamalwila	Monaragala	
	Wallawaya	Monaragala	
	Kataragama	Monaragala	
	Medagama	Monaragala	
	Siyamabalanduwa	Monaragala	
	Bandarawela	Badulla	
	Lunugala	Badulla	
	Haputale	Badulla	
	Badulla	Badulla	
North Western Province	Alawwa	Kurunegala	13
	Arachchikattuwa	Puttalam	
	Kalpitiya	Puttalam	
	Polpithigama	Kurunegala	
	Ridigama	Kurunegala	
	Wanathawilluwa	Puttalam	
	Nawagattegama	Puttalam	
	Giribawa	Kurunegala	
	Kuliyapitiya	Kurunegala	
	Udubaddawa	Kurunegala	
	Bingiriya	Kurunegala	
	Chillaw	Puttalam	
	Mawathagama	Kurunegala	
Sabaragamuwa Province	Ayagama	Ratnapura	16
	Deraniyagala	Kegalla	
	Bulathkohupitiya	Kegalla	
	Dehiowita	Kegalla	
	Imbulpe	Ratnapura	
	Kolonna	Ratnapura	
	Embilipitiya	Ratnapura	
	Aranayaka	Kegalla	
	Pelmadulla	Ratnapura	
	Yatiantota	Kegalla	
	Balangoda	Ratnapura	
	Galigamuwa	Kegalla	
	Ruwanwella	Kegalla	
	Kahawatta	Ratnapura	
	Kegalle	Kegalla	
	Ratnapura	Ratnapura	
Southern Province	Athuraliya	Matara	22
	Neluwa	Galle	
	Kamburupitiya	Matara	
	Thihagoda	Matara	
	Pitabeddara	Matara	
	Mulatiyana	Matara	
	Suriyawewa	Hambantota	
	Hakmana	Matara	
	Karandeniya	Galle	
	Welivitiya Divitura	Galle	
	Imaduwa	Galle	

Province	Local Authorities (Pradeshiya Sabhas)	District	Total Number of Local Authorities
	Katuwana	Hambantota	
	Lunugamvehara	Hambantota	
	Pasgoda	Matara	
	Akuressa	Matara	
	Nagoda	Galle	
	Hambantota	Hambantota	
	Tissamaharama	Hambantota	
	Malimbada	Matara	
	Kirinda Puhulwella	Matara	
	Kotapola	Matara	
	Thawalama	Galle	
Central Province	Laggala-Pallegama	Matale	18
	Nuwara-Eliya	Walapane	
	Minipe	Kandy	
	Ududumbara	Kandy	
	Yatawaththa	Matale	
	Panwila	Kandy	
	Ambanganga Korale	Matale	
	Thumpane	Kandy	
	Naula	Matale	
	Wilgamuwa	Matale	
	Pathahewahata	Kandy	
	Uda Palatha	Kandy	
	Ambagamuwa	Nuwara-Eliya	
	Medadumbara	Kandy	
	Harispattuwa	Kandy	
	Dambulla	Matale	
	Rattota	Matale	
	Gangawata Korale	Kandy	

Appendix 3: Local Authority and Subproject Selection Criteria

A. Eligible Local Authority and Subprojects

1. Unless otherwise agreed by Asian Development Bank (ADB), only local authorities listed in Appendix 2 will be eligible for financing under output 2 of the project provided that such local authority has prepared and adopted a reform plan and such reform plan has been reviewed and confirmed by the project management unit (PMU) and approved by the Ministerial Committee. The same requirement will apply to local authorities that will implement, operate and manage water supply subprojects under output 1.
2. Under output 1 of the project, water supply improvement subprojects in areas affected by chronic kidney diseases in Central, North Central, North Western, and Uva Provinces are eligible.

B. Eligible Sectors under Output 2

3. The eligible subsectors under output 2 of the project are as follows:
 - (i) Environmental infrastructure—water supply and sanitation (including sewerage), drainage, and solid waste management;
 - (ii) Economic infrastructure—roads and bridges, including suspension bridges, bus stands;
 - (iii) Public health infrastructure—maternity, health-care, and child-care centers; and
 - (iv) Other local authority facilities—public markets, libraries, information technology training centers, three wheeler parks.
4. Subprojects not listed in the above are generally not accepted, but may be approved under special circumstances if the needs are clearly justified.

C. Subproject Selection and Approval Process under Output 2

5. The subproject selection will be an outcome of an inclusive planning process involving government, non-governmental and community stakeholders. Selection of subprojects will be made by the eligible local authorities through a council resolution.
6. The resolution will need to indicate:
 - (i) Priority list of subprojects with a concept plan;
 - (ii) Commitment to implement the reform plan with the final actions agreed upon;
 - (iii) Initial forecast of local authority finances; and
 - (iv) Request to the PMU for technical assistance required, if any, for preparation of feasibility studies and/or detailed design of subprojects (including safeguard documents).
7. The request from the local authorities comprising the four items mentioned above will be first submitted to the subproject coordination unit (SPCU) in their respective province for review. The SPCU will review and assess the request, and submit its confirmation through Commissioner of Local Government, to the PMU in the Ministry of Provincial Councils and Local Government for further review. Upon receipt of the request, the PMU will review the request in accordance with the agreed criteria. Staff of the PMU and/or SPCU will visit respective local authority to see the local conditions and confirm the appropriateness of the plan before completing the review. The PMU will provide its recommendation to the Ministerial committee in

the Ministry of Provincial Councils and Local Government chaired by Secretary, which is the final decision-making body. Only after the reform plan is reviewed and confirmed by the Ministerial committee, financial assistance for implementation of subprojects will be commenced. This requirement will also apply to local authorities implementing water supply subprojects under output 1.

8. When water supply and sewerage subprojects are included in the priority list of local authorities under output 2, the PMU will initially screen the request to see whether the concerned local authority is capable to implement, operate and manage such subprojects, and submit its recommendation to the Ministerial committee. If the Ministerial committee decides that the concerned local authority is not capable of implementing the subprojects due to technical or other reasons, such subprojects will be dropped from the project.

9. Once the SPCUs find the feasibility studies and/or detailed engineering design of subprojects satisfactory, they will send a request to the respective local authority to endorse the project through council resolution. Once it is issued, the SPCU will request the PMU for final endorsement. When the detailed engineering design is prepared, the SPCU will send the entire set of documents to the PMU for the endorsement of the Ministerial committee.

D. General Subproject Selection Criteria

10. Subprojects will be identified on the basis of needs of the local communities, financial, economic, technical, environmental, and social feasibility and sustainability, and relevant government policy and strategy. The selection of subprojects will be made in terms of the following general criteria; the SPCUs will screen the subprojects and prepare a checklist to ensure the conformity with the criteria (both general and sector-specific) at the level of both feasibility studies and detailed designs, which will be confirmed and endorsed by the PMU. Only those subprojects that meet all the criteria set out below as a result of the detailed design will proceed to implementation. The same criteria will apply to water supply subprojects implemented under output 2. The financial capacity of local authorities is not relevant when subprojects under output 1 are implemented by provincial councils and operated by National Water Supply and Drainage Board.

- (i) **Priority requirement of community and link to development plan.** The subproject should be in line with the priority requirements of the community at large and should address the basic infrastructure requirements of the local authority. This will be ascertained through on-site participatory and gender-inclusive consultations with communities in accordance with the consultation and participation plan developed for the project, and may use participatory tools such as participatory rapid appraisal and participatory learning and action, which allow rapid assessment of community needs and priorities. The proposed subproject should be in conformity with a medium-term development plan and vision statement (if available), and/or regional/provincial development plans, as well as local development goals (if available). Subproject integration with local and regional plans (if available) will ensure a balanced sustainable development of the region.
- (ii) **Technical feasibility of the subproject.** The subproject must be technically feasible and the least-cost solution alternative, taking into consideration the need to meet reasonable increases in demand. The equipment, material, and other resources as required can be acquired in or transferred to, the subproject location without unreasonable obstruction or delay.

- (iii) **Financial state of the local authorities.** The overall financial health of the local authorities will be assessed in terms of own revenue as a proportion of total revenue, and trend of dependence on provincial/national government. Revenue-generating capacity of existing projects, expenditures as a proportion of expenditure norms and other indicators of financial strength will be used to ensure sustainability of the proposed subproject.
- (iv) **Quality control.** Quality control in terms of quality of work and processes as well as quality of proposed output will be key criteria for subproject appraisal. Quality control techniques suggested by the local authorities during subproject design, construction, supervision, and operation will be closely assessed. This is not only likely to minimize failures but also increase life and benefits of the proposed subproject.
- (v) **Operation and maintenance (O&M).** Inadequate budgetary allocation for O&M will result in physical neglect of a subproject. Fiscal capacity of the local authorities for effective O&M will be assessed to ensure the smooth flow of project benefits. Estimated average local authority budgetary cash flow available for O&M of subproject should be at least equal to the average O&M cost per year for the subproject.
- (vi) **Economic and financial returns.** Evaluation of economic and/or financial returns from the subproject will be closely studied in accordance with relevant ADB guidelines. The findings will be evaluated vis-a-vis other criteria including environmental and social impact, etc.
- (vii) **Environmental impact.** An environmental assessment will be undertaken for all subprojects. SPCUs will undertake preliminary screening using rapid environmental assessment checklist ensuring compliance with specific environmental criteria for subproject selection. Subprojects having significant environmental impacts (category A) will not be undertaken. An initial environmental examination will be prepared for category B subprojects following the environmental assessment and review framework agreed upon between ADB and the government. For subprojects not having environmental impacts (category C), a due diligence report will be prepared.
- (viii) **Involuntary Resettlement.** SPCUs and local authorities will screen involuntary resettlement impacts of proposed subprojects. Subprojects assessed to have significant resettlement impacts (category A)¹ will not be undertaken. For subprojects having involuntary resettlement impacts² (category B)³, a resettlement plan will be prepared following the resettlement framework agreed upon between ADB and the government. For subprojects not having involuntary resettlement impacts (category C),⁴ a due diligence report will be prepared.
- (ix) **Indigenous Peoples.** SPCUs and local authorities will screen indigenous peoples impacts of proposed subprojects. Subprojects assessed to have significant impacts on indigenous peoples (category A) will not be undertaken.⁵

¹ The involuntary resettlement impacts of an ADB-supported project are considered significant (category A) if 200 or more persons will experience major impacts, which are defined as (i) being physically displaced from housing, or (ii) losing 10% or more of their productive assets (income generating).

² Apply for both permanent and temporary physical and economic displacements and for titled and non-titled land users/ project affected people.

³ If it includes involuntary resettlement impacts that are not deemed significant.

⁴ When no impacts (both permanent or temporary) are identified by the project team.

⁵ These are subprojects which will: (i) involve commercial development of the cultural resources and knowledge of indigenous peoples, (ii) physical displacement from traditional or customary lands, and (iii) commercial development of natural resources within customary lands under use that would impact the livelihoods or the cultural, ceremonial, or spiritual uses that define the identity and community of indigenous peoples. Subprojects will

For subprojects which will be located in the area directly affecting (positively or negatively) the indigenous peoples communities (category B), an indigenous peoples plan will be prepared following the indigenous peoples planning framework agreed upon between ADB and the government.

- (x) **Gender.** SPCUs and local authorities will evaluate the gender-related impacts of proposed subprojects based on the following principles: (i) maximum participation of women, especially those from poor/low-income households, in community-based decision making (quantitative targets may help); (ii) gender-equal responsibility in construction and O&M; (iii) consideration for women's time and space constraints and/or requirements; (iv) sex-disaggregated data collection whenever possible; (v) involvement of gender responsive nongovernment and/or community-based organizations; and (vi) gender awareness among the local authority officials.

E. Sector-Specific Subproject Selection Criteria

11. This section outlines the broad sector-specific criteria as guidelines for the selection of subprojects.

12. **Water Supply and Sanitation.** The objectives should be to improve access to safe drinking water, improve sanitation, minimize water-borne diseases, and improve health conditions. The focus should be on areas with a large population with little or no access to safe drinking water. The following criteria will apply:

- (i) The water resources board, the National Water Supply and Drainage Board and/or the consultants have carried out investigations, and have confirmed that potable water of sufficient quantity and quality is available, and the abstraction of water would not create adverse impacts to existing water users or the groundwater table, in both the short and long term;
- (ii) Specific measures have been proposed to mitigate adverse environmental impacts to be caused by additional amount of wastewater generated by the subproject;
- (iii) Connection costs and water tariff have been proposed to cover at least the full cost of O&M by taking into account the affordability of beneficiaries;
- (iv) For upgrading and augmentation of existing schemes, priority will be given for improving efficiencies and reducing non-revenue water;
- (v) The design of public sanitation facilities suits the requirements of women, children, the elderly and the disabled;
- (vi) The water supply subproject has an economic internal rate of return of 12% or higher;
- (vii) For water supply subprojects under output 1, high risk areas of chronic kidney disease will be prioritized;
- (viii) Climate change related considerations should be given in design of water supply infrastructure where in the levels of structures are suitably designed; and
- (ix) The sanitation components are also to be designed in respect of 'climate-change resilience' perspectives where in the levels of structures are suitable designed.

13. **Local Authority Roads and Bridges.** The objectives should be to improve access and to minimize travel time. The subprojects should be limited to local authority roads (class D and E) and other unclassified roads only. The following criteria will apply:

- (i) Priority will be given to roads serving agricultural or fisheries activities that link villages to nearby market centers and townships, as identified by the communities and included in development plans;
- (ii) Roads to be improved should benefit a substantial proportion of population;
- (iii) Where possible, the scope of repairs is limited to existing road alignments, where no land acquisition is required;
- (iv) An arrangement for O&M budget allocation has been specified by the local authority;
- (v) The subproject has an economic internal rate of return of 12% or higher;
- (vi) In case the road part which is vulnerable to frequent / prolonged water logging, mainly stemming from climate change related increased rainfall the design should cater to this effects;
- (vii) Box/pipe culverts–sizes to be made large enough to facilitate normal plus additional flow stemming from an increased rainfall due to climate change; and
- (viii) Road side drains to be connected /integrated with the town drainage system and in the face of rise in rainfall stemming from climate-change effects, capacity of drains will need to be made larger.

14. **Solid Waste Management.** The objectives should be to improve collection, transportation, treatment, and safe disposal of the solid waste in the local authorities. The following criteria will apply:

- (i) Improved collection, transportation, treatment, and disposal should benefit a substantial proportion of population;
- (ii) Activities promote public awareness of the population on household management of solid waste, with focus on reduce, reuse, and recycle (3R);
- (iii) Activities improve 3R activities such as organic waste composting;
- (iv) Activities demonstrate community involvement in selection of sites for safe disposal of solid waste, including acceptance of the site for disposal;
- (v) Where possible, state land should be selected for disposal of solid waste; and
- (vi) The design of a final disposal site, if the construction/improvement is proposed under the project, meets the technical guidelines set out by the Central Environmental Authority.

15. **Drainage Improvements.** The objectives should be to improve collection, and safe disposal of the runoff and grey water in the local authorities. The following criteria will apply:

- (i) Drainage system to be improved should benefit a substantial proportion of population;
- (ii) The design of the drainage system will ensure that it would not create flooding in areas upstream or downstream;
- (iii) The designs to be based on proper studies of runoff, contours and other required parameters; and
- (iv) Though a location-specific prediction is not readily possible, climate change may result in a bit of increase in terms of rainfall intensity in the coming few decades in this region. Therefore, the design of drains shall consider higher capacity to accommodate additional run-off due to increased rainfall intensity.

16. **Public Health Facilities.** The objective is to improve public health-care services in the local authorities by improving or constructing relevant facilities. The following criteria will apply:

- (i) Facilities improve maternity and child health in local authority areas;
- (ii) Coordination with the Ministry of Health and/or other relevant organizations has been made with regard to the allocation of medical staff, materials and other resources; and
- (iii) Plan of the local authority for hiring medical staff and procuring resources for running the health-care centers.

17. **Bus Stands and Three-wheeler Parks.** The objectives are to improve convenience of the public for the use of public transport and improve traffic management. The following criteria will apply:

- (i) Facilities are prioritized for the township development, and the basic traffic survey / assessment confirms the need for the subproject; and
- (ii) An arrangement about the use of facilities, including collection of fees and other charges, has been agreed upon with operators or their associations.

