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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 95 MILLION
(US\$147 MILLION EQUIVALENT)

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR A

STRATEGIC CITIES DEVELOPMENT PROJECT

April 10, 2014

Sustainable Development Department
Urban, Water & Sanitation Unit
South Asia Regional Office

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2014)

Currency Unit = Sri Lanka Rupees
LKR130.72 = US\$1
US\$1.5474 = SDR1

FISCAL YEAR

January 1 – December 31

Regional Vice President:	Philippe H. Le Houerou
Country Director:	Francoise Clottes
Sector Director:	John Henry Stein
Sector Manager:	Ming Zhang
Task Team Leader:	Zhiyu Jerry Chen
Co-Task Team Leader:	Rosanna Nitti

ABBREVIATIONS AND ACRONYMS

CBA	–	Cost Benefit Analysis
CCD	–	Coastal Conservation Department
CDO	–	Community Development Officer
CEA	–	Central Environmental Authority
CMR	–	Colombo Metropolitan Region
CPS	–	Country Partnership Strategy
DoA	–	Department of Archaeology
EAMF	–	Environmental Assessment and Management Framework
EIA	–	Environmental Impact Assessment
EIRR	–	Economic Internal Rate of Return
GMC	–	Galle Municipal Council
GRC	–	Grievance Redress Committee
GoSL	–	Government of Sri Lanka
IBRD	–	International Bank of Reconstruction and Development
IDA	–	International Development Association
ID	–	Irrigation Department
IGP	–	Independent Grievance Panel
ISP	–	Implementation Support Plan
KMC	–	Kandy Municipal Council
LA	–	Land Acquisition
LARC	–	Land Acquisition and Resettlement Committee
LRC	–	Local Resettlement Committee
M&E	–	Monitoring and Evaluation
MCUDP	–	Metro Colombo Urban Development Project
MoDUD	–	Ministry of Defense and Urban Development
NEA	–	National Environmental Act
NWSDB	–	National Water Supply and Drainage Board
ORAF	–	Operational Risk Assessment Framework
PCR	–	Physical Cultural Resources
PDO	–	Project development Objective
PID	–	Provincial Irrigation Department
PMU	–	Project Management Unit
PPA	–	Project Partner Agency
RAP	–	Resettlement Action Plans
RDA	–	Road Development Authority
SA	–	Social Assessment
SCDP	–	Strategic Cities Development Project
SCP	–	Strategic Cities Programme
SLLRDC	–	Sri Lanka Land Reclamation and Development Corporation
SMF	–	Social Management Framework
TA	–	Technical Assistance
UDA	–	Urban Development Authority

SRI LANKA: Strategic Cities Development Project

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PAD DATA SHEET*Sri Lanka**Sri Lanka Strategic Cities Development Project (P130548)***PROJECT APPRAISAL DOCUMENT***SOUTH ASIA*

Report No.: PAD729

Basic Information			
Project ID P130548	EA Category A - Full Assessment	Team Leader Zhiyu Jerry Chen	
Lending Instrument Specific Investment Loan	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date May 5, 2014	Project Implementation End Date July 31, 2019		
Expected Effectiveness Date June 30, 2014	Expected Closing Date December 31, 2019		
Joint IFC	No		
Sector Manager	Sector Director	Country Director	Regional Vice President
Ming Zhang	John Henry Stein	Francoise Clottes	Philippe H. Le Houerou
Borrower: Democratic Socialist Republic of Sri Lanka			
Responsible Agency: Ministry of Defense and Urban Development			
Contact Person: Mr. Janaka Kurukulasuriya Additional Secretary, Ministry of Defense and Urban Development Tel: 0094-11-2862412 Email: janakauda@gmail.com			
Project Financing Data(in USD Million)			
[] Loan	[] Grant	[] Guarantee	
[X] Credit	[] IDA Grant	[] Other	
Total Project Cost:	192.08	Total Bank Financing:	147.00
Financing Gap:	0.00		

