



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 05-Aug-2021 | Report No: PIDA31609

**BASIC INFORMATION****A. Basic Project Data**

Country Sri Lanka	Project ID P176164	Project Name Inclusive Connectivity and Development Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 15-Jul-2021	Estimated Board Date 05-Oct-2021	Practice Area (Lead) Transport
Financing Instrument Investment Project Financing	Borrower(s) Democratic Socialist Republic of Sri Lanka	Implementing Agency Ministry of Highways	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to provide safe, efficient and climate resilient connectivity and supply chain to empower project communities in Sri Lanka.

Components

Enhancing Safe and Climate Resilient Transport Connectivity
Enhancing Supply Chain and Access to Services for Farmers

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	500.00
Total Financing	570.00
of which IBRD/IDA	500.00
Financing Gap	-70.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	500.00
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Non-World Bank Group Financing

Commercial Financing	70.00
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Unguaranteed Commercial Financing

70.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

- Sri Lanka is a lower-middle-income country with a total population of 21.8 million and a Gross Domestic Product (GDP) per capita of US\$3,852 (2019).** Following 30 years of civil war that ended in 2009, the economy grew at an average 5.3 percent during 2010-2019, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth; however, growth slowed down in the last few years. The country has been gradually transitioning from a predominantly rural-based production economy towards a more urbanized economy oriented around manufacturing and services. Sri Lanka has also made notable strides in reducing poverty and sharing prosperity among the less well-off. The US\$3.20 poverty headcount rate declined from 19.4 percent in 2009/10 to 9.2 percent in 2019. Extreme poverty is rare and concentrated in some geographical pockets. Social indicators including human capital outcomes, and high literacy rates compare favorably with those in middle-income countries.
- Weak fiscal buffers and a high debt burden have constrained the government's ability to support growth and facilitate economic transformation.** Sri Lanka's revenue collection (12.6 percent of GDP, 2019) is low relative to its peers. As a share of GDP, the Public and Publicly Guaranteed debt rose from 85.3 percent in 2015 to 94.3 percent in 2019. With approximately 50 percent of debt foreign exchange denominated, the government's refinancing requirements are expected to remain high in the short to medium-term.
- The COVID-19 induced crisis is exerting a severe impact on the economy, while exacerbating an already challenging macroeconomic situation.** Real GDP contracted by 3.6 percent in 2020. Key transmission channels include a decline in export earnings (tourism, textiles, tea) and subdued domestic demand. The pandemic triggered sharp jobs and earnings losses in the informal sector and some formal sectors such as the apparel industry. As a result, poverty is expected to have increased to 12.5 percent in 2020. The combined effect of a pre-COVID stimulus package and the impact of COVID-19 on government revenue and expenditures have worsened fiscal balances.

Sectoral and Institutional Context



4. **The rural areas form a significant part of Sri Lanka's economy, yet they lag behind urban areas in terms of development, resilient connectivity and accessibility to basic services and economic opportunities.** Rural population accounts for over 80 percent¹ of Sri Lanka's total population and contributes to 52.7 percent² of the country's labor force. Additionally, over 90 percent of the poor reside in rural areas. Among those working in the rural sector, only 35 percent are women³. Rural areas are also characterized by higher fertility and mortality than the urban sector.⁴

5. **The agriculture sector remains vital for the Sri Lankan economy.** With the majority of the working age rural population engaged in agricultural activities⁵, it forms the primary source of livelihood for rural communities. The agriculture sector contributes 6.9 percent to GDP and employs approximately 27 percent of the population who are highly vulnerable to variability of rainfall due to climate change. It also provides raw materials to the food and beverage manufacturing sectors, which brings the total contribution of the sector to around 26 percent of GDP.