18. **Other Facilities.** The objective is to rehabilitate or construct local authority facilities to improve service delivery. The following criteria will apply:

- (i) For public markets, a survey has confirmed the need for the subproject based on the estimated number of stalls and their size. Financial projection needs to demonstrate the commitment of the local authority to sufficiently increase the revenue from operation of the markets. Plots should be allocated through competitive bidding to reflect the market rate of rents to optimize the revenue. Markets should have separate toilets for women and men. Markets should have a planned system for waste disposal;
- (ii) Other facilities may be approved under special circumstances only if the needs are clearly justified. This is subject to ADB's prior approval;
- (iii) For buildings, a clear plan has been provided by the local authority as to how necessary furniture and equipment will be provided in the building, including its fund sources and plans for maintenance. Buildings should have separate toilets for women and men; and
- (iv) Shops in buildings are not recommended. If proposed, a clear management plan should demonstrate the commitment of the local authority as to the optimization of rental income collection, by charging the market rate.

F. Design considerations for adapting to climate change risks

19. **Roads.** (i) surface material: preferably cement concrete where roads are vulnerable to frequent water logging; (ii) road side drains/culverts: sizes to be made large enough to facilitate normal plus additional flow stemming from an increased rainfall due to climate change. Though a location-specific projection is not readily possible, climate change may result in an increase of 10-20% in terms of rainfall intensity in the coming few decades. Therefore, the design of drains shall consider a 10% added capacity to accommodate additional run-off due to increased rainfall intensity.

20. **Water supply.** (i) production well: upper well casing to be extended vertically by 0.5 m from highest flood level (HFL); (ii) intake and water treatment plant: key facilities to be elevated or protected by embankment of which crest level will be at least 0.5 m above HFL.

21. **Sanitation.** (i) toilets: superstructure to be built at least 0.3 m above HFL; (ii) septic tanks or pits: to be raised by at least 0.2 m above existing ground level.

22. **Other facilities.** Necessary measures will be taken to mitigate risks (particularly from flooding) of damages to key facilities, such as selection of appropriate location, elevation of base of the facilities, and protection by embankment.

G. ADB Review.

23. The PMU will submit to ADB for review the proposal of the first two subprojects of each subsector,⁶ together with the checklist to demonstrate compliance with the selection criteria, when (i) feasibility studies are prepared, and (ii) detailed designs are prepared. Subsequently, ADB will review water supply and sewerage subprojects over SLR200 million (excluding the VAT) to be implemented under output 1 or SLR100 million (excluding the VAT) to be implemented under output 2.

24. ADB shall not finance in respect of any subproject that fails to satisfy the selection criteria set out in this Appendix.

⁶ ADB's prior review will not be required if the first two subprojects of the subsector concerned have been reviewed under the original project.

Appendix 4: List of Subprojects under Output 1**Proposed Water Supply Projects in Chronic Kidney Disease Affected Areas to be Implemented with Asian Development Bank Assistance - Batch 1 – Expected Benefits**

Province	S. No	Project Proposal (Priority Basis)	Covered DS Divisions	Population newly served (number of new connections)		Population receiving improved services (number of connections receiving improved services)	Length of pipeline to be laid (transmission and distribution) (km)
				Population	Connections		
North Central	1.	Extension to Uththupitiya from Kekirawa Water Supply Scheme	Thirappane	1,200	300	17,500	11.3
	2.	Extension to Elagamuwa from Greater Dambulla Water Supply Scheme	Kekirawa	7,912	1,840	N.A.	12.8
	3.	Extension to Thirappane Surrounding area from Kekirawa Water Supply Scheme	Thirappane	4,000	927	N.A.	23.3
	4.	Extension to Mahailukpallama from Kekirawa Water Supply Scheme	Kekirawa	2,750	650	N.A.	24.4
	5.	Extension to Bendiwewa from Polonnaruwa Water Supply Scheme (Extension length -18 km)	Thamankaduwa	5,509	1,378	N.A.	26.5
	6.	Capacity improvements to Minneriya WTP	Hingurakgoda	N.A.	N.A.	41,550	0
	7.	Capacity improvements to Nuwarawewa WTP	Mihinthal, Nuwaragampala East and Central	N.A.	N.A.	93,750	0

Province	S. No	Project Proposal (Priority Basis)	Covered DS Divisions	Population newly served (number of new connections)		Population receiving improved services (number of connections receiving improved services)	Length of pipeline to be laid (transmission and distribution) (km)
				Population	Connections		
North Western Province	1.	Completion work of Existing Ibbagamuwa water supply scheme	Ibbagamuwa	10,530	2,340	3,050	76.5

DS = divisional secretariat, km = kilometer, NA = not applicable, WTP = water treatment plant.

Proposed Water Supply Projects in Chronic Kidney Disease Affected Areas to be Implemented with Asian Development Bank Assistance - Batch 2 – Expected Benefits

Province	S. No	Project Proposal (Priority Basis)	Covered DS Divisions	Population newly served (number of new connections)		Population receiving improved services (number of connections receiving improved services)	Length of pipeline to be laid (transmission and distribution) (km)
				Population	Connections		
North Central	1.	Extension to Elagamuwa from Greater Dambulla – Phase II	Kekirawa	44,088	10,500	N.A.	75
	2.	Improvement Works to Ipalogama Treatment Plant (Kekirawa Water Supply Scheme)	Kekirawa	N.A.	N.A.	65,000	0
	3.	Extension of Sewagama Canel - 3 form Polonnaruwa Water Supply Scheme	Thamankaduwa	2,780	662	N.A.	13.7
	4.	Pipe Line Extension – Up to Thambala and development of existing WSS	Thamankaduwa / Lankapura	10,487	2,496	N.A.	16
	5.	Extension and distribution improvement works in Minneriya	Hingurakgoda	33,445	7,963	(same as Minneriya WTP extension above)	30
	6.	Capacity Improvement works to Thissawewa WSS & Treatment Plant	Nuwaragampalatha Central	N.A	N.A.	31,500	0
	7.	Uruwewa Water Supply Scheme	Padaviya	1,000	TBD	TBD	TBD

Province	S. No	Project Proposal (Priority Basis)	Covered DS Divisions	Population newly served (number of new connections)		Population receiving improved services (number of connections receiving improved services)	Length of pipeline to be laid (transmission and distribution) (km)
				Population	Connections		
	8.	Abeyapura Water Supply Scheme	Padaviya	2,500	TBD	TBD	TBD
	9.	Thibiriwewa Water Supply Scheme	Kebithigollawa	2,750	TBD	TBD	TBD
Central	1.	Water Supply Extension to supply pipe born water to Sigiriya, Kandalama & Kithulhitiyava rural areas	Dambulla	39,734	8,830	N.A.	450
	2.	Water Supply extension to supply pipe born water to Galewela, Inamaluwa & Dambulla rural areas	Dambulla				
	3.	Renovation and Augmentation of existing treatment plant Dambulla.	Dambulla	N.A.	N.A.	20,000	0
	4.	Construction of Borehole, pump house, Chlorinators - New schemes (3 nos)	Matale	4,250	940	N.A.	15
North Western	1.	Extension of Existing Nikaweratiya WSS To Nikaweratiya / Ambanpola –	Nikaweratiya/ Ambanpola	5,800	1,290	3,750	62.5
	2.	Extension of Existing Galgamuwa WSS	Galgamuwa	4,900	950	1,200	50
	3.	Construction of water supply scheme at	Murukkuwattawana, Kudamadawachchiya,	15,900	TBD	TBD	TBD

Province	S. No	Project Proposal (Priority Basis)	Covered DS Divisions	Population newly served (number of new connections)		Population receiving improved services (number of connections receiving improved services)	Length of pipeline to be laid (transmission and distribution) (km)
				Population	Connections		
		Karuwlagaswewa.	Kaurwalagaswewa Tabbowa				
Uva	1.	Diwulapalassa New scheme	Mahiyanganaya	2,120	510	N.A.	16
	2.	New Water Supply Scheme to supply water for rural villages of Tahnamalvila & Hambagamuwa	Thanamalvila	15,000	3,000	N.A.	95
	3.	Rahathangama, Kumaragama, & Kukurampola pipe line Extension from Buttala WSS	Buttala	8,480	1,800	500	69
	4.	Extension to Belaganwewa from Giradurukotte WSS (Extension length 47 km)	Mahiyanganaya	4,400	1,200	N.A.	47
	5.	Rideemaliyadda New Schemes	Rideemaliyadda	1,722	420	N.A.	40

DS = divisional secretariat, km = kilometer, NA = not applicable, TBD = to be determined, WSS = water supply scheme, WTP = water treatment plant.

Note: When only the population benefitting from the project is estimated, connections are calculated by assuming 4.5 people will be served by one connection.

Appendix 5: Planned Capacity Building Programs and Workshops under Output 3

Local Government Enhancement Sector Project (LGESP - Pura Neguma) - Additional Financing (2017-2020)								
Estimate of Capacity Building Trainings and Workshops								
Sl. No.	Name of the Program	Target Participants	Number of participants per program	Resource Persons	Cost Per Program (million)	Number of Programs	Planned Period of Training	Amount SLR Million
1	Contract Administration & Construction Supervision (1 day)	Senior Engineer/Assistant Engineer/ENG. Compliance/ Reform Manager/Social Safeguard Manager	30	PMC, SPCU, PMU Selected Expert	0.15	1	Q1 2017	0.15
2	Key Quality control Measures during Construction Of Roads & Building(2 day)	Senior Engineer/ Assistant Engineer/ENG. Compliance	22	PMC, SPCU, PMU Selected Expert	0.80	1	Q2-2017	0.80
3	Construction Laws and Dispute resolutions(1 day)	Senior Engineer/Assistant Engineer/ENG. Compliance/Assistant Quantity Survey	22	PMC, SPCU, PMU Selected Expert	0.31	1	Q2-2017	0.31
4	Construction Laws and Dispute resolutions(1 day)	Technical Officers	36	PMC, SPCU, PMU Selected Expert	0.50	1	Q2-2017	0.50
5	Capacity Building on Improved Procedures (Business Process Reengineering) - Based on CDTA Recommendations for Additional towns	Secretary from relevant Local Authority, Revenue Inspector Revenue Officer, Community Development Officer, Chief Management Assistant (Taxation), Chief Management Assistant/ Development Assistant (Revenue), Nodal Officer, Front Officer and 5Nos from CLG	40	PMU, SPCU, PMC and CLG, provincial Legal Officer, Commissioner of Revenue, and District Valuation Officer	0.42	7	Q2 2017	2.94
6	Capacity Building on Improved Procedures	Secretary from relevant Local Authority, Revenue	40	PMU, SPCU, PMC	1.71	7	Q2 Q3 2017	12.00

Local Government Enhancement Sector Project (LGESP - Pura Neguma) - Additional Financing (2017-2020)								
Estimate of Capacity Building Trainings and Workshops								
Sl. No.	Name of the Program	Target Participants	Number of participants per program	Resource Persons	Cost Per Program (million)	Number of Programs	Planned Period of Training	Amount SLR Million
	(Business Process Reengineering) - Based on CDTA Recommendations for original 108 towns (Round 3) + Additional towns (Round 2)	Inspector Revenue Officer, Community Development Officer, Chief Management Assistant (Taxation), Chief Management Assistant/ Development Assistant (Revenue),. Nodal Officer, Front Officer and 5 Nos from CLG		and CLG, provincial Legal Officer, Commissioner of Revenue, and District Valuation Officer (20)				
7	Operation & Maintenance (Asset Management) (01 Day)	Secretary, Revenue Inspector Revenue Officer, Work Supervisor, Technical Officer, Nodal Officer, Other Relevant Officers (2)., 01 Nos from CLG Office	40	PMC, SPCU	0.12	14	Q2, 2017	1.68
8	Capacity Development Technical Assistance (Financial Management) (01 Day)	Accountant , staff (4)	25	PMC, SPCU	0.08	14	Q3 , Q4 2017,Q1, Q2 2018	1.05
9	Solid Waste Management (Composting) (01 day)	Secretary, Technical Officer, Work Supervisor, one other relevant officer	20	PMU, SPCU	0.06	7	Q1 2017	0.42
10	Integrated Waste Management System at Dompe (01 day with accommodation)	Secretary, Technical Officer, Work Supervisor, one other relevant officer	20	PMU, SPCU	0.06	7	Q2,Q3 2017, Q1 2018	0.42
11	Review Workshops on Reform Plan (01 day)	Secretary, Nodal Officer, R.O, Internal Auditor	20	PMC, SPCU, PMU	0.06	7	Q4 2017	0.42
12	Computerization of Accounting and related office functions (3 days)	Accountant /Account Assistant/ Relevant staff (2)	25	PMC, SPCU,PMU Selected Expert	0.08	7	Q1 2018	0.51
13	ePuraneguma Software	Two selected officers from	20	PMC staff -	0.2	3	Q2 2017	0.60

Local Government Enhancement Sector Project (LGESP - Pura Neguma) - Additional Financing (2017-2020)								
Estimate of Capacity Building Trainings and Workshops								
Sl. No.	Name of the Program	Target Participants	Number of participants per program	Resource Persons	Cost Per Program (million)	Number of Programs	Planned Period of Training	Amount SLR Million
	-Training 01 Installation and basic usage of common modules	each <i>Pradeshiya Sabha</i> (MA/DO)		PMU staff				
14	ePuraneguma Software -Training 02 Rates module and Q&A for other modules	Two selected officers from each <i>Pradeshiya Sabha</i> (MA/DO)	20	PMC staff - PMU staff	0.2	3	Q2 2018	0.60
15	ePuraneguma Software -Training 03 Review and Q&A	Two selected officers from each <i>Pradeshiya Sabha</i> (MA/DO)	20	PMC staff - PMU staff	0.2	3	Q1 2019	0.60
16	ePuraneguma Software -Training 04 ToT For Provincial IT units	Three selected officers from each province	30	PMC staff - PMU staff	0.45	1	Q3 2018	0.45
17	Certificate course on Environmental Safety and Emergency Preparedness	Safeguard Managers	8	University of Peradeniya	0.40	1	Q1, Q3-2017	0.40
18	Health and Safety Measures during Construction (first day in house and second day site visit) (1 day)	SEC/TO/Environment officer	100	PMC, SPCU, PMU Selected Expert	0.40	1	Q3-2017	0.40
19	ADB Social and Environmental Safeguard policies and principles in Involuntary Resettlement (1 day)	Senior Engineer/Assistant Engineer/ENG. Compliance/Reform Manager/Social Safeguard Manager	40	PMC, SPCU, PMU Selected Expert	0.12	1	Q3-2017	0.12
20	Grievance Redress Mechanism and the functions of GRC in the Project and Community engagement , PCP implementation in the Project .(1 day)	Senior Engineer/Assistant Engineer/ENG. Compliance/Reform Manager/Social Safeguard Manager	40	PMC, SPCU, PMU Selected Expert	0.12	1	Q3-2017	0.12
21	Gender Mainstreaming	Reform Manager/Social	20	PMC,	0.06	1	Q3-2017	0.06

Local Government Enhancement Sector Project (LGESP - Pura Neguma) - Additional Financing (2017-2020)								
Estimate of Capacity Building Trainings and Workshops								
Sl. No.	Name of the Program	Target Participants	Number of participants per program	Resource Persons	Cost Per Program (million)	Number of Programs	Planned Period of Training	Amount SLR Million
	in the Project (1 day)	Safeguard Manager		SPCU, PMU Selected Expert				
FOREIGN TRAINING AND AWARENESSES								
22	Exposure visit on Modern Local Government management practices in Developed countries	Higher level managers attached to the Ministry/ PMU and Provinces	18	To be finalized	6.3	2	Q2 and Q3 2017	12.60
23	Appropriate modern technical practices in drinking water project implementation	Senior Engineers attached to the provinces and Ministry/PMU	12	To be Finalized	3	2	Q2 2017	6.00
24	Social and Environment modern practices in ADB funded projects outside the country	Senior and middle level officers in the relevant fields both in Ministry/PMU and Provinces	11	To be finalized	5.5	1	Q3 2017	5.50
25	Exposure visit on inspection of modern reforms practices for local agencies	Middle level officers attached to the Ministry/PMU and Provinces	21	To be finalized	3.5	3	Q4 2016 and Q1 and Q2 2018	9.50
26	Modern financial practices for local government sector	Financial and middle level managers attached to the Provinces and Ministry/PMU	16	To be finalized	4	2	Q2 2017	8.00
	Sub Total				28.79			66.15
	Grand Total							66.15

ADB = Asian Development Bank, CLG = Commissioner of Local Government, GRC = grievance redress committee, PMC = project management consultant, PMU = project management unit, SPCU = subproject coordination unit.