Financing Source		Amount				
BORROWER/RECIPIENT		45.08				
International Development Association (IDA)		147.00				
Total		192.08				
Expected Disbursements (in USD Million)						
Fiscal Year	FY15	FY16	FY17	FY18	FY19	FY20
Annual	5	10	30	40	50	12
Cumulative	5	15	45	85	135	147
Proposed Development Objective(s)						
The project development objective (PDO) is to improve selected urban services and public urban spaces in the Participating City Regions of Sri Lanka.						
Components						
Component Name				Cost (USD Millions)		
Component 1: Kandy City Region Urban Interventions				94.00		
Component 2: Galle City Region Urban Interventions				43.00		
Component 3: Implementation Support				10.00		
Institutional Data						
Sector Board						
Urban Development						
Sectors / Climate Change						
Sector (Maximum 5 and total % must equal 100)						
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %		
Transportation	Urban Transport	45				
Water, sanitation and flood protection	General water, sanitation and flood protection sector	35				
Public Administration, Law, and Justice	Sub-national government administration	20				
Total		100				
X <input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.						

Themes			
Theme (Maximum 5 and total % must equal 100)			
Major theme	Theme	%	
Urban development	City-wide Infrastructure and Service Delivery	40	
Urban development	Municipal governance and institution building	20	
Urban development	Urban planning and housing policy	15	
Environment and natural resources management	Other environment and natural resources management	15	
Financial and private sector development	Other Private Sector Development	10	
Total		100	
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]
Does the project require any waivers of Bank policies?		Yes []	No [X]
Have these been approved by Bank management?		Yes []	No []
Is approval for any policy waiver sought from the Board?		Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Steering Committee	Yes	No later than 2 months after the Effective Date	Ongoing

Description of Covenant Establishment, by no later than 2 months after the Effective Date, of a Steering Committee, which shall be maintained throughout the implementation of the Project			
Name	Recurrent	Due Date	Frequency
Coordination and Consultative Committees	Yes	No later than 2 months after the Effective Date	Ongoing
Description of Covenant Establishment, by no later than 2 months after the Effective Date, of Coordination and Consultative Committees in each of Kandy City and Galle City, which shall be maintained throughout the implementation of the Project			
Name	Recurrent	Due Date	Frequency
Project Management Unit	Yes	No later than 2 months after the Effective Date	Ongoing
Description of Covenant Establishment, by no later than 2 months after the Effective Date, of a Project Management Unit within MoDUD, which shall be maintained throughout the implementation of the Project, and staffed with competent personnel in adequate numbers, with qualifications, experience and under terms of reference acceptable to the Association.			
Name	Recurrent	Due Date	Frequency
Project Management Unit Branches	Yes	No later than 2 months after the Effective Date	Ongoing
Description of Covenant Establishment, by no later than 2 months after the Effective Date, of Project Management Unit branches in each of Kandy City and Galle City, which shall be maintained throughout the implementation of the Project, and staffed with competent personnel in adequate numbers, with qualifications, experience and under terms of reference acceptable to the Association.			
Name	Recurrent	Due Date	Frequency
Safeguards Compliance	Yes	Throughout the implementation	Ongoing
Description of Covenant The Recipient shall ensure that the Project is carried out in accordance with the Safeguards Instruments (Environmental Assessment and Management Framework, Social Management Framework, Environmental Assessments, Environmental Management Plans, and Resettlement Action Plans).			
Bank Staff			
Name	Title	Specialization	Unit
Zhiyu Jerry Chen	Urban Specialist	Team Leader	SASDU
Rosanna Nitti	Sr. Urban Specialist	Sr. Urban Specialist, Co-TTL	SASDU
Peter D. Ellis	Lead Urban Economist	Urban and Regional Development, Metropolitan Governance and Finance	SASDU
Fatima Zehra Shah	Sr. Urban Specialist	Urban Development and Tourism, Disaster Risk Management	SASDU