6. **Gaps in infrastructure and services still limit the growth of the smallholder agriculture sector.** Additional investments are required to realize the potential of its smallholder agriculture sector to further diversify into high value produce and effectively link farmers to markets. The country was ranked 94th in the 2018 World Bank Logistics Performance Index, primarily due to underperformance in trade and transport related infrastructure, and the quality of logistics services. Inadequate infrastructure, such as collection centers, warehouses and cold storage facilities, poor road connectivity and inadequate transport facilities, has resulted in increasing post-harvest losses (which are estimated at 30 to 40 percent of commercial production⁶) and high logistics costs. Currently there are 14 Dedicated Economic Centers which function as wholesale markets for produces, however, these facilities lack critical infrastructure such as cold storage, grading/sorting capacity and digitalization. Addressing these shortfalls and strengthening agro-logistics to reduce post-harvest losses requires improving the value chain from farmer to consumer, whether in domestic or export markets, which requires collaboration between the public and private sectors.

7. **Road transport, being the only mode of transport in many rural areas, plays a key role connecting the rural population with economic opportunities and social services.** In Sri Lanka, it is estimated that roads carry 95 percent of passengers and 98 percent of freight. Therefore, uninterrupted road connectivity is critical for the rural communities to access health care, education, employment opportunities, and other basic services. The agriculture sector, which is the main source of livelihood for the rural community, is also entirely dependent on the road network to deliver inputs and connect farmers to domestic and international markets. As small-scale producers (average farm size is less than 2 hectares) are dominant in the sector, a dense road network is required to connect farmers to these markets and to reduce the post-harvest losses.

¹ Economic and Social Statistics of Sri Lanka 2020, Central Bank of Sri Lanka -

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/otherpub/ess_2020_e1.pdf

² Economic and Social Statistics of Sri Lanka 2020, Central Bank of Sri Lanka -

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/otherpub/ess_2020_e1.pdf

³ <http://www.statistics.gov.lk/GenderStatistics/StaticInformation/ContributiontoEconomy/EconomicallyActivePopulationbySectorAndSex2017-2019> (Accessed 25th March 2021)

⁴ Aging population of Sri Lanka – A thematic Report based on Census of Population and Housing 2020, Department of Census and Statistics -

https://srilanka.unfpa.org/sites/default/files/pub-pdf/UNFPA%20Ageing%20Monograph%20Report_0.pdf

⁵ Aging population of Sri Lanka – A thematic Report based on Census of Population and Housing 2020, Department of Census and Statistics -

https://srilanka.unfpa.org/sites/default/files/pub-pdf/UNFPA%20Ageing%20Monograph%20Report_0.pdf

⁶ Pre-Feasibility study for cooling and cold-chain technology for agriculture and agribusiness development - final report, April 2019



8. **Only 13 percent of the rural roads are paved, resulting in poor accessibility and connectivity, and poor road safety, as well as high transportation costs for the rural community to access basic services and economic opportunities.** Sri Lanka has a classified road network of about 120,000 km: (i) national highways - Classes A and B (12,380 km, 10 percent); (ii) provincial roads - Classes C and D (18,900 km, 16 percent); and (iii) local/rural roads - Class R (88,200 km, 74 percent). While nearly all national roads are paved, only 67 percent of the provincial roads and 13 percent of rural roads are paved and in good condition. Road safety is the worst in the region with annual number of fatalities around 3,000, twice the average rate in high-income countries and five times that of the best performing countries.

9. **The poor rural road conditions also lead to increased vulnerability in face of climate events or other public health emergencies such as the COVID 19 pandemic. Transport disruptions due to climate change impacts such as intense rainfall and subsequent flooding and slope failures/ landslides in particular represent a major hurdle for the provision of sustainable and resilient access to social and economic facilities to rural farmers and communities.** Sri Lanka is highly prone to extreme climate related events with consequences such as flooding and landslides which in turn cause road damage and transport disruptions that are expected to increase in the future. The total assessed damages and losses to the transport sector is LKR 13,076.2 million due to 2017 floods and landslides⁷. Public bus services, which operated on the damaged roads, or went under water, were interrupted during the flooding. The National Adaptation Plan of Sri Lanka (2016) notes that the impacts of climate induced disasters, especially landslides, were disproportionately larger for the poorest sectors of population. Local transport infrastructure, including rural and provincial roads, the only mode for rural farmers to reach markets, is more vulnerable to floods, coastal inundation and slope failures/landslides due to lack of strategic network planning to select the most vulnerable areas and climate-smart investment prioritization, generally poor design standards that do not account for increased climate variability, and lack of adequate maintenance. The impact of the climate induced rainfall variability has resulted in increasing the already large maintenance backlog, increased and frequent emergency rehabilitation and loss of agriculture harvest and damages to arable land. With limited resources, the intent is thus to better plan prioritize and design rural road and community infrastructure investments considering the climate vulnerability area maps to withstand the impacts of the climate change.