Appendix 6: Procurement Plan:**Basic Data**

Project Name: Local Government Enhancement Sector Project – Additional Financing	
Project Number: 42459-014	Approval Number:
Country: SRI LANKA	Executing Agency: Ministry of Provincial Councils and Local Government
Project Procurement Classification: B	Implementing Agency:
Procurement Risk: Low	
Project Financing Amount: \$ 67.84 million ADB Financing: \$60 million Cofinancing (ADB Administered): none Non-ADB Financing:	Project Closing Date: 30 June 2020
Date of First Procurement Plan: 06 May 2016	Date of this Procurement Plan: 12 July 2016

A. Methods, Thresholds, Review and 18-Month Procurement Plan**1. Procurement and Consulting Methods and Thresholds**

Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding (ICB) for Works	\$15,000,000	Prior Review
International Competitive Bidding for Goods	\$2,000,000	Prior Review
National Competitive Bidding (NCB) for Works	Beneath that stated for ICB, Works	The first two NCB packages subject to prior review. Thereafter, Prior Review for all contracts valued \$2.0 million and above; and Post Review (sampling) for contracts less than \$2.0 million.
National Competitive Bidding for Goods	Beneath that stated for ICB, Goods	The first NCB package subject to prior review, thereafter post review. Post review (sampling) for goods for 29 <i>Pradeshiya Sabhas</i> (less than \$0.4 million).
Shopping for Works	Below \$100,000	Post Review
Shopping for Goods	Below \$100,000	Post Review

Consulting Services	
Method	Comments
Quality and Cost Based Selection (QCBS)	Prior Review (80:20)
Least-Cost Selection	Prior Review
Single source selection (SSS)	Prior Review
Individual Consultant Selection	Prior Review

2. Goods and Works Contracts Estimated to Cost \$1 Million or More

The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
1.	NCP -AF - WS - CKD - 02	Water Supply extension to (i) Mahalipallama; and (ii) Thirappane area (from Kekkirawa water supply scheme)	1.22 (177)	NCB	Post (sampling)	1S2E	Q2/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Bid document in Progress
2.	NCP- AF - WS - CKD - 03	Water Supply extension to Elagamuwa - Main and distribution lines (from Dambulla water supply scheme)	3.39 (492)	NCB	Prior	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
3.	NCP- AF - WS - CKD - 04	Capacity Improvements to Nuwarawewa WTP	1.10 (160)	NCB	Post (sampling)	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
4.	NWP - AF- WS - CKD – 05	Water Supply scheme works of Ibbagamuwa	2.93 (425)	NCB	Prior	1S2E	Q2 /2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Bid document Progress
5.	NCP - AF- WS - CKD- 06	Improvements to (i) Ipalogama Treatment Plant (of Kekirawa Water Supply Scheme) and (ii) Tissawewa Treatment Plant and related works	1.95 (283)	NCB	Post (sampling)	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
6.	NCP -AF- WS - CKD -07	Extension of pipe network for (i) SewegamaCanal 3 from Polonurawawa Water Supply Scheme and Pipeline extension at Tambala – Part 1	3.47 (504)	NCB	Prior Review	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
7.	NCP – AF – WS CKD -13	Distribution network in Minneriya	1.43 (207)	NCB	Post (Sampling)	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
8.	NCP -AF- WS - CKD -08	Improvement of existing water supply scheme - (Tambala – Part 2)	2.18 (316)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
9A.	CP -AF- WS- CKD -10A	Water supply extension to (i) Galewela; and (ii) Dambula (rural);	4.13 (600)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
9B	CP -AF-WS- CKD -10B	Water supply extension to (i) Sigiriya; (ii) Kandalama; (iii) Kithulhitiyava; and (iv) Inamaluwa	3.10 (450)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
10.	NWP-AF -WS - CKD 14 A	Extension of water supply scheme of Nikwaeratiya / Ambanpola.	2.35 (342)	NCB	Prior	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
11.	NWP -AF-WS - CKD 14 B	Extension of water supply scheme of Galagamuwa	1.80 (262)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
12.	NWP -AF-WS - CKD 15	Water Supply at Karuwalagawewa	1.90 (275)	NCB	Post (sampling)	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
13.	UVA-AF-WS - CKD 17	Water Supply Schemes for Tahanamalvila and Hambegamuwa – Distribution System	8.75 (1270)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
14.	UVA-AF-WS –CKD -22	Water treatment plant for Tahanamalvila and Hambegamuwa schemes	2.97 (430)	NCB	Prior	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Sl. No.	Package Number	General Description	Estimated Value million \$ (million LKR)	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
15.	UVA-AF - WS -CKD 18	Water Supply extension from Rahathangama, Kuamargama and Kukurampola (from Buttala WSS)	2.00 (290)	NCB	Prior	1S2E	Q2/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress
16.	UVA-AF - WS -CKD 19	Water Supply extension Belaganwewa, Betalayaya (from Giradurukotte WSS) and Water Supply Scheme Diwalapallessa	1.67 (242)	NCB	Post (sampling)	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in Progress

Note: 1 USD = 145 LKR is the reference rate considered for conversion.

3. Consulting Services Contracts Estimated to Cost \$100,000 or More

The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior/ Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
LGESP - AF - PMC -01	Project Management Consultant	1.38 (200)	SSS	Prior	Q3/2016	BTP	International assignment
DSC SP-AT 01	Design and Supervision Consultant	0.14 (20)	QCBS (80:20)	N.A.	N.A.	N.A.	National assignment. Being recruited under the original project. Design work will be financed by the

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior/ Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
	(Southern Province)						original project; construction supervision will be financed by the additional financing.
DSC WP-AT 01	Design and Supervision Consultant (Western Province)	0.14 (20)	QCBS (80:20)	N.A.	N.A.	N.A.	National assignment. Being recruited under the original project. Design work will be financed by the original project; construction supervision will be financed by the additional financing.
LGESP - AF - DSC - CP	Design and Supervision Consultant (Central Province)	0.62 (90)	SSS	Prior	Q3/2016	BTP	National assignment
LGESP - AF - DSC - NCP	Design and Supervision Consultant (North Central Province)	0.59 (85)	SSS	Prior	Q3/2016	BTP	National assignment
LGESP - AF - DSC - NWP	Design and Supervision Consultant (North Western Province)	0.60 (87)	SSS	Prior	Q3/2016	BTP	National assignment
LGESP - AF - DSC - UVA P	Design and Supervision Consultant (Uva Province)	0.62 (90.00)	SSS	Prior	Q3/2016	BTP	National assignment

STP = simplified technical proposal.

4. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)

The following table groups smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value million \$ (LKR Mn)	Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
NCP - AF- WS - CKD - 01	Water Supply Extension to Uththupitiya (from Kekirawa Water Supply Scheme)	0.48 (70)	1	NCB	Prior	1S2E	Q1/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Bid document in progress
NCP - AF- WS - CKD -09	Water Supply Schemes in (i) Uruwewa and (ii) Abeyapura of Padaviya and (iii) Thibiriwewa of Kebithigollawa	0.72 (105)	1	NCB	Post (sampling)	1S2E	Q4/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in progress
CP - AF- WS- CKD -11	Renovation of existing treatment plant at Dambulla	0.31 (45)	1	NCB	Post (sampling)	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in progress
CP- AF-	Construction of	0.41	1	NCB	Post	1S2E	Q3/2016	<ul style="list-style-type: none"> • Prequalification

Goods and Works								
Package Number	General Description	Estimated Value million \$ (LKR Mn)	Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
WS - CKD -12	borehole, pump house, chlorinators - New Schemes (3 Nos)	(60)			(sampling)			<ul style="list-style-type: none"> of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in progress
UVA -AF - WS - CKD -16	Water Supply Scheme for Rideemaliyadda	0.60 (86)	1	NCB	Post (sampling)	1S2E	Q2/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in progress
NCP -AF - WS - CKD -20	Capacity Improvements to Minneriya WTP	(0.51) (75)	1	NCB	Post (sampling)	1S2E	Q1/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Small Works • Comments: Designs in progress
NCP – AF – WS	Water Supply extension to	0.48 (70)	1	NCB	Post (sampling)	1S2E	Q1/2016	<ul style="list-style-type: none"> • Prequalification of Bidders: No

Goods and Works								
Package Number	General Description	Estimated Value million \$ (LKR Mn)	Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
CKD -21	Bendiwewa (from Polonnaruwa water supply scheme)							<ul style="list-style-type: none"> Domestic Preference Applicable: No Bidding Document: Small Works Comments: Designs in progress
NWP AF WS CKD 23	Supply & Installation of Pumps, Treatment Plant Equipment and Accessories for Ibbagamuwa Water Supply Scheme	0.21 (30)	1	NCB	Post (sampling)	1S2E	Q2/2016	<ul style="list-style-type: none"> Prequalification of Bidders: No Domestic Preference Applicable: No Bidding Document: Small Works Comments: Designs in progress
UVA AF WS CKD 24	Intake for Tahanamalvila and Hambegamuwa schemes	0.69 (100)	1	NCB	Post Sampling	1S2E	Q4/2016	<ul style="list-style-type: none"> Prequalification of Bidders: No Domestic Preference Applicable: No Bidding Document: Small Works Comments: Designs in progress
LGESP - AF - CW - 01	Civil Works in 29 new Pradeshiya	0.07 to 0.35 (10 to 50)	40	NCB	Post (sampling)	1S2E	Q4/2016 to Q2/2017	<ul style="list-style-type: none"> Prequalification of Bidders: No Domestic

Goods and Works								
Package Number	General Description	Estimated Value million \$ (LKR Mn)	Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Advertisement Date (quarter/year)	Comments
to LGESP - AF- CW - 40	<i>Sabhas</i>							Preference Applicable: No • Bidding Document: Small Works • Comments: Sub-Project Identification in progress
LGESP - AF - EQ - 01 to LGESP - AF- EQ - 10	Equipment and goods in 29 new <i>Pradeshiya Sabhas</i>	0.07 to 0.35 (10 to 50)	10	NCB	Prior (first package)/ others -Post (sampling)	1S2E/IS1E /Shopping	Q4/2016 to Q2/2017	• Prequalification of Bidders: No • Domestic Preference Applicable: No • Bidding Document: Goods • Comments: Identification in progress

Note: 1 USD = 145 LKR is the reference rate considered for conversion.

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior/ Post)	Advertisement Date (quarter/ year)	Type of Proposal ⁸	Comments ⁹
LGESP- IC-01 to 04	Project Management Consultants	200,000	04	Individual	Prior	Q4/2016	NA	04 Specialists will be recruited

B. Indicative List of Packages Required Under the Project

The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review (Prior/ Post)	Bidding Procedure	Comments
No works anticipated at present							

Consulting Services							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review (Prior/ Post)	Type of Proposal	Comments
No works anticipated at present							

C. List of Awarded and On-going, and Completed Contracts

The following tables list the awarded and on-going contracts, and completed contracts.

1. Awarded and On-going Contracts

Goods and Works							
Package Number	General Description	Estimated Value	Awarded Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

Consulting Services							
Package Number	General Description	Estimated Value	Awarded Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

2. Completed Contracts

Goods and Works								
Package Number	General Description	Estimated Value	Contract Value	Procurement Method	Advertisement Date (quarter/ year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Contract Value	Recruitment Method	Advertisement Date (quarter/ year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

D. Non-ADB Financing

The following table lists goods, works and consulting services contracts over the life of the project, financed by Non-ADB sources.

Goods and Works				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments

Consulting Services				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Comments

E. National Competitive Bidding

1. Regulation and Reference Documents

1. The procedures to be followed for national competitive bidding shall conform to the provisions prescribed in the *Procurement Guidelines 2006 for Goods and Works* issued in January 2006 by the National Procurement Agency, and the specific procedures prescribed by the *Procurement Manual* issued in March 2006, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines.

2. Procurement Procedures

a. Eligibility

2. The eligibility of bidders shall be as defined under Section I of ADB's Procurement Guidelines (2015, as amended from time to time) (the "Guidelines"); accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those provided in Section I of the Guidelines.

3. Registration and Sanctioning

3. Registration is acceptable under the following conditions:

- (i) Bidding shall not be restricted to pre-registered firms under the national registration system of the Institute for Construction, Training and Development (ICTAD), and such registration shall not be a condition for the submission of bids in the bidding process.
- (ii) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the ICTAD registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.
- (iii) National sanction lists or blacklists may be applied only with prior approval of ADB.

4. Prequalification

4. Prequalification is discouraged for NCB. When used, particularly for works contracts, an individual prequalification exercise is acceptable for each contract as is the use of a registration system (or approved standing list) of contractors based on criteria such as experience, financial capacity, and technical capacity. Foreign bidders from eligible countries must, however, be allowed to register and to bid without unreasonable cost or additional requirements.

5. Advertising

5. The posting of NCB specific notices for contracts valued at less than \$1 million on ADB's website is not required but is highly recommended.

6. Preferences

6. The following shall be observed:

- (i) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods; and
- (ii) Foreign suppliers and contractors from ADB member countries shall be allowed to bid, without registration, licensing, and other government authorizations, leaving compliance with these requirements for after award and before signing of contract.

7. Participation by Government-Owned Enterprises

7. Government-owned enterprises in the Democratic Socialist Republic of Sri Lanka shall be eligible to participate only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the Project Executing Agency or Implementing Agency.

8. Rejection of Bids and Rebidding

8. Bids shall not be subjected to a test for unrealistic rates. No lowest evaluated and substantially responsive bid shall be rejected on the basis of comparison to rates, including but not limited to market, historical, or agency established rates, without prior approval of ADB.

9. Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

9. Price Negotiations

10. Price negotiation shall be allowed only where the price offered by the lowest evaluated and substantially responsive bidder substantially exceeds costs estimates. Approval of ADB is required prior to any negotiation of prices.

10. Bidding Documents

a. Acceptable Bidding Documents

11. Procuring entities shall use standard bidding documents acceptable to ADB for the Procurement of Goods, Works and Consulting Services, based ideally on the standard bidding documents issued by ADB.

b. Bid Security

12. Where required, bid security shall be in the form of a certified check, a letter of credit or a bank guarantee from a reputable bank.

c. ADB Policy Clauses

13. A provision shall be included in all NCB works and goods contracts financed by ADB requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

14. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that the Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged

in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question.

15. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices or any integrity violation in competing for, or in executing, ADB-financed contract.

Appendix 7: Consultants' Terms of Reference

DESIGN AND SUPERVISION CONSULTANTS

I. Background

1. **The Original Project.** The Local Government Enhancement Sector Project (LGESP)¹ was approved by Asian Development Bank (ADB) on 29 September 2012 with an amount of \$59 million equivalent from ADB's Special Fund Resources. The loan became effective on 29 November 2011 and the loan closing date is 31 December 2016. Ministry of Provincial Councils and Local Government (MPCLG) is the executing agency, and subproject coordination unit (SPCU) is established in each provincial council (total seven) to supervise, coordinate and implement. LGESP has been supporting local infrastructure improvement and basic service delivery in less-developed areas in seven provinces (excluding the Northern and Eastern Provinces), based on a bottom-up, demand-driven approach.

2. **Additional Financing.** The additional financing is required to scale up a well-performing project with a financial assistance of \$60 million from ADB. It includes (i) improvement of water supply systems in areas affected by chronic kidney diseases (CKD); (ii) improvement of local infrastructure and basic services delivery; and (iii) advancing policy reform of local government and strengthening their capacity.