Samantha Wijesundera	Water & Sanitation Specialist	Water and Sanitation	SASDU
Chaohua Zhang	Lead Social Development Specialist	Social Assessment	SASDS
Mohamed Ghani Razaak	Sr. Social Development Specialist	Social Development	SASDS
Supul Chamikara Wijesinghe	Financial Management Specialist	Financial management	SARFM
Sunethra Samarakoon	Procurement Specialist	Procurement	SARPS
Anjali Vitharanage	Procurement Analyst	Procurement	SARPS
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Pradeep Pethiyagoda	Consultant – Sr. Road Engineer	Transport Planning	SASDU
Indika Samarakoon	Consultant – Urban Specialist	Metropolitan Management and Institutional Assessment	SASDU
Nadeera Rajapakse	Consultant – Environment Specialist	Environment Assessment	SASDI
Mokshana Nerandika Wijeyeratne	Consultant – Environment Specialist	Environment Assessment	SASDI
Sandya Kumari Salgado	Sr. Ext. Affairs Officer	Communication Strategy	SAREX
Hisham A. Abdo Kahin	Lead Council	Country Lawyer	LEGES
Shingira Samantha Masanzu	Consultant- Council	Country Lawyer	LEGES
Chau-Ching Shen	Senior Finance Officer	Project Disbursement	CTRLN
Michelle Lisa Chen	Program Assistant		SASDO
Farah Azoor	Program Assistant		SASDO
Non-Bank Staff			
Name	Title	Office Phone	City
Henk Ogink	Hydraulic Expert		
Brendan Finn	Traffic Management Expert		
Mohammed Feghoul	Lead Municipal Engineer-Consultant		

I. STRATEGIC CONTEXT

A. Country Context

1. **Sri Lanka's economic and development objectives.** Sri Lanka aspires to emerge as the new economic wonder of Asia. As envisioned in the 2010 Mahinda Chintana – the vision for future development of the Government of Sri Lanka (GoSL) – it targets doubling GDP per capita by 2016 to above US\$4,000 through sustained real growth of over 8 percent per annum.¹ While economic activity has been mostly private sector driven through strong private consumption and investment, public investment has contributed through large infrastructure projects, including post war reconstruction efforts in the North and Eastern provinces.

2. **Role of urbanization in meeting the country's economic objectives.** Sri Lanka has become a lower middle-income country, with GDP per capita reaching US\$3,194 in 2013. It is shifting from a predominantly rural-based economy to an urban economy oriented around manufacturing and services. Currently, services account for 59% of the economy, followed by manufacturing at 30% and agriculture at 11%. Experiences from other countries indicate that urbanization can be a potentially powerful force in support of economic growth and poverty reduction, depending on how well urban growth is managed. Cities contribute significantly to national economic growth by increasing productivity at the firm and industry levels via agglomeration economies. Likewise, Sri Lankan cities account for the majority of the country's physical, financial, intellectual and technological capital. Average productivity in urban manufacturing and services is three to five times that of traditional sectors. By acting now, Sri Lanka has the opportunity to take full advantage of the economic benefits of the urban transition, while mitigating the problems associated with fast urbanization found elsewhere in South Asia.

B. Sectoral and Institutional Context

3. **The Colombo Metropolitan Region (CMR) is the engine of growth for Sri Lanka but investing only in Colombo will be insufficient to achieve the economic goals of GoSL.** As Sri Lanka moves into the more intermediate stages of urbanization, economic activities will spread towards the secondary cities, especially with increased investments in connective infrastructure. Analysis indicates that the higher growth rates are concentrated in the secondary cities, especially in the Central and Southern Provinces. Improvements in urban services and infrastructure are urgently needed to cope with the development challenges and manage growth.

4. **A well-functioning and productive system of urban centers is essential for catalyzing and supporting the transformation of the Sri Lankan economy and efforts to translate economic growth into poverty reduction.** Sri Lanka's Urban Vision is to develop as *a system of competitive, environmentally sustainable and well-linked cities*, and provide every family with affordable and adequate urban shelter by 2020. The development of this system of cities is based on fostering economic growth in major urban centers outside of Colombo, a process which is intended to produce a more spatially balanced distribution of economic opportunities, while at the same time reducing congestion in the capital and bolstering overall national economic

¹After 2009, growth rose to 8 percent initially, largely reflecting a “peace dividend”, and will likely close at 6.8 percent in 2013 and US\$ 3,194 per capita.

growth. The recent Sri Lanka Urban Policy Note “Turning Sri Lanka’s Urban Vision Into Policy and Action” prepared by the World Bank and UN-Habitat in 2012 reinforced the idea of developing a system of competitive and well-linked cities. The note highlighted that Sri Lanka is well poised to achieve this as it has a small territorial size, easy topography and the Government has ready plans to build an expressway network to improve connection between cities.