10. **Institutional fragmentation, insufficient funding for new roads and for maintaining existing roads, lack of systematic resilience planning and inadequate capacity at the local level are key institutional challenges to providing all weather access roads for the rural communities.** The national highways fall under the Ministry of Highways (MoH) and are managed by Road Development Authority (RDA); the provincial roads are managed by the Ministry of Public Services, Provincial Councils and Local Government (MPSPCLG) and nine provincial road agencies (Provincial Road Development Authorities / Departments (PRDA/Ds) under MPSPCLG); management of the local/rural roads is the responsibility of over 300 separate Municipal Councils, Urban Councils, and Pradeshiya Sabhas⁸. Such a large number of road management agencies (approximately one for every 330 km of roads) is inefficient and is a barrier to streamlining institutional and technical capacity growth.

11. **As part of the Government of Sri Lanka (GoSL)'s national development strategy "Vistas of Prosperity and Splendour", agriculture is prioritized as a driver of economic growth and for the sector**

⁷ PDNA 2017

⁸ 24 Municipal Councils, 41 Urban Councils, 276 Pradeshiya Sabhas



to become a “global player” based on the smallholder model. The Agriculture Sector Modernization Project (ASMP, P156019)) which is financed by the World Bank and European Union⁹, supports increased agriculture productivity, improved market access, and enhanced value addition of smallholder farmers and agribusinesses.

12. The GoSL has also prioritized improving accessibility and connectivity of rural Sri Lanka through the 100,000 km rural roads development program, which is a part of the national development strategy.

The fundamental underpinning of the program is GoSL’s vision to enhance rural connectivity by improving the growing proportion of the provincial and rural road network in poor condition¹⁰. The program is expected to build on ongoing provincial and rural road initiatives financed by the World Bank and ADB. The ADB has financed the US\$1.7 billion “Integrated Road Investment Programs” (iRoad I and II), which cover the rehabilitation of almost 7,000 km of predominantly rural roads implemented solely by RDA with track record of disbursement. The World Bank’s ongoing Transport Connectivity and Asset Management Project (TCAMP) is financing the rehabilitation of about 400 km of provincial roads. While these programs have been quite successful in improving connectivity for some rural communities, they cover less than 10 percent of the overall GoSL program. The GoSL is now scaling up by building on the lessons learnt and is establishing a comprehensive system to enhance rural connectivity in an inclusive manner and to improve rural livelihoods.

C. Proposed Development Objective(s)

Development Objective (From PAD)

13. The Project Development Objective (PDO) is to provide safe, efficient and climate resilient connectivity and supply chain to empower project communities in Sri Lanka.

Key Results

14. The proposed PDO Indicators are:

Climate Resilient Accessibility

- i. Project beneficiaries with improved climate resilient road access to markets, schools and health facilities in selected districts in project-financed areas (number, gender disaggregated)

Efficiency

- i. Number of smallholder farmers with reduced travel time to output markets in selected districts in project-financed areas (gender disaggregated)

⁹ Originally US\$125 million equivalent and currently processing US\$28 million additional financing with a 18 month extension

¹⁰ The 100,000 km of rural roads to be improved comprises 33 percent of the 18,900 km of provincial roads and 87 percent of the 69,300 km rural roads in poor condition, together with additional roads currently in good condition which would fall into poor condition category over time due to delayed or poor maintenance



- ii. Average sales of agriculture products in selected districts in project-financed areas (measured by the increase in average sales due to project interventions)

Safety

- i. Proportion of project-financed roads with safety audits (Percentage)

D. Project Description

15. The project development objective will be implemented through improved rural roads network, agro-logistics infrastructure and services, as well as institutional strengthening that will ultimately help poverty reduction. Under the project, a priority list of rural roads will be improved and rehabilitated, along with improvements on ancillary infrastructure and services related to transport and agro-logistics.