3. The additional financing has three outputs. Output 1 has been added for the additional financing.

4. **Output 1: Water supply systems in CKD-affected areas improved.** The additional financing will finance development and expansion of water supply systems in CKD-affected areas in four provinces (Central, North Central, North Western, and Uva) to provide continuous supply of safe drinking water. The schemes include development of new water supply systems and expansion of existing systems, mostly run by National Water Supply and Drainage Board (NWSDB). Facilities such as raw water intakes, water treatment plants, overhead tanks, and transmission and distribution networks up to household connections are eligible for financing. About 30 schemes will be developed or expanded, and will be implemented by respective provincial councils with technical inputs and supervision support from NWSDB. Considering the nature and complexity of the schemes, the piped-network will be operated by NWSDB, except a few local authorities which have adequate operational capacity. If local authorities are identified to be the appropriate entity to implement the subprojects, such local authorities will first have to submit a reform plan, as practiced in the original project, prior to the subproject implementation. Project management unit (PMU), through design and supervision consultants (DSCs), will provide capacity augmentation for construction supervision, when the resources available from NWSDB are insufficient.

5. **Output 2: Local infrastructure and basic service delivery improved.** Social and economic infrastructure will be improved by newly participating local authorities. The approach will remain the same: 29 new *Pradeshiya Sabhas* from five provinces (Central, North Western, Southern, Uva, and Western) which have not been supported under the Local Government

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for Local Government Enhancement Sector Project*. Manila.

Infrastructure Improvement Project² and LGESP will first have to submit a reform plan approved through a council resolution, which will be reviewed and confirmed by the Ministerial Committee of MPCLG to ensure that the minimum reform requirements are met. Then they will be qualified for the provision of a capital grant for infrastructure improvement.

6. Eligible subprojects include (i) environmental infrastructure such as water supply and sanitation (including sewerage), drainage, and solid waste management; (ii) economic infrastructure such as roads and bridges (including suspension bridges); (iii) public health infrastructure such as maternity and health-care centers; and (iv) other local authority facilities such as public markets. To strengthen the focus of the project, other facilities under the responsibility of local authorities, such as local authority office buildings and crematoriums, will be approved only under special circumstances and if clearly justified. For both outputs 1 and 2, only the subprojects that meet the subproject selection criteria will be implemented. Subprojects will be screened initially by the SPCUs to ensure conformity with the subproject selection criteria before they will be endorsed by the PMU. The PMU will engage one Project Management Consultant to assist in management of the project and six teams of DSCs (one per province; except in Sabaragamuwa which has no new subprojects) to support preparation of design and ensure the quality of work.

7. Output 3: Local government policy reform advanced and capacity strengthened.

The additional financing will support establishment of IT solutions, which were developed under the original project and installed in the original 108 *Pradeshiya Sabhas*, in 29 new *Pradeshiya Sabhas*, and further advance business process reengineering in both original and new *Pradeshiya Sabhas*.³ The activities will include: (i) implementation support of the guidelines developed under the capacity development technical assistance (CDTA);⁴ (ii) development and installation of additional software to simplify and increase efficiency of local administration; and (iii) capacity building programs to strengthen technical, financial, and administrative capacity of the original and new *Pradeshiya Sabhas*, provincial councils, and MPCLG.

II. Objectives:

8. The objectives of the consultancy are to:

a. Assess

- (i) in reference to subprojects identified under output 2, update the present status of the service sector(s) in the local authority area; and
- (ii) the technical feasibility inclusive of financial, economic, environmental and social analysis.

b. Prepare

- (iii) prepare feasibility report, detailed design, drawings, cost estimates and bidding documents for planning and implementation of subprojects under output 2

² ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for Local Government Infrastructure Improvement Project*. Manila.

³ In addition, *Pradeshiya Sabhas* that will implement and operate water supply systems improvement under output 1 will be supported under this output.

⁴ 13 guidelines have been developed by CDTA: (i) tax enforcement and arrears recovery manual; (ii) information sources available for local authorities to increase coverage; (iii) standard agreement template for lease; (iv) service charge rationalization model; (v) extension of built-up locality in *Pradeshiya Sabhas*; (vi) incentive scheme for revenue collectors; (vii) standard request for proposal for selection of survey agency for conducting 3rd party survey; (viii) process awareness; (ix) government information center templates; (x) process for application forms; (xi) rates rationalization; and (xii) revised notice of assessment; (xiii) common tendering process.

- including environmental and social safeguard documents and economic and financial analysis; and
- (iv) prepare detailed project reports (DPRs) including environmental and social safeguard documents, and economic and financial analysis; and bid documents, based on the detailed engineering designs (including cost estimates, drawings, and bill of quantities) prepared by the NWSDB for the water supply projects under output 1.

9. The project has employed DSCs up to end of year 2016 and they may prepare above (iii) and (iv) for outputs 1 and 2. Therefore, this consultancy may need to attend only on the spillover activities, if any, within the provisional sum given in the contract.

c. Supervise

10. Implementation of physical work and compliance to design standards and contractual requirements, environmental management plan, resettlement plans, and indigenous peoples plans if any, for subprojects under both outputs 1 and 2.

III. General Scope Of work

A. For Output 2

1. Subproject Preparation

11. The existing consultants may attend to the following activities from item (i) to (xii) by the end of 2016. Therefore, this consultancy includes only the balance activities under output 2, if any, within the provisional sum given in the contract. The scope of the any balance work is described from item (i) to (xii) below.

- (i) The scope of work mainly includes, but not limited to, the services as indicated below for the subprojects related to local authorities identified by the local authorities;
- (ii) The DSC is required to carry-out a feasibility study (subproject feasibility should include technical, financial and economic analysis, and preparation of safeguard documents in compliance with ADB requirements) and detailed engineering design. Prepare DPR including environmental and social and financial /economic feasibility and prepare bidding documents for the project in compliance with ADB requirements. If the local authorities change the subprojects due to the change in their preferences, it is the responsibility of the DSC to conduct prefeasibility studies of the new projects and prepare prefeasibility report and then proceed with the other work as indicated in this terms of reference;
- (iii) The overall design would cater for a period of over 30 years/horizon as defined as per national planning norms and a projected population as determined by the consultant based on appropriate projection techniques. The designs shall conform to relevant and/or latest applicable National Standards and Central Environmental Authority requirements. Wherever such standards are not available, appropriate standards shall be followed in discussion with the PMU;
- (iv) In addition, the DSC shall follow the requirements of the following documents in carrying out the services:
 - Resettlement Framework, Environmental Assessment and Review Framework, and Indigenous Peoples' Planning Framework of the project;

- Standard Bidding Documents for Procurement of Goods and Works by ADB and of the project;
 - Checklists – Feasibility Checklists, Sector Specific Checklists and Detailed Design Checklist designed for the project; and
 - Consultation Plan prepared for the project;
- (v) The DSC needs to check that the subprojects selected meet the subproject selection criteria for the project and reflect priorities and action in relation to the consultation and planning guideline of the project and take into account the budget availability of each local authority;
- (vi) Collect and update information regarding service levels in the study area including inventory of existing systems;
- (vii) Collect necessary data for design and implementation. The details given in the prefeasibility study is only a reasonable preliminary basis. DSC shall be wholly responsible for all the details provided in their reports on physical and site conditions, the execution methodology, and various other parameters, etc. All data utilized in preparation of the reports shall be presented indicating the sources of the data and also the basis of assumptions, if any, i.e. the consultant shall be responsible for all the data or designs and drawings given by them;
- (viii) Carry out topographical survey with reference to specified datum as required for the service up-gradation and necessary geotechnical investigations. The local body shall indicate the project sites and their measurements. The consultant shall be responsible for its verification and mapping. Soil tests as per relevant National Standards have to be conducted and necessary reports prepared by consultants to arrive at design parameters;
- (ix) Prepare DPR inclusive of detailed cost estimates using the latest schedule of rates of the province. Estimate associated costs such as road restoration charges and/or shifting of utilities, resettlement, etc. There should not be any lump sum items in the bill of quantities. For items not covered under schedule of rates, market rates to be assessed. (necessary documents on quotations received should be made for assessment of market rates) and also prepare contract packaging plan;
- (x) For the given purpose and functional use of the respective subprojects, proper design has to be developed. The consultants have freedom to choose the type of substructure and superstructure, provided national code specifications and standards are met. The drawings and designs shall include a general arrangement drawing and a detailed longitudinal section drawing of all components in size A1 or A2. The level of detailing shall be such so as to enable check of conformance with code provisions, including detailed construction drawings and bar bending schedules. The responsibility of the preparation and issue of detailed construction drawings is that of the DSCs;
- (xi) Carrying out social impact assessments of proposed development including land acquisition and its financial implication, and if found necessary, prepare a resettlement plan and/or an indigenous peoples plan in accordance with the resettlement framework and indigenous peoples planning framework agreed upon between the Government of Sri Lanka and ADB;
- (xii) If found necessary, prepare necessary environmental assessment reports such as an initial environmental examination or environmental impact assessment, in compliance with the environmental assessment and review framework agreed upon between the government and ADB;
- (xiii) Assist completely in bidding, bid evaluation and award process in procurement of works, goods and materials in accordance to guidelines of ADB;

- (xiv) DSC needs to prepare project implementation schedule and budget with monthly targets, furnish network analysis such as Critical Path Matrix/Program Evaluation and Review Technique for purposes of effective project monitoring and regular reports;
- (xv) Prepare community development and public awareness programs, and identify training requirements if any as necessary for the subproject construction, operation and maintenance (O&M);
- (xvi) Prepare action plan and report on implementing relevant part of the gender action plan of the project;
- (xvii) The consultant shall conduct his own studies and prepare estimates based on schedule of rates. The PMU, SPCU as well as the local authorities concerned and project management consultants shall not be responsible (except as to risks specifically accepted under the conditions of contract) for the validity of the project details and designs and estimates;
- (xviii) The consultants shall assist the local authority in obtaining technical sanction from competent authorities; and
- (xix) The DSC shall mobilize exclusive supervision staff for the supervision of construction including comprehensive quality checks and measurements of works including checking the invoices sent by the contractor. The DSC is also responsible for certifying the quality of works.

2. Construction Supervision

12. Tasks include:

- (i) Construction Supervision: Supervise construction of project components, monitor construction and quality control methods, assist to record measurements in accordance with the procedures followed in the government, certify that quality of works conform to the specifications and drawings, assess the adequacy of the contractors' inputs in material, labor and construction method, furnish all revisions and detailed construction drawings as necessary during the continuance of the contract, attend third party inspections as necessary, check contractors' design and drawings for lump sum turnkey contracts, examine contractors' claim for extension of time and extra works, etc., and prepare recommendation for approval of local authorities/SPCUs;
- (ii) Check installation and commissioning, prepare measurement for works completed and in progress and certify bills for payment to the contractors/suppliers. Ensure that works are constructed to the prescribed quality in accordance with specifications in tender documents and quality assurance system;
- (iii) As required, assist the local authorities/SPCUs in the resolution of contractual issues including review, evaluation, and confirmation of contract variation orders;
- (iv) As necessary, assist the SPCUs/local authorities with overall contract management and approving of the "as built" drawings as prepared by the contractors;
- (v) Prepare inception report, monthly/quarterly progress reports and project completion report;
- (vi) Conduct and supervise the implementation of training programs, in collaboration with the contractors, to strengthen the capacity of staff involved in operation and management of the new system, including the operation of facilities and equipment;

- (vii) Provide necessary advisory support to the local authority about the institutional arrangement for operation and management;
- (viii) Assist SPCUs in the preparation of plan of action for the subprojects for presentation to local authorities and get their consent;
- (ix) Prepare a simplified quality control manual for use of the field staff;
- (x) Assist SPCU to undertake other tasks as assigned by the PMU;
- (xi) Preparation of O&M plans for all the assets created in the project;
- (xii) Preparation of the subproject completion report in the format provided by the PMU; and
- (xiii) The other works at contract administration and/or construction supervision stage are:
 - Provide all necessary information with the help of other consultants where applicable and issuing instructions to the contractor to enable the contractor to proceed with the works.
 - Examine the work program from time to time and advise both Employer and Contractor to fulfill their responsibilities to complete the project within the contract period.
 - Employ the supervisory staff required for resident supervision as per the financial proposal.
 - Assess and recommend variation to contract.
 - Approval of shop drawings prepared by Contractors.
 - Conduct weekly progress review meetings at site and reporting the same.
 - Attending progress review meetings conducted by the Employer.
 - Advise the Employer on arbitration and legal proceedings.
 - With other Consultants where applicable make periodic inspection of the works as provided in then "Schedule of Service" herein and conducting progress review meetings and issuing reports and Payment Certificates as required under building contract.
 - On completion of the building to a stage reasonably satisfactory for occupation in the opinion of the Consultant, arrange the Contractor to hand over the building to the Employer and issue the certificate of Practical Completion.
 - Arrange to test all the systems installed and arrange to hand over test reports, and any other document needed as per Conditions of Contract.
 - Defects Survey upon practical completion of the Project and Notification to the Contractor.

3. Post-construction (O&M)

- (i) Prepare a maintenance manual of services and plants with the help of contractors involved;
- (ii) Advise regarding service agreements on equipment and services;
- (iii) Advise regarding maintenance programs for the Buildings and Built-Environment;
- (iv) Arrange the Specialist Contractors to train the Client's staff to operate the systems and plants;
- (v) With the help of Contractors and sub-contractors prepare and submit "As-Built" Drawings, any changes done during construction to the plants; sections and elevations should be incorporated in "As-Built" Drawings and submitted to the client;

- (vi) Review the Warranties and Guarantees and hand over such documents to Employer;
- (vii) Carry out any inspections needed during the Defect Liability Period and prepare a list of items to be attended to by the Contractors and arrange such defects to be rectified by the respective contractors;
- (viii) Upon completion of the Defect Liability period issue the Final Certificate;
- (ix) Assemble Records and archive originals and copies as appropriate;
- (x) Contribute supplementary information for final submissions to Statutory Authorities;
- (xi) Monthly inspections to identify defects/reports;
- (xii) Advise on warranty claims; and
- (xiii) Inspect the works during and at the end of the Defects Liability Period and prepare a list of defects and notify the Contractor.

B. For Output 1

1. Subproject Preparation

13. The existing consultants recruited up to end of year 2016 will attend the preparation of detail feasibility reports/DPRs including financial, economic, social and environmental studies based on the detail cost estimates prepared by the NWSDB. Therefore, this consultancy may need to attend only on the spillover of preparatory work, if any, within the provisional sum given in the contract.

14. For any balance feasibility study (subproject feasibility should include technical, financial and economic analysis, and preparation of safeguard documents in compliance with ADB requirements), prepare DPR including environmental and social and financial/economic feasibility and prepare bidding documents for the project in compliance with ADB requirements. In addition to that, DSC should carry out the detail investigation and design works for the few subprojects under output 1 which are proposed in the local government agencies. The steps to be followed for the feasibility studies under output 1 is exactly similar to output 2 except the detail designs are provided by the NWSDB for their own schemes.

2. Construction Supervision

15. The task of supervision under output 1 is exactly similar to the construction supervision description given above under output 2. The only deference is the involvement of the NWSDB in supervision of subprojects under output 1 (except for a few schemes operated by local authorities); in either case, the Chief Secretary of the Province is the Employer. Therefore the consultant should follow the same guidelines given above.

3. Post-construction (O&M)

16. The post-constructions for the subprojects are exactly similar to output 2. However, the NWSDB will undertake O&M of most of the water supply subprojects under output 1.

IV. Data, Services and Facilities to be provided by the Client

17. The maps and other data related to this work, to the extent available in the town office will be provided.

V. Schedule of Completion of Tasks

18. All feasibility and designs work including the DPRs and the bid documents related to the subprojects under output 2 are to be completed within 6 months of the assignment with at least one subproject completed within 1 month of award of contract (if there are any spillovers).

19. The supervision work for the subprojects under output 1 and output 2 should commence after award of work.

20. The project closing period is 31st December 2019 and all works are to be completed at least 2 months before the project completion period to facilitate completion of work and processing of final bills and payments within the project closing period.

VI. Procedure for Technical Sanction and Administrative Approval

21. The Technical Evaluation Committee of the province under the project scrutinizes the designs and estimates and finally gives technical sanction for the subproject and the Procurement Committee under the chairmanship of the Chief Secretary will issue the Administrative Approval for the project. In case the estimated value of the subproject is equal or more than \$ 1 million, procurement will be done by the Ministry Procurement Committee.

VII. DSC Team Composition

22. The DSC will have a Team Leader who has knowledge and experience in design and supervision of local infrastructure projects and supported by sector specialists like architects, design (structural and other design) engineers, quantity surveyors, water supply engineer, and a safeguard expert. The team will be supported by required support staff.