5. In order to realize the vision of a system of cities, GoSL has initiated a national-level program – the Strategic Cities Program (SCP) – to manage the development of strategic cities and to ensure a consistent and coherent approach in developing key cities. GoSL and the Bank have embarked on the first phase of development to support this program – the proposed Strategic Cities Development Project (SCDP). Assessments from the recent Sri Lanka Strategic Cities Technical Assistance (TA) provided the analytical foundations for this framework and also informed the prioritization of strategic cities for investments.

6. A number of obstacles are preventing Sri Lankan cities from realizing their full economic potential:

- (i) Basic urban services and infrastructure are inadequate to meet growing demand and existing assets are deteriorating due to a lack of adequate maintenance.
- (ii) Infrastructure provision and service delivery are institutionally and sectorally fragmented, especially at the local level. Municipalities are responsible for fairly limited mandates while many other areas are coordinated and managed by various agencies at the national level.
- (iii) Most urban development occurs without appropriate planning. This has led to many *ad hoc* development patterns, such as ribbon development along many roads, which has caused major transport bottlenecks, environmental and land use concerns.

7. A holistic, integrated and multi-sectorial approach is needed to address these obstacles and to improve the overall functions, attractiveness and livability of these cities and their surrounding areas (City Regions). This can be achieved through two main categories of strategic investments: (i) integrated urban services improvement with system-wide basic services improvement, thereby enhancing the functional aspects of the city; and (ii) public urban spaces enhancement with catalytic urban upgrading efforts, thereby enhancing the attractiveness and livability of the city.

8. SCDP will apply this approach and focus on the two rapidly growing and most urbanized City Regions outside of CMR, Kandy and Galle, which have the strongest economic and infrastructure linkages with CMR. Both Kandy and Galle are attracting population and economic activities faster than they are able to keep up service delivery; and both have existing or planned market access points (e.g., southern expressway to Galle and planned expressway access to Kandy) that allow the benefits of agglomeration to be realized. **Despite the relatively quicker growth, the Central and Southern Provinces in Sri Lanka have a large absolute number of poor people.** As such, an important policy implication is that interventions targeting rapidly growing urban areas can potentially alleviate poverty in their broader peripheries through improved linkages. The context and challenges of these cities are:

Kandy City Region hinges around an internationally acclaimed UNESCO world heritage site and is located in a region which has high poverty incidence. The city is a regional transport and services hub in the Central Province, serving about 350,000 daily commuters, over 60% of whom arrive by public transport. Sited in a hilly terrain and an environmentally sensitive area, Kandy currently faces critical challenges in terms of traffic congestion, growing demand for drinking water and environmental protection.

Galle City Region is anchored around a historical Dutch Fort, a UNESCO world heritage site. The future extension of the Southern Expressway to Matara and Hambantota will strengthen Galle's role as a major service center along the country's southern coastal development belt. Today, the Galle City Region faces several critical challenges. Flooding in Galle is an annual occurrence due to poor drainage, inadequate maintenance, and increased intensity and frequency of rainfall due to climate change. Unplanned development along the coastal towns, which are key tourist locations, has also resulted in coastal pollution and limited access to beaches along the coastline for recreational purposes.

C. Higher Level Objectives to which the Project Contributes

9. **The proposed project is aligned with the main strategic objectives of the Country Partnership Strategy (CPS)² FY 13-16.** The areas of focus of the CPS are organized around the three main goals of the Mahinda Chintana. The proposed project is designed to support achievement of two of these goals: *Area 2-supporting structural shifts in the economy; and Area 3 - improved living standards and social inclusion*. Specifically, under Area 2, the CPS indicates that "The Bank will support the Government's efforts to enhance Sri Lanka's metro areas and support internal integration". The proposed project thus supports the CPS' focus in this area. Under Area 3, one of the objectives is to provide "support for improved living standards through several infrastructure projects." The proposed project would provide a package of investments to rapidly growing strategic cities to improve their urban infrastructure and services and thereby enhance their livability and economic potential.