16. **Component 1: Enhancing Safe and Climate Resilient Transport Connectivity (US\$450 million):** This component will finance planning, review and monitoring, knowledge sharing, design, civil works, and contract management related to rehabilitation/improvement, and maintenance of an estimated 3000 km of priority rural roads spread across all nine provinces. Climate and disaster vulnerabilities will be a key criterion considered in roads prioritization and all roads will be improved to withstand climate risks. This component will also focus on institutional strengthening for better road management and building capacity for stakeholders engaged in the local road construction industry in asset management, road safety, climate resilience as well as development and adoption of technical guidelines on bioengineered solutions for road construction.

17. **Component 2: Enhancing Supply Chain and Access to Services for Farmers (US\$50 million):** This component will augment the rural roads investments for better impact by supporting complementary infrastructure and services. This will support the construction and/or rehabilitation of produce collection points adjacent to the road networks being improved under the project. Assessments will be carried out to identify specific interventions to further improve the agriculture supply chains, such as the dedicated economic centers, the policy and institutional framework for agro-logistics and leveraging private investments in areas such as introducing innovation into agro-logistical aspects of value chains, improving market access for smallholder producers, supporting green and/or climate resilient technologies etc.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

18. The Environmental and Social risk classification of the Project is set at “Substantial” given that the exact nature of project activities, in terms of exact project infrastructure designs and locations remain



largely undetermined at the appraisal stage. While it can be considered that the scope of rural roads rehabilitation under Component 1 and the rehabilitation work associated with agro-logistical and community infrastructure and those that will be potentially financed via the matching grant scheme in Component 2, will be small to medium scale, the multiple nature of projects and sporadic spread of project locations further enhance the risks associated.

19. In terms of Environmental Risks, project activities to be financed will specifically include, under Component 1 related to the rehabilitation/improvement of 3000Kms of rural roads and under Component 2 the construction and/or rehabilitation of produce collection points adjacent to the road networks being improved under the project and the matching grant program which will target eligible investments by agribusinesses, such as: the upgrading/establishing cold storage facilities/pack houses, ambient warehouses, and processing facilities; digital enablement of logistics facilities and transportation services; and innovative and green logistics services, including end-to-end handling and transport services and clean/green transport solutions. It is assessed that these interventions are potential unlikely to have significant individual site level adverse risks or impacts on human populations and/or the environment at an individual scale at the level of subproject level receptors, as they mostly entail rehabilitation activities. While, site specific impacts will only be determined once project locations and technical aspects such as nature of infrastructure, use, footprints, and other specificities are confirmed. Potentially impacts can be addressed through comprehensive environmental and social screening and conventional mitigation and management measures. It is also not expected that the project will have adverse impacts to environmentally or socially sensitive areas as the project sites will be largely located within pre-settled areas of human habitation such as per urban settlements, villages and agricultural areas. As such, the potential risks and impacts and issues are predictable and expected to be temporary and/or reversible; low in magnitude; site-specific, without likelihood of impacts beyond the actual footprint of the project.

20. Agro-logistics infrastructure that will be supported via Component 2.1 and 2.3, such as rehabilitation of cold-storage, storage facilities, may also potentially involve the generation of hazardous chemicals and handling of (removed) asbestos in old infrastructure that would need to be handled with adequate guidance in line with Bank guidance on the subject of 2009. Negative impacts are anticipated mainly during the rehabilitation/construction period, which includes nuances such as dust, noise, use of natural resources such as sand and aggregate for civil works, associated occupational health and safety risks, which will largely be within the existing footprints and can be managed through implementation of engineering measures and good construction site management. Specific to the road rehabilitation/improvement works, off-site activities may include the operation of contractor owned quarries, borrow pit and asphalt plants, which if not managed properly, may cause localized adverse impacts. The project also has positive impacts, such as providing opportunities to pilot more bio engineered solutions and greening on rural roads as well as will help enhance handling of current safety and community health issues associated with the dilapidated conditions of most of these rural roads. Via component 2 the project also aims to enhance green logistics the use of solar based logistics and more hygienic operations around agro processing and logistics that will minimize the generation of waste via these processes.