23. The staffing and expected person-months would be as follows (in case of Central Province):

Sl. No.	Positions	Person Months
Professional Staff (Key experts)		
1.	Team Leader (Design and construction engineer)	30
2.	Architect	3
3.	Design Engineer (Structural)	6
4.	MEP Engineer (Service Engineer)	4
5.	Water Supply Engineer (Design and Supervision)	30
6.	Safeguard Expert (Social and Environmental)	12
	Total Professional PersonMonths	85
Support Staff and Non-key experts		
7	Technical Officer cum Quantity Surveyor (Construction Period) (12 persons–12 months each)	182
8.	Assistant Quantity Surveyor	30
9.	Draughts man	12
10.	Data Entry Operator / Office Coordinator	30
11..	Office Assistant	30
	Total Support and Non Key Experts–Person Months	284

(Note: Similar key and support staff will be required for other provinces – Key Staff: North Central Province: 90 PM; North Western Province: 85; UVA Province: 85 Person Months. Consultants for supervision in Southern and Western Province (18 Person month each will be appointed through QCBS (80:20) procedures under the current loan)

24. The consultants are required to propose and quote for the Professional and Support Staff as per requirement estimated in the above table. However, if the consultant feels that manpower estimates need to be modified they can mention that in the proposal as note to Tech 6 with reasoning. The same would be discussed during contract negotiations with the successful consultant.

VIII. Minimum Qualification of the Consultants

Position	Qualification
Team Leader (Design cum Construction Engineer)	Bachelor Degree in Civil engineering or equivalent with corporate membership of relevant professional institution and 10 years of relevant experience. Master's and higher degree preferred.
Architect	Bachelor Degree or equivalent with corporate membership of relevant professional institution with 10 years' of relevant experience. Master's and higher degree preferred.
Design Engineer (Structural)	Bachelor Degree or equivalent with corporate membership of relevant professional institution with 10 years of relevant experience. Master's and higher degree preferred.
MEP Engineer	Bachelor degree in the mechanical or electrical field with minimum of 10 years similar experience.
Water Supply Engineer (Design and Supervision)	Bachelor Degree or equivalent with corporate membership of relevant professional institution with 10 years of relevant experience. Master's and higher degree preferred.
Assistant Quantity Surveyor	NCT (QS) with 5years of relevant experience or Bachelor Degree in QS with 3 years of relevant experience
Safeguard Expert (Social and environmental)	Bachelor Degree with 5 years relevant experience. Master's Degree preferred

IX. General Deliverables:

25. The General Deliverables with time lines of some common report are as follows:

Type of Report	Time Line
Inception Report	Within 15 days of Mobilization
Monthly Report	Within 5th of every month
Detailed Project Report with drawings and annexures (Contains feasibility study, resettlement report, estimates, all required drawings, social, environmental and financial analysis report, and all required sections) – Drawings to be sufficient for construction	As agreed during contract negotiations
Bid Documents	As agreed during contract negotiations
Final Completion Report of each subproject	Within one month of completion of the subproject

26. Any other report /as desired by the PMU / SPCU
27. All draft and final reports to be submitted in one soft copy and three hard copies.
28. General format of deliverables by the consultant (i.e. submission of documents) applicable for all phases shall comply with the requirements provided below.

X. Document Format

29. The primary language of the documents including drawings, specifications, etc. should be English. The format for cad files is to be Auto Cad 2006. All drawings and contract documents are to be issued in CADD and PDF format.

30. Procurement for the works will be mostly “measure and pay” type contracts and all contract documents shall be prepared in accordance with the ADB Procurement Guidelines (2015, as amended from time to time).

31. **Design Report.** Designs and documents submitted by the consultant for review to the Employer shall include generally:

- (i) a Contents list;
- (ii) a Summary;
 - Design criteria including any modifications based on the review of conceptual designs.
 - References including specification requirements, design codes of practice, manuals, catalogues and supporting documents used, numbers and titles of drawings which are based on the design.
- (iii) Criteria, parameters and methods used;
- (iv) Test procedures, analyses and results; and
- (v) Calculations and schedules
 - Qualitative description and comments on results
 - Any other detailed investigations
 - Any other relevant information.

31. The designs and documents shall be presented on A4 size paper with every page numbered and bound in order between a transparent front cover and stiff back. The title of the submission shall be given on the front sheet beneath the title of Contract, Consultant's name, title of works location, author's reference, date, signature, and any other relevant information. Drawings submitted as part of the design or document shall be presented on A3 size paper (unless otherwise requested by the Engineer to submit on A1 or A2 size paper) folded into pockets at the back. The Consultant shall bind in as appendices to the designs and documents. English language copies or photocopies of any standard, code of practice, manual or other reference referred to in the designs and documents, which have not otherwise been submitted.

32. Following acceptance of a drawing by the Client, one original print on white paper and three paper print copies of all accepted drawings with the date of the Engineer's acceptance marked on the original shall be delivered. In addition, all drawings shall be provided on CDs as DXF files suitable for Auto Cad 2006. Three copies of accepted designs and documents shall also be submitted.

XI. Drawing Format

33. Drawings submitted by the Consultant for review shall be based on previously submitted designs or documents. Inter-related drawings shall be submitted at the same time in a complete and self-sufficient set. Copies shall be collated into ordered bundles, each with a list of contents.

34. All drawings provided by the Consultant shall be in the form of good quality reproductions and shall conform to the requirements of the relevant British Standards in respect of drawing size, presentation and use of symbols. Drawings shall be no smaller than A4 and no larger than A1 and be of micro-filmable quality. All dimensions used on drawing shall be in metric units and all drawings shall be to scale and shall include a graphical scale to aid the use of photographic reproductions. Preferred scales are 1:1, 1:2, 1:5, 1:10, 1:20, 1:50, 1:100, 1:200, 1:500, 1:1000, 1:2000. In case of longitudinal sections of pipelines, the scales may be 1:2500 horizontal and 1:250 vertical.

XII. Drawing Numbering and Titling

35. The consultant shall use a reference numbering system for designs, drawings and documents so that each number used is unique. The numbering and title information on designs, drawings and documents shall be designed so that management, transmittal and communication of drawings can be carried out expeditiously using computer-aided data base system.

36. All drawings shall bear the following information:

- (i) Employer's Name, Address
- (ii) Consultant's Name, Address
- (iii) Contract title
- (iv) Contract number
- (v) Drawing title, including names subproject, of facility and site
- (vi) Drawing number
- (vii) Name and designation of the design Engineer
- (viii) Name and designation of the Engineer who checked/authorized
- (ix) Revision schedule
- (x) Scale
- (xi) Date

37. The consultant shall maintain a drawing register listing all drawings prepared as part of the Contract. The drawing register shall incorporate a revision number. Wherever a change is made to the drawing, the revision number, the date of change, full details of the change and person responsible for the change shall be recorded on the register. The first issue of a revised drawing shall clearly indicate with suitable means, where on the drawing the revision has been made. The first revision of the drawing shall be designed as revision 1. At monthly intervals, until all design is complete, the Consultant shall submit a copy of the current drawing register to the Employer for his information. A final copy of the register shall be supplied to the Employer on completion of the contract.

XIII. Submissions and Review

38. **Submission of Drawings for Review:** Before submission, the consultant shall verify all drawings and documents to ensure their compliance with the specification. Such drawings

shall be clearly identified as being checked by the Consultant. All drawings not so checked and noted will be rejected by the Employer and returned to the Consultant without further comment. Consultants' drawings and documents shall be numbered in accordance with the consultant's numbering system.

39. All submissions shall have been checked by the consultant and shall be stamped and designed to confirm that the checking has been carried out. Checking shall be carried out by a chartered Engineer (or equivalent for other disciplines) experienced in the type of work involved. Any submissions not so marked will be returned to the consultant immediately.

XIV. Review of Submissions by the Employer

40. Items submitted for review by the consultant and returned by the Employer, will be categorized as follows:

Category	Description
Accepted	Subject to its compliance with the specification and conformity with the overall design, the Employer has no comment on the submission.
Accepted with reservations as marked	Subject to its compliance with the specification and conformity with the overall design, the Employer has some comments on the submission, but they are not such as to necessitate formal resubmission. Where the Consultant makes changes to an item, an updates issue shall be provided to the Employer for record purposes.
Rejected	The Employer will indicate the grounds for his not accepting the submission; the consultant shall amend or revise the submission accordingly and resubmit the item for review.

41. Acceptance by the Employer of any drawing, structural design, method of work or any information regarding materials and equipment the consultant proposes, shall not relieve the consultant of his responsibility for any errors or omissions therein, and shall not be regarded as an assumption of risks or liability by the Employer, and the consultant shall have no claim under the contract on account of the failure or partial failure or inefficiency of any design, plan or method of work or material and equipment so accepted.

XV. Certification/Signing the drawings/document

42. All designs shall be signed and/or certified by qualified designers.

A. Qualified Designer shall mean:

43. For the preparation of architectural drawings, qualified designer shall mean a corporate member of the Institute of Architects of Sri Lanka. For the preparation of structural drawings, qualified designer shall mean a corporate member of the Institution of Engineers of Sri Lanka.

44. For the preparation of service drawings, qualified designer shall mean a corporate member of the Institution of Engineers of Sri Lanka in the relevant discipline.

45. For the preparation of electrical or mechanical drawings, qualified designer shall mean a corporate member of the Institution of Engineers of Sri Lanka in the relevant discipline.

46. Chartered Engineer shall mean a corporate member of the Institution of Engineers of Sri Lanka in the relevant discipline.

47. Quantity Surveyor shall mean a corporate member of the Institute of Quantity Surveyors of Sri Lanka

48. The consultant personnel who certify and affix their signatures should be registered under Urban Development Authority (Their names should appear in the Urban Development Authority register), and authorized to certify the drawings and documents. If such registration is not available, they should apply for the same and get registered before certifying the drawing/document.

PROJECT MANAGEMENT CONSULTANT (PMC)

I. Overview

1. The Project Management Unit (PMU) in the Ministry of Provincial Councils and Local Government and the Subproject Coordination Units (SPCUs) in the six provinces will be provided with necessary consulting services under the loan to strengthen their project management and implementation capability including engineering design and construction supervision. A Project Management Consultant (PMC) comprising international and national consultants will be located in Colombo to assist the PMU in project management activities including reviewing engineering designs, procurement, implementation and capacity building. The PMC will also assist the PMU and the SPCUs in project formulation, management, monitoring and evaluation, financial and environmental management aspects, information technology (IT), and capacity building. In addition, the PMC would be responsible for project performance and management system which includes generating baseline data and will be monitored to assess impact of the project and assess the benefits on commissioning of the Project.

2. Six teams of Design and Supervision Consultant (DSC) firms will be provided separately to SPCUs in the respective provinces to undertake detailed engineering design, preparation of construction drawings and bidding documents, procurement activities, construction supervision, quality control, and other activities associated with the project.

3. The consulting firms for the above packages will be selected in accordance with the latest procedure and guidelines set by the Asian Development Bank (ADB).

II. Objectives of PMC

4. The primary objectives of the PMC will be to (i) strengthen the PMU capacity on a sustained basis; (ii) delineate the PMU's method of working, procedures and reporting; (iii) assist the PMU in introducing and supporting local authority reforms; (iv) oversee the work of the DSCs; (v) assist the PMU in defining and preparing contracts; (vi) assist the PMU in designing, contracting, installing and operationalizing new systems and procedures as required for the implementation of the project; (vii) establish criteria for supervision, coordination and management; and importantly, (viii) oversee and coordinate the reform and institutional capacity building and training activities being undertaken under the project or under separate funding.

III. PMC Team Composition

5. PMC shall have a core team of experts to oversee the whole project activities, and subject specialists will undertake specific activities. The team would consist of an international Team Leader with expertise in Project Management and Procurement. Project Engineer would support the team on technical issues. The PMC team would also include a Institutional Development Specialist (Planner), an Environmental Specialist, a Social Safeguards and Gender Specialist, an Information Technology Specialist, two IT Coordinators, a Training and Capacity Development Expert, a Water Supply Expert, a Procurement Specialist, and a Finance Specialist.

6. Among the proposed experts, several experts will be engaged through individual consultants' selection, while others will be recruited through a firm. All experts will work as a team under the overall guidance and leadership of the international team leader.

IV. Tasks of PMC

7. The major tasks of the PMC associated with the provision of management support to the PMU during the planning, design, and implementation phases of the project are generally as follows.

A. General Management Tasks

- (i) Advise the PMU on actions required to satisfy the project assurances and covenants;
- (ii) Develop procedures and prepare guidelines for evaluation of bids including procurement of contractors wherever necessary, recommendation of awards of contracts, etc;
- (iii) Support PMU in establishing and managing a project performance and management system and a project-specific website;
- (iv) Assist PMU in screening subprojects proposed by participating local authorities and National Water Supply and Drainage Board (NWSDB);
- (v) Prepare, or as necessary amend, existing procedures and guidelines for site supervision and quality control to include guidelines and detailed job descriptions for supervision engineers;
- (vi) Assist the PMU in developing annual project work plans, job descriptions, staffing schedules and equipment budgets;
- (vii) Support the PMU in providing guidance to SPCUs on technical matters such as reviewing surveys, investigations, studies and master plans; subproject preliminary and final designs, construction drawings and estimates; bidding documents, ensuring sound supervision and quality control of project component construction and any other technical matters that arise; (It is to be noted that the review of designs and estimates by the PMC will be a general review and the responsibility of the designs, estimates; and bid documents will be that of DSCs and/or NWSDB); including providing technical guidance to SPCUs/design consultants on the preparation of safeguard documents;
- (viii) Assist the PMU in advising and supervising SPCUs with all aspects of procurement activities, including review of bidding documents and bid evaluation;
- (ix) Assist the PMU in advising and supervising SPCUs in establishing, testing and reviewing financial accounting and control systems and ensuring accurate and timely report submissions and funds flow from the ADB and onwards to the implementing agencies;
- (x) With the PMU, ensure the effective and timely delivery of the various institutional development aspects of the project;
- (xi) Assist the PMU in supervising, coordinating and monitoring the work of SPCUs and DSCs;
- (xii) Assist the PMU in advising the National and Provincial Steering Committees on various issues on the project implementation;
- (xiii) Supervision and Monitoring: Assist the PMU in monitoring the work of SPCUs and DSCs in supervision of construction activities particularly with respect to quality control procedures and quality control of the works, prepare a quality control program and implementation related issues at the local level. Investigate

particular construction problems or delays that have been reported from the site and recommend on actions to be taken to resolve the problems or overcome the delays. Assist in interpreting and applying the various legal provisions of the contract, and in amicably resolving disputes. Assist PMU in finalizing Contract variations;

- (xiv) Environmental Monitoring: Assist PMU in SPCUs' establishment of a system and training staff to monitor the project and recommend actions to be taken, in accordance with ADB's Safeguard Policy Statement;
- (xv) Social Safeguards (involuntary resettlement and indigenous people) Monitoring: Assist the PMU in supervising the implementation by SPCUs of the resettlement plans and assist with monitoring of the affected households and persons. Advise the PMU to ensure that the ADB's Safeguard Policy Statement is met;
- (xvi) Identify training needs and opportunities to enhance the efficiency of Ministry, Provinces and Local Authorities;
- (xvii) Create awareness in the importance of maintaining an up-to-date management information system and assist in its operations;
- (xviii) Assist PMU in reviewing, advising, and closely monitoring the preparation and implementation of reform plans by local authorities, which cover the areas of (a) service delivery; (b) tax, licensing, and approval system; (c) effective asset management including O&M; and (iv) governance;
- (xix) Assist PMU in developing appropriate IT tools for local authorities and assist local authorities in establishing and managing information systems improvement;
- (xx) Assist PMU in preparing various reports for submission to ADB, including quarterly progress reports, semiannual safeguards monitoring reports, and project completion report; and reports required by the ministry and other relevant institutions; and
- (xxi) Assist PMU in coordinating with other teams of consultants, particularly those working on the review and recommendation of tax, licensing, and approval systems of local government and the preparation of draft by-laws and regulations in accordance with the legal amendments to relevant ordinances and acts.