10. The proposed project will provide the tools and methodology which can be utilized by GoSL to implement the national SCP. The program would coordinate various investments to the nation's strategic cities, from the public sector, the private sector and various development partners.

11. The following lessons learned from similar projects, both in Sri Lanka and in other countries, have been incorporated into the project design:

- a. *System of Cities approach.* Experience from other countries has demonstrated that in order for cities to play a more effective role in the country and/or wider regional development, strategic cities and priority investments should be identified and implemented taking the City Region into account, as opposed to a piece-meal approach.

² Sri Lanka Country Partnership Strategy, Report Number 66286-LK, Board Date May 8th, 2012.

This is evident from the experience of Korea in the '80s, Malaysia, South Africa and more recently Uganda, Tanzania, Jordan, Brazil, China and Indonesia. These are examples of countries where secondary cities have been supported as the back-bone of the country/regional economic development. This lesson is captured under the project through the support provided to GoSL to develop and implement a national SCP.

b. *Strategic and Integrated Approach to Urban Planning.* Past experience in Sri Lanka illustrates the drawbacks of rapid urban development without the guidance of a shared strategic vision and in the absence of an integrated master plan, resulting in unclear priorities and possibly misplaced investments. Successful cities that thrive and succeed in turning rapid urban growth into an opportunity for shared growth, or urban regeneration into long-term sustainable development (e.g. Singapore, Seoul and Cape Town), are well-planned cities that integrate all sectors.

c. *Quality and Detailing of Urban Design.* Experience from Bank projects, including MCUDP, shows that sufficient attention at the detailed design stage is crucial to ensure quality of designs and final products. In historic cities such as Kandy and Galle, particular attention should be paid to issues like urban furnishing, signage and pedestrian safety, provision of sidewalks, location and design of bus stops, safety features (bollards, raised pedestrian pavements) and other important elements of the urban landscape.

II. PROJECT DEVELOPMENT OBJECTIVE

A. PDO

12. The project development objective (PDO) is to improve selected urban services and public urban spaces in the Participating City Regions of Sri Lanka.

B. Project Beneficiaries

13. The estimated Kandy district population of about 1.37 million³ would indirectly benefit from project interventions. While the population of the Kandy Municipal Council (KMC) area totaling about 108,000⁴ would be the main beneficiary of the project, an estimated 350,000⁵ daily commuters to Kandy will also benefit from improved services, especially transport. Improvements to Kandy water supply schemes will enable approximately 50,000 persons to have access to potable water.

14. In the Galle Municipal Council (GMC) area, the direct beneficiaries of improvements to urban services and public urban spaces total about 112,300⁶, while indirect beneficiaries would be about 1.06 million in Galle District.

³ Population by Sex, Age and District according to Divisional Secretary Division and GramaNiladhari Division, Provisional Data 2012, Census and Statistics Department.

⁴Data provided by Urban Development Authority, Kandy District Office, based on Census and Statistics Data, Provisional Data, 2012.

⁵Kandy City Transport Study, Draft Final Report, University of Moratuwa, July 2011.

⁶ <http://galle.mc.gov.lk/> (Retrieved Apr 11, 2013).

C. PDO Level Results Indicators

15. Achievement of the PDO will be monitored through the proposed key results indicators:

- a. *Urban services improvements in Kandy* – The number of people benefiting from improved basic services in Kandy. This will include the number of people who would benefit from additional water made available and the number of users who would benefit from rehabilitated by-pass roads and improved bus terminals.
- b. *Urban services improvements in Galle* – Reduction in area at risk of flood inundation within the designated project area in Galle. (10-year return period flood for major canals and 5-year return period for local drainage).
- c. *Access to enhanced public urban spaces in Kandy and Galle* – Area of new or rehabilitated urban public spaces and pedestrian sidewalks and pathways in Kandy and Galle City Regions.