21. In terms of social risks, construction works will mainly occur within the existing right-of-way with the nature of interventions limited mostly to rehabilitation, upgrading from dirt to asphalt rural roads, and in some instances, widening of local roads, may also be required. There might be a need for land acquisition either for road widening or construction of agriculture/community infrastructure such as cold



storage facilities, community centres, etc. However, the land required is envisaged to be either very small scale or mostly linear and narrow strips of the land by the road. Improving the safety standards of the roads will be important and this project could be used as an opportunity to improve the safety standards, especially for the roads within inhabited settlements. Likewise, the project will also support improvement of economic and community infrastructure, community mobilization as well as business skills and entrepreneurship development of women and youth, that will help improve rural economy and livability. Civil works under the project is expected to be carried out by domestic companies and thus the project could support generation of the road maintenance related jobs especially given that the labor will mostly be hired locally. Designs of all project interventions will be executed in a participatory and inclusive manner, to ensure that all community members fully benefit from the connectivity opportunities generated by the project.

22. In line with the World Bank's ESF, the Road Development Authority (RDA) has developed an Environmental and Social Commitment Plan (ESCP) and as an overarching guidance document an Environmental and Social Management Framework (ESMF), that includes sub-project negative lists; site selection procedures; procedures for screening all sub-projects for E&S risks and impacts; designing assessment and mitigation measures in accordance with relevant ESSs; a framework for monitoring and reporting on due diligence implementation; and institutional arrangement for staffing and capacity building as well as occupational health and safety plans in line with the ESF. As per the ESMF, site-specific E&S risks and impacts in line with the road improvement works and community and agro-logistics infrastructure, will be screened, assessed and managed via site-specific due diligence instruments such as Environmental and Social Impact Assessments (ESIAs), Environmental and Social Management Plans (ESMPs) and for low risk activities identified via Codes of Good Environmental and Social Practice (CGESPs), which will be prepared during project implementation when the locations, technical designs and nature of the works are clearly defined. The ESCP and ESMP will be finalized and disclosed prior to close of project appraisal.

23. Pursuant to the guidelines mentioned in the ESMF, environmental and social screening have been carried out for the 22 road rehabilitations (a total of 76.62Km) identified as part of the First-Year Rural roads improvement program. Based on the preliminary designs, screening, and community consultations, these sub-projects have been deduced to have low-moderate risks and impacts. Therefore, in line with the ESMF, 13 ESMPs and 9 CESGPs have been prepared by the RDA. All 22 of these screening forms and instruments have been reviewed by the World Bank and will be disclosed prior to the close of project appraisal. Further, these documents will be finalized with the project designs and included in project bidding documents as per the due process outlined in the ESMF and milestone indicated in the ESCP.

24. Additional instruments prepared to manage social and environmental risks and impacts under the project include: (i) Labor Management Procedures (LMP) to identify the main labor requirements and manage the project-related labor risks and issues; (ii) Resettlement Policy Framework (RPF) that establishes the resettlement and compensation principles, guidelines for assessing risks and impacts, procedures for voluntary land donation and provisions for providing entitlements, organizational arrangements, and design criteria to be applied in situations where the project interventions may lead to physical and economic displacement, among others; and (iii) Stakeholder Engagement Plan (SEP) that provides a systematic approach to stakeholder engagement throughout the project life cycle in order to develop strong, constructive, and responsive relationships that are important for successful management



of a project's environmental and social risks. These documents have been cleared by the World Bank and disclosed by the GoSL and the World Bank prior to project appraisal.