B. PMC Staffing - Indicative Personnel Requirements for PMC

1. Key experts

Sl. No.	Position	Person-Month
(a) International Consultant		
1	International Team Leader (Project Management Specialist)	24
Sub-Total (a):		24
(b) National Consultants		
2	Environmental Expert	18
3	Safeguard Expert	18
4	Institutional Development Expert	18
5	Financial Specialist	15
6	Project Engineer	33
7	Procurement Specialist	24
8	IT Specialist	27
10	Training and Capacity building Expert	9

Sl. No.	Position	Person-Month
11	Water Supply Expert	30
	Sub Total Key Experts	192
Non Key Experts		
1	IT Coordinator 01	36
2	IT Coordinator 02	36
	Sub Total Non Key Experts	72
	STotal (b):	264

2. Support staff

Sl No.	Position	Person-Month
1	Office manager/Office Secretary	36
2	Computer operator	36
3	Office Assistant	36

C. Detailed tasks of the PMC team (Key experts)

1. Team Leader (Project Management Specialist)

- (i) Advise the PMU in the project management and procurement issues;
- (ii) Advise the National and Provincial Steering Committees on project implementation and management issues;
- (iii) Assist the PMU in developing the management skills relating to strategic planning, in developing management skills and monitoring control;
- (iv) Providing administration and coordination support to PMU;
- (v) Reviewing the detailed implementation schedules covering all stages of implementation process for each subproject from field survey and investigations to acceptance of finished work;
- (vi) Assisting PMU in providing guidance to SPCUs in terms of designing contracting, installing and introducing operational new systems and procedures for implementation of the project;
- (vii) Review construction supervision of subprojects/design and supervision support including quality, cost and time controls;
- (viii) Preparation of quarterly progress reports and other reports as required to be submitted to ADB;
- (ix) Ensuring implementation of activities as defined in the scope of works pertaining to this terms of reference; and
- (x) Supervising all team members and ensuring the quality of their works.

2. Environmental Expert

- (i) Prepare internal environmental safeguards guidelines and standard reporting systems for uniform reporting by all local authorities/SPCUs;
- (ii) Review initial environmental examination reports/environmental impact assessment reports, due diligence reports and other environmental safeguards documents prepared by DSCs in relation to the Project and ensure compliance with government/ADB guidelines;
- (iii) As part of implementation, support PMU in reviewing the documentation pertaining to environmental safeguards compliance (including bidding documents, reviews on-site, reports from contractors etc.);

- (iv) Conduct audits jointly with PMU/SPCUs in matters pertaining to on-site Occupational Health and Safety and other environmental safeguard requirements;
- (v) Prepare semiannual environmental safeguard monitoring reports pertaining to overall project implementation based on inputs from SPCUs and DSCs; and
- (vi) Provide guidance, training, and capacity building support on environmental safeguards to PMU, SPCUs, and DSCs, contractors, and other stakeholders.

3. Social Safeguards and Gender Specialist

- (i) Prepare internal social safeguards and gender guidelines and standard reporting systems for uniform reporting by all local authorities/SPCUs;
- (ii) Review social safeguards (resettlement plans, due diligence reports, and indigenous peoples plans) and gender documents prepared by DSCs in relation to the project and ensure compliance with government/ADB guidelines;
- (iii) As part of implementation, support PMU in reviewing the documentation pertaining to social safeguards compliance and gender (including bidding documents, reviews on-site, reports from contractors etc.);
- (iv) Conduct audits jointly with PMU/SPCU in matters pertaining to on-site social safeguards requirements and gender;
- (v) Prepare sections of monthly/quarterly reports pertaining to implementation of gender action plan under the project;
- (vi) Prepare semiannual social safeguard monitoring reports pertaining to overall project implementation based on inputs from SPCUs and DSCs; and
- (vii) Provide guidance, training, and capacity building support on social safeguards, including public consultations and project GRM, to PMU, SPCUs, and DSCs, contractors, and other stakeholders.

4. Institutional Development Expert

- (i) Advise on the Capacity Building requirements at various levels (at Ministry of Provincial Councils and Local Government, PMU, SPCU, Provincial Council and Local Authorities) and conduct Capacity building programs as required;
- (ii) Advise on reforms required at various levels and prepare training manuals, guidelines, etc., as necessary;
- (iii) Take the lead in reviewing, advising, and closely monitoring the preparation and implementation of reform plans by local authorities to achieve the maximum improvements;
- (iv) Assist the finance expert in the preparation of monitoring mechanisms and monitoring of Reform Action Plan; and
- (v) Advise PMU, SPCU on ADB guidelines as required.

5. Finance Expert

- (i) Assist PMU and SPCUs in establishing testing and reviewing financial accounting and control systems;
- (ii) Review and monitor preparation and implementation of reform plans on financial matters;
- (iii) Guide PMU and assist PMU in guiding SPCUs on financial, staffing and administrative improvements; and
- (iv) Ensuring accurate and timely report submission and funds flow from ADB and onwards.

6. Project Engineer

- (i) Assist the Team Leader on all Technical issues and preparation of progress reports;
- (ii) Review subproject detailed designs and estimates, bid evaluation reports, and contract variations; and
- (iii) Support the PMU in providing guidance to SPCUs on technical matters such as reviewing surveys, investigations, studies and master plans; subproject preliminary and final designs, construction drawings and estimates; ensuring sound supervision and quality control of project component construction and any other technical matters that arise.

7. Procurement Specialist

- (i) Assist the Team Leader on all procurement issues and preparation of progress reports;
- (ii) Assist PMU, SPCUs in all project related procurement activities, including preparation of bid documents and bid evaluation reports, complying with the ADB guidelines and advice PMU, SPCU on any procurement issues;
- (iii) Assist PMU to periodically update prepare procurement plans; and
- (iv) Provide training to PMU and SPCU staff on procurement issues.

8. IT Specialist

- (i) Under the overall guidance of the team leader, advise the PMU on all aspects relating to procurement, design and implementation of information technology-based activities covering following tasks;
- (ii) Make necessary improvements and amendments to the existing simple information technology solution software provided to *Pradeshiya Sabhas* by the project and preparation of necessary technical documents;
- (iii) Assist PMU to implement IT-related activities, provide technical assistance and carry out required trainings to relevant *Pradeshiya Sabhas*;
- (iv) Supervise information technology coordinators; and
- (v) Coordinate and guide relevant stakeholders towards successful implementation of IT systems as required.

9. IT coordinators (2 specialists)

- (i) Under the overall guidance of the IT specialist, assist PMU to implement information technology-related activities, provide technical assistance and carry out required trainings to relevant *Pradeshiya Sabhas*; and
- (ii) Make necessary improvements and amendments to the existing simple information technology solution software provided to *Pradeshiya Sabhas* by the project and preparation of necessary technical documents.

10. Training and Capacity building Expert

- (i) Conduct capacity building trainings for the *Pradeshiya Sabhas* in coordination with the SPCUs and other relevant parties;
- (ii) Develop a mechanism for the monitoring of implementation of CDTA guidelines and for reform plan implementation in *Pradeshiya Sabhas* and monitor the progress and provide assistance; and
- (iii) Prepare reports required by the ADB, Ministry and other relevant institutions pertaining to training and capacity building activities.

11. Water Supply Expert

- (i) Review all designs, estimates, detailed project reports, bid documents, and bid evaluation reports on water supply subprojects;
- (ii) Support the PMU in providing guidance to SPCUs on technical matters on water supply subprojects such as reviewing surveys, investigations, studies and master plans; subproject preliminary and final designs, construction drawings and estimates; ensuring sound supervision and quality control of project component construction and any other technical matters that arise;
- (iii) Advise PMU and SPCUs on technical issues and assist PMU on finalizing variation claims pertaining to the water supply subprojects;
- (iv) Assist the Team Leader on all technical issues and preparation of progress reports on water supply subprojects;
- (v) Assist PMU and SPCUs in ensuring close coordination and collaboration with NWSDB; and
- (vi) Preparation of reports required by the ADB, Ministry and other relevant institutions.

V. General Deliverables

8. The General Deliverables with time lines of some common report are as follows:

Type of Report	Time Line	Contents
Inception Report	Within 30 days of Mobilization	The report shall outline the consultant's initial findings and confirm the methodology and detailed work program proposed for adoption in the light of the initial findings, while also identifying constraints and proposed solutions, together with any action required by project management unit (PMU) to facilitate the successful implementation of the service.
Monthly Report	Within 5 th of every month	Using standard report format or suitable format developed in consultation with PMU to show detailed progress against target, in respect of all project elements and out puts. All monthly project correspondences shall be submitted in soft copy together with monthly progress reports. The report will cover the activities performed during the reporting period. A suitable number of color photographs with date imprint should be included which will illustrate progress and any difficulties encountered on the work place.
Quarterly Progress Report	Within 20 days after the end of the quarter	The report will be similar to the monthly reports but will be more detailed and informative, for ready submission to Asian Development Bank. It includes important information of the quarter and an update of project cost estimate, expenditure, variation and reasons for the same. The report will also include relevant details of activities performed and plan of activities to be performed during the next quarter. A suitable number of color photographs with date imprint should be included which will illustrate progress and any difficulties encountered on the site. The format will follow the outline indicated in the project administration manual.
Semiannual safeguards monitoring reports	Within 20 days after the end of the 6 months	The report describes implementation of safeguards, separately prepared for environmental and social safeguards. The format will follow the outline indicated in the project administration manual.
Final Completion	Within one month of	The report will be a comprehensive report on the consultancy service throughout the contract. It will describe the achievements of the

Type of Report	Time Line	Contents
Report	completion of the project	project. The format of the completion report will be prepared by the consultant team with approval of PMU. All relevant and important issues of the consultancy service will be included in the report including experience gained and lessons learnt. Necessary courses of action to be taken in future will be included.

Notes: Any other report(s) as required and/or requested by the PMU.

All draft and final reports to be submitted in three hard copies and final reports.

Appendix 8: Consultation and Participation Plan

A. Introduction

1. As argued by the proponents of sustainable development, any interventions on natural resources management, governance, and infrastructure development must be transparent, accountable, representative, and participatory. In the recent past, the ‘participation’ of all the stakeholders including the beneficiaries of development initiatives has become an integral component and essential aspect of projects and programs. In other words, to work effectively and for development projects to be successful, civic engagement in governance is crucial. The incorporation of planning practices in the Local Authorities and subproject process (from identification to execution) through a defined consultative and participation plan is being followed in the ongoing project, Local Government Enhancement Sector Project (LGESP)¹ supported by ADB for local authorities. The scope of the process is in terms of involvement of all stakeholders such as groups or individuals who are either benefited or affected by a policy/project or those groups or individuals who can affect the policy/project. Stakeholders can be individuals, communities, social groups, organizations, etc. Generally the poor and the marginalized (women, children, elderly, disabled, orphans, landless laborers) are often ignored either because they are unaware and not consulted or because they do not have a forum to express their views.

2. Identifying and consulting all stakeholders, especially the marginalized and/or vulnerable is important to ensure that a project meets the need of all sections of the people. Further, consultations open up the line of communication between the various stakeholders and the project implementing authorities, thereby aiding the process of resolving conflicts at early stages of the project rather than letting it escalate into conflicts resulting in implementation delays and cost overrun. Participation of the local community in decision-making will help in prioritizing projects and identifying cost effective measures in mitigating adverse impacts and evolve ownership to the assets created through the interventions. There are also needs and possibilities of participation beyond implementation.

B. Consultation and Participation Strategy and Plan

3. Consultations were held for all subprojects implemented under the current project with target sections as affected households (if any), beneficiaries of subprojects, elected representatives and other stakeholders. Further, consultations were held during subproject finalization to assess the magnitude of involuntary resettlement in each subproject (if any). The projects proposed by *Pradeshiya Sabhas* for assistance from ADB aim at improving access to growth and social services, environmentally sound health and sanitation practices and contribute to overall development of the local authority.

4. Improving provision for water supply, sanitation and other essential forms of infrastructure and services must be based on an understanding of the needs and priorities of those who, within households, are responsible for water collection, sanitation, disposing of solid waste and other daily necessities. In most instances these responsibilities fall on women who are rarely consulted. Further, the poor who do not have a forum to express their needs are often not consulted in projects and schemes that aim at improving their standard of living. Keeping this in mind, the government as part of the project, has developed a consultation and

¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for Local Government Enhancement Sector Project*. Manila.

participation plan from the sub-project identification stage through the implementation stage (Table A8) and possible options of participation in operation and maintenance of localized facilities.

5. While the project identification will be on an inclusive basis, in line with the proposed amendment to legislation, the government intends to mainstream participation by women and youth. Besides improved planning, the project would also enhance planning by participatory methods which would possibly extend to operation and maintenance.

Table A8: Consultation and Participation Plan

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
Planning stage	Beneficiaries including women, youth and marginalized social groups	Focus group discussions	Overview of the proposed project and interventions Definition of issues and constraints in access to services and resources List of needs and initial prioritization Reform plan	Number of Consultation sessions carried out for various stakeholder groups including number of participants Number of comments and/or suggestions received and converted into actions and/or projects Base line indicators in relation to select DMF targets At least 15% participation by women (target)	Summary of consultations with each group. Baseline indicators in relation to select DMF targets	Local authority (assisted by PMU, SPCU, DSC)
	Elected representatives/ leaders of Local Authorities	Council level meetings and presentations.				
	Civil society organizations – women's society / youth associations, others as identified	Key informant interviews with leaders				
	Local registered nongovernment organizations	Focus group discussions				
	Trades Association	Focus group discussions				
	Academic institutions	Focus group discussions				
	Elected representatives / leaders of local authorities	Class room discussions or orientation and training	Orientation/training of local authorities; leaders in participatory approaches decision making and M&E	Number of leaders of local authorities trained.	Summary of orientation.	
	CKD patients for water supply	Focus group discussions	Problems of the areas and suggestions for	Number of patients	List of issues faced by CKD	SPCU, Local authority

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
	projects in CKD areas		improvement.	attended the meeting.	patients.	
Subproject identification stage	Beneficiaries including women, youth, and marginalized social groups	Focus group discussions Information leaflets about subproject and benefits. Newspaper articles seeking feedback Open house meetings	Overview of service requirements Subproject selection criteria <ul style="list-style-type: none"> Reason for prioritizing the subproject Improvements and/or benefits envisages User contribution requirements Implementation schedules and arrangements 	Number of consultation sessions carried out for various stakeholders groups including number of participants	Note of views received and incorporated into the selection of subprojects.	Local authority (assisted by PMU, SPCU, DSC)
	Elapsed representatives / leaders of local authorities	Key informant interviews Information leaflets about subproject and benefits Open house meetings	Willingness to pay assessments Possibility of community participation in O&M.			
	Civil society organizations – women's society / youth associations. Others as identified.	Information leaflets about subproject and benefits. Open house meetings.				
	Local registered nongovernment organizations	Information leaflets about subproject and benefits. Open house				

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
		meetings.				
	Traders association	Information leaflets about subproject and benefits. Open house meetings.				
	Academic institutions	Information leaflets about subproject and benefits. Open house meetings.				
	CKD patients for WS projects in CKD areas	Focus group discussions	Quality of water supplied in areas and problems faced and their priorities for safe water supply.	Number of patients attended the meeting	Meeting records	SPCU, Local authority
Subproject design stage	Beneficiaries including women, youth, and marginalized social groups. Elected representatives / leaders of local authorities	Focus group discussions Newspaper articles seeking feedback Open house meetings Household	Summary of reports (DPR/IEE/Resettlement Plan/IPP) Design criteria <ul style="list-style-type: none"> Alternative considered project components involving land acquisition mitigation measures Environmental impacts and mitigation measures 	Number of consultation sessions carried out for various stakeholders groups including number of participants Agreement on O&M arrangements	Note on views of participants Number of objections and/or suggestions received and actions taken Baseline	Local authority (assisted by PMU, SPCU, DSC)
	CKD patients for water supply project in CKD	Focus group discussions questionnaire	Perception on impact of water supply and sources they use presently Cost of the project likely	Number of patients attended the meeting	Meeting minutes indicators in relation to select DMF	SPCU, Local authorities, DSC