III. PROJECT DESCRIPTION

16. Project Components. The project comprises of three components: Component 1, encompassing interventions in Kandy City Region; Component 2, which focuses on interventions in Galle City Region; and Component 3, which provides implementation support. In each City Region, the project will target two broad categories of strategic investments: (i) integrated urban services improvement– with system-wide basic services improvement thereby enhancing functional aspects of the city; and (ii) public urban spaces enhancement – with catalytic urban upgrading efforts thereby enhancing the attractiveness and livability of the city. The three components are summarized below; Annex 2 contains a detailed description of the project.

Component 1: Kandy City Region Urban Interventions. This supports priority improvements to relieve traffic congestion and upgrade municipal services to enhance livability and to sustain the world heritage city and its agglomeration areas. This component includes:

Urban services improvements and public urban spaces enhancements. This will include: (i) traffic improvements, such as the rehabilitation of selected by-pass roads, and establishment and improvements of selected public transport facilities and traffic management measures; (ii) augmentation and rehabilitation of Kandy municipal water supply system; (iii) rehabilitation of major drains; (iv) urban upgrading, including the enhancement of selected streetscapes and public spaces, restoration and adaptive reuse of historic and landmark buildings, and development of an integrated master plan.

Institutional strengthening and capacity building. This will include the provision of capacity building support for Project Partner Agencies (PPAs) to plan, design and maintain urban infrastructure; and to provide municipal services.

Component 2: Galle City Region Urban Interventions. This supports priority improvements to reduce flooding, and upgrade public urban spaces to improve and sustain the City Region. This component includes:

Urban services improvements and public urban spaces enhancement. This will include: (i) flood reduction measures, including the rehabilitation of selected canals and surface drainage infrastructure; (ii) coastal erosion reduction measures for selected areas; (iii) urban upgrading, including the enhancement of selected streetscapes and public spaces, restoration and adaptive reuse of historic and landmark buildings, and development of an integrated master plan.

Institutional strengthening and capacity building. This will include the provision of capacity building support for PPAs to plan, design and maintain urban infrastructure; and to provide municipal services.

Component 3: Implementation Support. Strengthening the capacity to carry out project activities, including: (i) provision of implementation support in the areas of project management, monitoring and evaluation, procurement, financial management, and environmental and social safeguards; (ii) facilitation of public awareness and communications; (iii) provision of support with respect to construction, supervision, and compliance with environmental and social safeguards; and (iv) provision of technical advisory services, operational support, acquisition of vehicles and equipment and financing operating costs, and (v) support for the national Strategic Cities Program such as preparatory studies and planning for other strategic cities, and other implementation and management tools.

A. Project Financing

17. The lending instrument for the project will be Investment Project Financing. The project will be financed by an IDA credit of SDR 95 million (\$147million equivalent). Table below summarizes the project cost and financing by component.

B. Project Cost and Financing

Project Components	Project Cost (USD mil)	IDA (USD mil)	GoSL (USD mil)	% of Total Project Costs
Component 1: Kandy City Region Urban Interventions	105	94	11	66%
Component 2: Galle City Region Urban Interventions	43	43	--	27%
Component 3: Implementation Support	10	10	--	7%
Total project cost (without taxes and duties)	158	147	11	100%
Tax and Duties (14%)	20.58	-	20.58	-

Borrower's contribution for Incremental Operation Costs	1.5		1.5	
Borrower's contribution for the implementation of resettlement policy framework ⁷	12	-	12	-
Total Project Cost	192.08	147	45.08	-

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

18. A self-standing and ring-fenced Project Management Unit (PMU) will be established under the Ministry of Defense and Urban Development (MoDUD). The PMU will operate under the oversight of a Steering Committee, chaired by MoDUD and comprised of representatives of KMC, Galle Municipal Council (GMC), Urban Development Authority (UDA), Coastal Conservation Department (CCD), Ministry of Finance and Planning (MoFP), Ministry of Local Government and Provincial Councils, Ministry of Irrigation and the Ministry of Ports and Highways. Other ministries and agencies will be identified as stand-by members to join the Steering Committee when relevant issues are addressed (e.g. Central Environmental Authority (CEA), Sri Lanka Land Reclamation and Development Corporation (SLLRDC)).