25. The RDA as the lead implementing agency is assessed to have good capacity in line with core requirements for E&S management due to a history of capacity building on environmental and social management and implementation of safeguards in both Bank and other IFI financed operations over decades. The RDA will lead the Environmental and Social due diligence process for all project interventions and staff seconded from the Ministry of Agriculture to the PMU will work within the RDAs Environmental and Social Division (ESD). The capacity of the ESD, PMU and provincial PIUs teams will be further strengthened to manage the extensive number of project activities planned across the 9 provinces in the country, especially at the provincial level, the level of contractors and the level of agencies that will take over agro-logistics infrastructure for management after rehabilitations/reconstructions are completed by RDA. The ESMF has a specific capacity building plan for all project implementing stakeholders including the RDA, PMU, PIUs and PICs, defining key actions that will be undertaken in the form of training and development. The RDA's ESD will remain the main focal point for ESF implementation.

E. Implementation

Institutional and Implementation Arrangements

26. The Ministry of Highways (MoH) will be the implementing agency of the project. A dedicated Project Team (PT) will be appointed under the MoH within the RDA, which will be headed by a dedicated project director (already appointed), and will include a senior procurement specialist, a financial management specialist, technical officers and an adequately staffed Environment and Social Unit (ESU). It will coordinate with the Environmental and Social Division, Planning Division and Research and Development Division within the RDA for overall project management as necessary. These Divisions have adequate experience working on rural roads projects with recent good performance illustrated under the ADB funded iRoad Project.

27. All activities under Component 2 will be implemented by the PT under MoH in coordination and consultation with relevant stakeholder to identify and assess the investment requirements. The Governance Structure of the Matching Grants Scheme (MGS) would include the following institutional entities: a) Matching Grant Team under the MoH which will handle day to day administrative, management and monitoring functions; b) Approval Committee which take all decisions on awarding grants, and its members will include public and private sector representatives including from Ministry of Finance, Ministry of Agriculture, Export Development Board, Chamber of Commerce and Board of Investment; c) a Technical Review Group (TRG) which will carry out technical, business and economic appraisal of the grant proposals and make funding recommendations to the Approval Committee, and will be composed of reputed experts with the necessary expertise and experience in technical and business aspects of agro-logistics; and d) an Appeals Body which will handle potential appeals, complaints and grievances from grant stakeholders and would be led by senior, high ranking official from MoF.. Detailed implementation arrangements, including the roles and responsibilities of the above entities will be outlined in a matching-grants Operations Manual, together with the detailed procedures for the identification, preparation, assessment, approval and implementation of projects supported under the scheme.



28. Project Implementation Units (PIUs) will be established under the PT at the regional level for either a single province or for a few provinces to coordinate project activities at the local level. PIUs will consist of technical officers and an Environmental Officer and a Social Officer appointed by the ESU and will be staffed through secondment from RDA or recruitment where necessary. Project Implementing Consultants (PIC) will be appointed for each region in line with the PIUs for the supervision of designs and civil works. PICs will include a Team Leader, Resident Engineers, Assistant Resident Engineers, Site Engineers, an Environment Specialist, a Social Specialist, Technical Officers and administration staff (Annex 2).

29. MoH will enter into memoranda of understanding (MoUs) with the provincial/local authorities to rehabilitate/improve and transfer the completed road sections and others to the relevant authorities. MoUs are expected to be signed before negotiations and if not will be laid out as dated covenants.

CONTACT POINT

World Bank

Wei Wang
Senior Transport Specialist

Andrew D. Goodland
Lead Agriculture Specialist

Justin Runji
Senior Transport Specialist

Borrower/Client/Recipient

Democratic Socialist Republic of Sri Lanka

Implementing Agencies

Ministry of Highways
Ranjith Pemasiri
Secretary
sec@mohsl.gov.lk



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Wei Wang Andrew D. Goodland Justin Runji
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Approved By

Practice Manager/Manager:		
Country Director:	Chiyo Kanda	05-Aug-2021