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
			changes, if any Specific arrangements for involvement of communities in O&M, if appropriate		targets Draft agreement documents	
	Affected households	Focus group discussions Household questionnaire	Summary of reports (DPR/IEE/Resettlement Plan/IPP) Design criteria <ul style="list-style-type: none"> • Alternatives considered • Extent of land acquisition and mitigation measures • Proposed resettlement and rehabilitation measures, if any 	Number of consultation held	Views of participants Number of objections and/or suggestions received and action taken Feedback on rehabilitation and restoration measures	
Subproject implementation stage	Elected representatives and/or leaders of local authorities Interest groups and vulnerable groups Civil society organizations, women's society and/or youth associations, Others as identified Local registered nongovernment organizations	Focus group discussions Monitoring surveys Periodic open house meetings Newspaper articles Display of project details on site	Progress of implementation Temporary impacts and/or discomfort to public Advance communication about civil works schedule Quality and adequacy of environment and social mitigation measures undertaken Share design changes, if any reason for the same alternatives considered Efficacy of the grievance redressal system Labor standards and safety measures Awareness measures Sanitation and water	Number of consultation sessions carried out for various stakeholders groups including number of participants	Views of participants and/or grievances received and action taken report	Local authority contractor PMU, SPCU, DSC

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
	Traders association Academic institutions		conservation HIV/AIDS and other communicable diseases Formulation of use and/or community groups responsible for O&M			
	Affected households	Focus group discussions	Grievance redressal mechanism Temporary impacts review		Report on grievance redressal and actions on temporary impacts.	
	User group	Focus group discussions	O&M issues, structure of arrangements and agreements	Consultations held Formulation of necessary committees and selection of key staff	Minutes of consultation Agreements on O&M arrangements	
Post project implementation	Beneficiary communities	Structured meetings Focus group discussions Individual interviews	O&M issues and/or Management by user and/or community groups –in small or localized community infrastructure and Polas Satisfaction levels Performance in relation to DMF targets	Number of project/activities transferred Performance in terms of efficiency of O&M	Notes on beneficiaries perception of project benefits Feedback reports Community satisfaction	Local authority and community user groups
Monitoring and evaluation	Beneficiary communities User groups Elected representatives and/or leaders of local	Individual interviews Focus groups discussion	Participation in evaluation feedback to the local authority on benefits Monitoring service delivery Impacts on women and vulnerable amongst the beneficiaries and/or user	Numbers of local leaders who participated in M&E activities	Note and/or report Facility specific performance Progress on reforms Impacts on	Local authority in consultation with beneficiary communities and user groups

Project Cycle	Target Group	Consultation Tools	Consultation and Participation Target	Indicators	Source of Verification	Responsibility
	authorities		groups Progress on Reform Plan Comparison with DMF targets		women and vulnerable groups	

CKD = chronic kidney disease, DMF = design and monitoring framework, DSC = design and supervision consultant, DPR = detailed project report, IEE = initial environmental examination, IPP = indigenous peoples plan, M&E = monitoring and evaluation, O&M = operation and maintenance, PMU = project management unit, SPCU = subproject coordination units.

Appendix 9: Outline Quarterly Progress Report Program

A. Introduction and Basic Data

- ADB loan number, project title, borrower, executing agency, implementing agency(ies);
- total estimated project cost and financing plan;
- status of project financing including availability of counterpart funds;
- dates of approval, signing, and effectiveness of ADB loans;
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- date of last ADB review mission.

B. Utilization of Funds (ADB Loan, and Counterpart Funds)

- cumulative contract awards financed by the ADB loan, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets);
- cumulative disbursements from the ADB loan, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely.

C. Project Purpose

- status of project scope/implementation arrangements compared with those in the Report and Recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements; and
- an assessment of changes to the key assumptions and risks that affect attainment of the development objectives.

D. Implementation Progress

- provide a brief summary assessment of progress or achievements in implementation since the last progress report;
- assessment of the progress of each project component, such as,
 - recruitment of consultants and their performance;
 - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and
 - the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the

- relationship between physical and financial performance, and actual progress in comparison with the original schedules; and
- an assessment of outcome/output achievements versus targets – based on project performance monitoring system (PPMS) developed from design and monitoring framework of the project.

E. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

F. Compliance with Safeguards and Covenants

- review the borrower's compliance with policy loan covenants, and, where relevant, provide any reasons for any noncompliance or delay in compliance; and
- provide a summary assessment of compliance with resettlement and environmental safeguards.

APPENDIXES

1. Summary Loan Covenant Review
2. Summary Gender Action Plan Progress (separate format available)

Monitoring Format of Gender Action Plan Implementation

Date Prepared

Project Title:

Country:

Project No.

Loan No.

Type of Project (Loan/ TA/JFPR):

Approval and Timeline/Duration of the Project:

Gender Category:

Mission Leader:

Name of Gender Specialist/ Gender Focal Point:

Quarter Covered by Update:

Project Impact:

Project Outcome:

Activities, Indicators, Baseline, Targets, Timeframe and Responsibility	Progress to Date		Issues and Challenges (Please include reasons why an activity was not fully implemented, or if targets fall short, or reasons for delay, etc.)
	Progress for the Quarter (This should include information on progress for the current quarter-- qualitative and quantitative updates (sex-disaggregated data))	Cumulative Progress (This should include information on progress (qualitative and quantitative updates including sex-disaggregated data) from the start of the implementation of the GAP to the previous quarter's progress report.)	

[illegible]

Activities, Indicators, Baseline, Targets, Timeframe and Responsibility	Progress to Date		Issues and Challenges (Please include reasons why an activity was not fully implemented, or if targets fall short, or reasons for delay, etc.)
	Progress for the Quarter (This should include information on progress for the current quarter-- qualitative and quantitative updates (sex- disaggregated data))	Cumulative Progress (This should include information on progress (qualitative and quantitative updates including sex- disaggregated data) from the start of the implementation of the GAP to the previous quarter's progress report.)	

Comments/ Remarks:

Accomplished by: _____

Date Accomplished: _____

Appendix 10: Outline of Semi-annual Monitoring Reports

I. SEMI-ANNUAL ENVIRONMENTAL MONITORING REPORT TEMPLATE

This template must be included as an appendix in the EIA/IEE that will be prepared for the project. It can be adapted to the specific project as necessary.

Introduction

- Overall project description and objectives
 - Description of sub-projects
 - Environmental category of the sub-projects
 - Details of site personnel and/or consultants responsible for environmental monitoring
 - Overall project and sub-project progress and status
- 1.

No.	Sub-Project Name	Status of Sub-Project				List of Works	Progress of Works
		Design	Pre-Construction	Construction	Operational Phase		
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

Compliance status with National/ State/ Local statutory environmental requirements

No.	Sub-Project Name	Statutory Environmental Requirements	Status of Compliance	Action Required

Compliance status with environmental loan covenants

No. (List schedule and paragraph number of Loan Agreement)	Covenant	Status of Compliance	Action Required

Compliance status with the environmental management and monitoring plan

- Provide the monitoring results as per the parameters outlined in the EMP. Append supporting documents where applicable, including Environmental Site Inspection Reports.
- There should be reporting on the following items which can be incorporated in the checklist of routine Environmental Site Inspection Report followed with a summary in the semi-annual report send to ADB. Visual assessment and review of relevant site documentation during routine site inspection needs to note and record the following:
 - What are the dust suppression techniques followed for site and if any dust was noted to escape the site boundaries;
 - If muddy water was escaping site boundaries or muddy tracks were seen on adjacent roads;

- adequacy of type of erosion and sediment control measures installed on site, condition of erosion and sediment control measures including if these were intact following heavy rain;
- Are their designated areas for concrete works, and refuelling;
- Are their spill kits on site and if there are site procedure for handling emergencies;
- Is there any chemical stored on site and what is the storage condition?
- Is there any dewatering activities if yes, where is the water being discharged;
- How are the stockpiles being managed;
- How is solid and liquid waste being handled on site;
- Review of the complaint management system; and
- Checking if there are any activities being under taken out of working hours and how that is being managed.

Summary Monitoring Table

Impacts (List from IEE)	Mitigation Measures (List from IEE)	Parameters Monitored (As a minimum those identified in the IEE should be monitored)	Method of Monitoring	Location of Monitoring	Date of Monitoring Conducted	Name of Person Who Conducted the Monitoring
Design Phase						
Pre-Construction Phase						
Construction Phase						
Operational Phase						

Overall Compliance with CEMP/ EMP

No.	Sub-Project Name	EMP/ CEMP Part of Contract Documents (Y/N)	CEMP/ EMP Being Implemented (Y/N)	Status of Implementation (Excellent/ Satisfactory/ Partially Satisfactory/ Below Satisfactory)	Action Proposed and Additional Measures Required

Approach and methodology for environmental monitoring of the project

- Brief description on the approach and methodology used for environmental monitoring of each sub-project

Monitoring of Environmental Impacts on Project Surroundings (ambient air, water quality and noise levels)

- Brief discussion on the basis for monitoring
- Indicate type and location of environmental parameters to be monitored
- Indicate the method of monitoring and equipment to be used
- Provide monitoring results and an analysis of results in relation to baseline data and statutory requirements

As a minimum the results should be presented as per the tables below.

Air Quality Results

Site No.	Date of Testing	Site Location	Parameters (Government Standards)		
			PM10 µg/m ³	SO ₂ µg/m ³	NO ₂ µg/m ³

Site No.	Date of Testing	Site Location	Parameters (Monitoring Results)		
			PM10 µg/m ³	SO ₂ µg/m ³	NO ₂ µg/m ³

Water Quality Results

Site No.	Date of Sampling	Site Location	Parameters (Government Standards)					
			pH	Conductivity µS/cm	BOD mg/L	TSS mg/L	TN mg/L	TP mg/L

Site No.	Date of Sampling	Site Location	Parameters (Monitoring Results)					
			pH	Conductivity µS/cm	BOD mg/L	TSS mg/L	TN mg/L	TP mg/L

Site No.	Date of Sampling	Site Location	Parameters (Monitoring Results)					
			pH	Conductivity $\mu\text{S/cm}$	BOD mg/L	TSS mg/L	TN mg/L	TP mg/L

Noise Quality Results

Site No.	Date of Testing	Site Location	LA _{eq} (dBA) (Government Standard)	
			Day Time	Night Time

Site No.	Date of Testing	Site Location	LA _{eq} (dBA) (Monitoring Results)	
			Day Time	Night Time

SUMMARY OF KEY ISSUES AND REMEDIAL ACTIONS

- Summary of follow up time-bound actions to be taken within a set timeframe.

APPENDIXES

- Photos
- Summary of consultations
- Copies of environmental clearances and permits
- Sample of environmental site inspection report
- Other

Sample Environmental Site Inspection Report

Project Name _____
Contract Number _____

NAME: _____ DATE: _____
TITLE: _____ DMA: _____
LOCATION: _____ GROUP: _____

WEATHER CONDITION: _____

INITIAL SITE CONDITION: _____

CONCLUDING SITE CONDITION:

Satisfactory _____ Unsatisfactory _____ Incident _____ Resolved _____ Unresolved _____

INCIDENT:

Nature of incident: _____

Incident Issues

Resolution

Project Activity Stage	Survey	
	Design	
	Implementation	
	Pre-Commissioning	
	Guarantee Period	

Inspection

Emissions	Waste Minimization			
Air Quality	Reuse and Recycling			
Noise pollution	Dust and Litter Control			
Hazardous Substances	Trees and Vegetation			
Site Restored to Original Condition	Yes		No	

Signature _____

Sign off

Name
Position

Name
Position

II. SOCIAL SAFEGUARD MONITORING REPORT DURING PROJECT IMPLEMENTATION PERIOD

1. Following requirements of the ADB Safeguard Policy Statement (2009) and the *Operations Manual* section on safeguard policy (OM F1), borrowers or clients are required to establish and maintain procedures to monitor the status of implementation of safeguard plans and ensure progress is made toward the desired outcomes. For projects categorized as A or B in Involuntary Resettlement and/or Indigenous People, the borrowers or clients are required to submit semiannual monitoring reports for ADB review. The level of detail and comprehensiveness of a monitoring report is commensurate with the complexity and significance of social safeguards impacts (involuntary resettlement and indigenous people) and with the current status of project implementation phase.

2. This outline can be used for periodic monitoring report (semiannual) and resettlement plan/indigenous peoples plan (IPP) completion report to start the civil works in the impacted areas. A safeguard monitoring report may include the following elements:

A. Executive Summary

3. This section provides a concise statement of project scope and impacts, key findings and recommended actions.

B. Background of the Report and Project Description

4. This section provides a general description of the project, including:

- Background or context of the monitoring report which includes the information on the project, project components, safeguards categorizations and general scope of the social safeguards impacts;
- Information on the implementation progress of the project activities, scope of monitoring report and requirements, reporting period, including frequency of submission and changes in project scope and adjusted safeguard measures, if applicable; and
- Summary table of identified impacts and the mitigation actions.

C. Scope of Impacts

5. This section outlines the detail of:

- Scale and scopes of the project's safeguards impacts;
- Vulnerability status of the affected people or communities; and
- Entitlements matrix and other rehabilitation measures, as applicable, as described in the approved final resettlement plans or IPP(s).

D. Compensation and Rehabilitation¹

6. This section describes the process and progress of the implementation of the safeguards plan and other required activities as determined in the plan. This includes:

- Payment of the affected assets compensation, allowances, loss of incomes, etc.

¹ Depending on the status of the final detail design during the submission of the report this activity might not yet started. Provide the information on the expected date the activity to be conducted instead.

- to the entitled persons; and
- Provisions of other types of entitlement as described in the matrix and implementation of livelihood rehabilitation activities as determined in the plan.

7. Quantitative as well as qualitative results of the monitoring parameters, as agreed in the plan, should be provided.

E. Public Participation and Consultation

8. This section describes public participation and consultations activities during the project implementation as agreed in the plan. This includes final consultations with affected people during resettlement plan finalization after the completion of detail design; the numbers of activities conducted; issues raised during consultations and responses provided by the project team, implementing nongovernment organizations, project supervision consultants, contractors, etc.

F. Grievance Redress Mechanism

9. This section described the implementation of project grievance redress mechanism (GRM) as design in the approved resettlement plan or IPP. This includes evaluations of its effectiveness, procedures, complaints receive, timeliness to resolve issues or complaints and resources provided to solve the complaints. Special attentions should be given if there are complaints received from the affected people or communities.

G. Institutional Arrangement

10. This section describes the actual implementation or any adjustment made to the institutional arrangement for managing the social safeguards issues in the projects. This includes the establishment of safeguards unit or team and appointment of staff in the executing agency or implementing agency; implementation of the GRM and its committee; supervision and coordination between institutions involved in the management and monitoring of safeguards issues, the roles of nongovernment organization and women's groups in the monitoring and implementation of the plan, if any.

H. Monitoring Results – Findings

11. This section describes the summary and key findings of the monitoring activities. The results are compared against previously established benchmarks and compliance status (e.g., adequacy of involuntary resettlement compensation rates and timeliness of payments, adequacy and timeliness of involuntary resettlement rehabilitation measures including serviced housing sites, house reconstruction, livelihood support measures, and training; budget for implementing EMP, resettlement plan, or IPP, timeliness and adequacy of capacity building, etc.). It also compared against the objectives of safeguards or desired outcomes documented (e.g. involuntary resettlement impacts avoided or minimized; livelihood restored or enhanced; IP's identity, human right, livelihood systems and cultural uniqueness fully respected; indigenous people not suffer adverse impacts, environmental impacts avoided or minimized, etc.). For FI projects this includes the effectiveness of the Environmental and Social Management System (ESMS) managed by the FI and its participating institutions². If

² Specific for the FI projects, external agency may be required to conduct an audit of the project ESMS.

noncompliance or any major gaps identified, include the recommendation of corrective action plan.

I. Compliance Status

12. This section will summarize the compliance status of the project activities with the loan covenants, ADB SPS (2009) on SR 2 and the approved final resettlement plan(s).

J. Follow up Actions, Recommendation and Disclosure

13. This section describes recommendations and further actions or items to focus on for the remaining monitoring period. It also includes lesson learned for improvement for future safeguards monitoring activities. Disclosure dates of the monitoring report to the affected communities should also be included. A time-bound summary table for required actions should be included.

Appendix 1

- (i) List of Affected Persons and Entitlements
- (ii) Summary of resettlement plan/IPP with entitlement matrix

Appendix 2

- (i) Copies of affected people's certification of payment (signed by the affected peoples)
- (ii) Summary of minutes of meetings during public consultations
- (iii) Summary of complaints received and solution status

Appendix 11: Statement of Audit Needs Template¹

A. BACKGROUND

1. Article 14(xi) of the Agreement establishing the Asian Development Bank (the Charter) States that 'Proceeds of any loan made, guaranteed, or participated by the Bank are used only for the purposes for which the loan was granted and with due attention to consideration of economy and efficiency.' In addition, Article 14 (xiv) of the Charter requires ADB to be guided by sound banking principles in its operations. To fulfill the requirements of Article 14 (xi) and (xiv) of the Charter, ADB requires borrowers or project executing agencies to submit audited Project financial statements (APFS) and audited financial statements (AFS).

2. To fulfil the requirements of Article 14 (xi) and (xiv) of the Charter, the executing agencies for all loans or grants are subject to audit conducted by an independent auditor in accordance with standards on auditing that are acceptable to ADB.

3. The objective of the audit is to provide assurance to all stakeholders that project resources were used for the intended purposes. An audit of such financial statements includes: (i) an opinion on whether the project financial statements present a true and fair view, in all material respects, the sources and applications of project funds for the period under audit examination in accordance with an acceptable financial reporting framework; (ii) an audit opinion on whether loan or grant proceeds were used for purposes intended; (iii) an opinion on the status of compliance with loan or grant covenants; and (iv) an opinion on the compliance with the use of procedures for Imprest Account (IA) or Statement of Expenditures (SOE) procedures, where applicable. As part of the audit, the auditor would also (i) perform an assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions, and to ensure safe custody of project finance assets; (ii) determine whether the borrower and project implementing entities have maintained adequate documentation on all relevant transactions, including SOE, Force Account Works and Withdrawals where applicable; (iii) confirm that expenditures submitted to ADB are eligible for financing and identification of any ineligible expenditures, and (iv) provide details of any irregularities noted in a management letter.

B. FINANCIAL REPORTING AND AUDIT REQUIREMENTS

4. The implementing agency, or the designated project management unit (PMU), will prepare project [*consolidated*]² financial statements on an accrual basis, in accordance with the Sri Lanka Public Sector Accounting Standards (SLPSAS) or Sri Lankan Accounting Standards (SLAS).³ This shall not be construed to refer to the financial statements of implementing agency as a whole.

5. The audit of the project financial statements shall be carried out by the Auditor General of Sri Lanka⁴ in accordance with the Sri Lanka Auditing Standards⁵ as supplemented by this

¹ This template has been prepared for Project Lending to government departments and ministries in Sri Lanka. Statement of Audit Needs for Programs, Additional Financing, MFF, RBLs, FI Loans, or State Owned Enterprises using the accrual basis of accounting will need to be further tailored.

² Consolidated financial statements may be required if there are multiple IAs, or even across multiple tranches of an MFF, in case of time-sliced MFFs.

³ SLAS refers to Sri Lankan Financial Reporting Standards and Sri Lanka Accounting Standards.

⁴ In exceptional situation, as approved by the Auditor General of Sri Lanka, an external independent auditor may perform the audit of the Project financial statements instead of the Auditor General of Sri Lanka.

Statement of Audit needs. The Auditor General of Sri Lanka is the Supreme Audit Authority mandated under Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with ADBs loan agreements to audit all donor funded projects. The auditor will review that the funds received from all sources and expenditures incurred during the reporting period are as per agreed terms and conditions. This will include all expenditure to the extent that it relates to the activities of the implementing agency and PMU supporting this Project.

6. The implementing agency will submit to ADB audited project financial statements as of 31 December each year, within 6⁶ months of the end of the fiscal year in English. A complete set of audited project financial statements includes:

- (i) Audit Opinion or Report on the Project Financial Statements in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Fundamental Auditing Principles and Guidelines⁷ more commonly referred to as the International Standards of Supreme Audit Institutions (ISSAI) or national equivalent;
- (ii) Management letter (see section F below);
- (iii) Audit Opinion on Specific Donor Requirements⁸ in accordance with ISSAI 4200⁹, or national equivalent; and
- (iv) Project Financial Statements and Statement of Budget vs. Actual along with complete Notes to the financial statements including necessary break downs and details, summary of accounting policies and descriptive explanatory notes (see *Section E below*).

7. To ensure the timely submission of audited project financial statements, *[implementing agency or PMU]* will formally request the Auditor General of Sri Lanka to include *[name of project]* project audits in their yearly work plan. *[Implementing agency or PMU]* shall also ensure that progress against the Financial Reporting Table is monitored.¹⁰ To support timely submission, unaudited project financial statements should be submitted by the executing agency to the Auditor General of Sri Lanka for audit within [2 or 3] months of the end of the fiscal year.

8. In addition, *[implementing agency or executing agency]* shall also submit a copy of their own entity level audited financial statements within one month of the date of their approval by the governing body of *[implementing agency or executing agency]*.¹¹

9. The *[implementing agency or executing agency or PMU]* is responsible for the preparation and fair presentation of the project financial statements and for maintaining sufficient internal control, as determined necessary, to ensure that the financial statements are free from material misstatement, whether due to fraud or error. To this end, *[implementing*

⁵ Auditor General of Sri Lanka is an INTOSAI member and audits are conducted in terms of the provisions in the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, and conventions and best practices as adopted by the Institute of Chartered Accountants of Sri Lanka and International Organization of Supreme Audit Institutions (INTOSAI).

⁶ May be revised to 9 months in exceptional cases, in case of geographically dispersed activities under the project in line with ADB OMJ7.

⁷ Reference is limited to INTOSAI as the Supreme Audit Institution audits all ADB funded projects in Sri Lanka.

⁸ This may be combined with (i) above or given separately.

⁹ ISSAI 4200: Compliance Audit Related to the Audit of Financial Statements.

¹⁰ Timetable given as Annexure to the PAM.

¹¹ This is only applicable when (i) the implementing agency or executing agency is a separate legal entity which has its own set of statutory/regulatory required financial statements, and (ii) there is a basis for requiring these audited financial statements.

agency or executing agency or PMU] must provide the auditor with a 'Management Representation Letter' with a copy to ADB. The Letter of Representation (Management Representation Letter) to the auditor will include (where applicable):

- (i) Project financial statements are free from material misstatement, including omissions and errors and are fairly presented;
- (ii) All documents and other information in relation to the financial statements shall be made available to auditors to ensure that the audit can be commenced at any time, soon after the date of these financial statements;
- (iii) The borrower or executing agency has utilized the proceeds from the loan only for the purposes intended under the legal agreement(s);
- (iv) The borrower or executing agency was in compliance with the financial covenants of the financing agreement (specify the specific financial covenants);
- (v) The imprest fund procedure (where applicable) has been applied in accordance with the ADB Loan Disbursement Handbook;
- (vi) Adequate supporting documentation has been maintained to authenticate claims stated on the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the imprest account (where applicable); and
- (vii) Effective internal control, including over the procurement process, was maintained.

C. AUDIT SCOPE

8. The audit would cover the entire Project, i.e., covering all sources and application of funds, including the ADB, co-financiers and the Government of Sri Lanka. The Financing Arrangement as currently agreed with ADB, includes Direct Payments by ADB to suppliers and should form part of the project financial statements and be subject to audit. The Project Director shall provide all pertinent information to the Auditors including existence, use of and internal controls over resources procured and its reflection in the project financial statements, so as to facilitate comprehensive audit coverage. Audit is carried out throughout the project period, and annual Audit Report on project financial statements is issued annually. In cases where the legal agreement provides for retroactive financing, the financial statements will be prepared from the date that the first expenditure was incurred. The audit for the first year should cover transactions, which occurred from the commencement of the project till the end of the fiscal year.

9. The auditor will provide assurance as to whether the project financial statements present a true and fair view of the receipts and expenditures, and are presented fairly, in all material respects, in accordance with the SLPSAS or SLAS.¹²

10. Project financial statements are special purpose financial statements. Therefore, the audit report would be issued under ISSAI 1800 "Special Considerations - Audits of Financial Statements prepared in accordance with Special Purpose Frameworks". Accordingly, the audit report shall include an *Emphasis of Matter* (EOM) paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose

¹² Example of an unqualified opinion "In our opinion, the financial statements present fairly (or give a true and fair view of), in all material respects, the financial position as at 31 December 20XX, and the cash flows of the project for the year or period ended [date] in accordance with [the financial reporting framework specified in Note xx of the project financial statements or Sri Lankan Public Sector Accounting Standards (SLPSAS) and requirements under the loan agreement. Where guidance is not available under SLPSAS, the principles of Sri Lankan Accounting Standards (SLAS) have been applied]."

framework and as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.¹³

11. In addition, ADB will require an assessment by the auditors of compliance with provisions of the financing agreement with ADB, especially those relating to accounting and financial matters. A reasonable assurance opinion in accordance with ISSAI 4200 shall be provided that will inter alia include verification that:

- (i) Proceeds from the loan, including counterpart funds were used only for the purpose(s) intended under the legal agreement(s); and
- (ii) The [IA] were in compliance as at [insert date] with financial covenants of the legal agreement.

12. Specific financial covenants referred to above include [*insert relevant sections and clauses from loan agreement or project agreement*]¹⁴.

13. The auditor should pay particular attention to the following:

- (i) The use of external funds in accordance with the relevant legal and financing agreements;
- (ii) The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) The maintenance of proper books and records;
- (iv) The existence of project fixed assets and internal controls related thereto;
- (v) On the imprest fund procedure (where applicable), audit procedures are planned and performed to ensure (a) the imprest account (and any sub-accounts) has been managed in accordance with the Loan Disbursement Handbook, (b) cash balance of the imprest account (and any sub-accounts) is supported by evidence, (c) expenditures paid from the imprest account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in loan agreement, and (d) amounts of expenditures (and any sub-accounts) comply with disbursement percentages stipulated in loan agreement;
- (vi) Adequate supporting documentation has been maintained to authenticate claims stated on the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the imprest account (where applicable);
- (vii) That audit procedures are planned and performed to ensure (a) the SOEs have been prepared in accordance with the Loan Disbursement Handbook, (b) individual payments for expenditures stated on the SOE are supported by evidence, (c) expenditures stated on the SOE comply with the approved project purpose and cost categories stipulated in loan agreement, and (d) amounts of expenditures stated on the SOE comply with disbursement percentages stipulated in loan agreement; and
- (viii) Any weaknesses in internal controls over the procurement process.

¹³ Example of an EOM paragraph, "Without modifying our opinion, we draw attention to Note x of the project financial statements which describe the basis of accounting. These project financial statements have been prepared to assist [executing agency] to comply with the financial reporting requirements of the Asian Development Bank [and co-financiers, if relevant], and as a result, may not be suitable for another purpose". An EOM paragraph is not a qualified audit opinion.

¹⁴ Consult with OGC/FMU/FMS to ensure only the relevant financial covenants are included. These normally include extracts from Schedule 5 "Financial Matters" including covenants relating to (i) counterpart funds, (ii) procurement, and (iii) specific financial ratios. Auditor is not expected to review safeguards and other non-financial covenants in Schedule 5.

12. ADB would need a review of actions taken on the recommendations presented in the previous audit report on the progress made. The executing agency may request representative from the AGD to attend as observer to the review meetings of audit observations (particularly any serious matters).

D. PROJECT FINANCIAL STATEMENTS

13. Project Financial Statements shall be prepared using SLPSAS or SLAS. These should include:

- (i) Balance Sheet or Statement of Financial Position;
- (ii) Financial Performance and Cash Flow Statement showing the funds received and expended from ADB, Government of Sri Lanka and other financiers for [Name of Project], as well as imprest account balance for the current year, prior year and cumulative inception to date;
- (iii) Statement of Budget vs. Actual showing expenditure for the current year, prior year and cumulative inception to date; and
- (iv) Detailed notes to the financial statements including explanatory notes, break down of expenditure, reconciliation of reimbursements, Details of expenditure by Currency or Method of Funding or Output Component, Statement of Imprest Account, and Accounting Policies.

14. Project Books of Account shall be maintained by the [PMU or relevant unit] and project financial statements shall be signed and dated by the relevant authority.

15. Project Financial Statements shall provide sufficient level of detail to identify types of expenditures as identified in the allocation Table of the Grant or Loan Agreements; namely [*civil works, consulting services, training, equipment, community initiatives and design and surveys etc.*] [Optional, project may delete if not considered necessary].

16. The Project Financial Statements may also provide sufficient level of detail to be able to identify expenditure relating to each of the [#] Outputs of the Project; namely, (i) Output1: [*Name of Output*], (ii) Output 2 [*Name of Output*] and, (iii) Output 3: [*Name of Output*].¹⁵

17. The Project Financial Statements may also provide details to identify expenditures by contract packages. [Optional, project may delete if not considered necessary].

18. The first reporting period of project financial statements will commence on the date of the first financial transaction until end of the related fiscal year. However, the executing agency may apply for a deferment on the submission to ADB of the first period's financial statements and its related audit in cases where (i) the period is less than 6 months and (ii) if the total expenditure (including government share), advances to imprest, or direct payment is less than or equal to 3% of the total project costs. In such cases, the Government of Sri Lanka may agree with ADB to provide APFS from the commencement of the Project to the end of the subsequent fiscal year.

E. MANAGEMENT LETTER

¹⁵ This para may be deleted if this is not relevant for the project, i.e. there is only a single key output or it is impracticable to allocate expenditure to more than one output.

19. In addition to the audit report, ADB will require a management letter¹⁶ that should specifically:

- (i) Give comments and observations on the notes to the accounts, accounting records, systems, and internal controls that were examined during the course of the audit;
- (ii) Identify specific deficiencies and areas of weakness in the accounting and internal control systems, including irregularity in the use of imprest fund and SOE procedures and any internal control weaknesses related to the procurement process (i.e., bidding, evaluation, and contract management);
- (iii) Make recommendations for their improvement;
- (iv) Where it does not cause undue delay, obtain [*implementing agency*] response to the identified deficiencies along with timeframe for implementation;
- (v) include matters that have come to attention during the audit which might have a significant impact on the implementation of the Project;
- (vi) Follow-up on the status of significant matters and audit recommendations made in preceding years; and
- (vii) Provide details of any ineligible expenditure identified during the audit.¹⁷

20. Serious issues, which affect the auditor's opinion as to whether the financial statements give a true and fair view, should be referred to in the audit opinion. Matters which are not material and do not affect the fair presentation of the project financial statements should not be referred to in the audit opinion, and only addressed in the Management Letter. The auditor may wish to re-iterate serious issues already identified in the audit report, in his management letter as well. Auditors are encouraged to clearly segregate the management letter, and mark the management letter as 'confidential', to enable its easy separation from the audit opinion and project financial statements, and prevent inadvertent disclosure of the management letter along with the APFS.

F. GENERAL

21. Review missions and normal program supervision will monitor compliance with financial reporting and auditing requirements and will follow up with concerned parties, including the external auditor.

22. ADB has made [*implementing agency*] aware of its approach on delayed submission, and the requirements for satisfactory and acceptable quality of the audited financial statements.¹⁸

¹⁶ Audit observations form part of the Report of the Auditor General of Sri Lanka. Further guidance can be obtained from ISSAI 1265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.

¹⁷ Expenditures are ineligible if (i) incurred for purposes other than the ones intended under the legal agreement(s); (ii) not allowed under the terms of the legal/financing agreements; and (iii) incurred in violation of applicable country or government regulations.

¹⁸ ADB's approach on delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within six months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursements, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.

23. ADB retains the right to verify or have audited (i) the project, (ii) the validity of [IAJ]'s certification for each withdrawal application, and (iii) that ADB's financing is used in accordance with ADB's policies and procedures.

24. In case an external auditor needs to be commissioned for a supplementary audit, the auditor should be given access to all legal documents, correspondences, and any other information associated with the commission and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding with ADB and the Government, etc.

G. PUBLIC DISCLOSURE

25. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by ADB's Public Communications Policy (2011).¹⁹ After review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days upon date of their receipt by posting them on ADB's website. The Audit Management Letter contains proprietary information intended solely for the needs of the management will not be disclosed by ADB. Entity level financial statements will also not be disclosed.

*Note: This is a statement of audit needs for ADB and does not in any way intend to limit the scope of the statutory audit.*²⁰

(iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

¹⁹ Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>.

²⁰ SOAN should be explained to the PMU and a copy shared by the executing agency with the auditor prior to commencement of the audit.