19. The PMU will play a critical role in coordinating all agencies involved in project implementation, ensuring overall quality and timeliness of investments and providing administrative services to the various agencies involved in the project. It will be responsible for the overall fiduciary and safeguard aspects of the project, for monitoring compliance with the project's environmental and social safeguards and for overall project M&E. Local PMU offices will be established both in Kandy and Galle, headed by Deputy Project Directors and staffed with core technical and safeguard staff.

20. Project Partner Agencies⁸ (PPAs) will be assisted by consultants for detailed designs and construction supervision, when needed or when augmenting the implementation capacity of PPAs is deemed necessary. The key responsibilities of PPAs are:

- a. Preparation of sub-projects, development of implementation plans and carrying out detailed designs of the sub-projects. The project will make available design and supervision consultants to work with the PPAs to carry out these tasks, if PPAs do not have sufficient capacity.

⁷ Detail costs for resettlement policy implementation will be determined based on final number and extent of resettlement and land acquisition.

⁸ Project Partner Agencies refer to, collectively, agencies that will assist the PMU in implementation of various sub-projects (such as design, supervision and maintenance). PPAs in Kandy City Region may include agencies such as Kandy Municipal Council (KMC), Urban Development Authority (UDA), Irrigation Department (ID) and Road Development Authority (RDA). PPAs in Galle City Region may include agencies such as Galle Municipal Council (GMC), Urban Development Authority (UDA), Provincial Irrigation Department (PID) and Coastal Conservation Department (CCD). Other agencies will be identified as PPAs, when relevant support is required.

- b. Supervising implementation of the sub-projects and reporting to the PMU on progress and quality.
- c. Assisting the PMU in ensuring compliance with the project's environmental and social safeguards.
- d. Committing to future operation and maintenance of delivered infrastructures.
- e. Supporting the PMU in collecting information/data required to carry out M&E activities.

21. A project Coordination and Consultative Committee, chaired by their respective Mayors, will be established in both Kandy and Galle, to ensure effective coordination between key stakeholders at the local level (including, but not limited to other government line agencies, private sector, civil society, and other donors active at the city level).

B. Results Monitoring and Evaluation

22. The PMU will be responsible for overall quality assurance, M&E, and reporting, in coordination with the PPAs. Detailed M&E responsibilities will be allocated as follows:

- a. KMC, UDA, ID and RDA will be responsible for monitoring results, collecting and compiling outcome and intermediate results indicators for Component 1.
- b. GMC, UDA, PID and CCD will be responsible for monitoring results, compiling outcome and intermediate results indicators for Component 2.
- c. The PMU will be responsible for coordinating the collection and compilation of outcome and intermediate indicators, and for their consolidation based on the results framework presented in Annex 1.

23. The PPAs will submit a biannual report covering their outcome and intermediate results indicators. The PMU will compile the information received and produce a consolidated report on a biannual basis.

24. The M&E system for the project is fully designed and Technical Assistance (TA) support for the PMU staff to carry out M&E activities is built into the project. These will build on the existing M&E systems already in place at the level of local authorities and implementing agencies, and will be strengthened during the project implementation.

25. The detailed results framework and baseline indicators are presented in Annex 1.

C. Sustainability

26. Sustainability of project investments depends on: (i) local implementation capacity; and (ii) ability to fund asset maintenance. During project implementation, local municipalities will be supported by consultants (municipal engineers and planners) who will, *inter alia*, strengthen the capacity of local authorities to consistently deliver and maintain urban infrastructure and services. Infrastructure maintenance capacity, particularly for drainage systems and streets, will be improved under the project through: (i) development of an adequate asset management system; (ii) acquisition of equipment; (iii) assistance in improving municipal budgeting and capital investment planning; and (iv) contracting out future maintenance works.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table*

Stakeholder Risk	Moderate
Implementing Agency Risk	
- Capacity	Substantial**
- Governance	Moderate
Project Risk	
- Design	Substantial
- Social and Environmental	Substantial
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Moderate
Overall Implementation Risk	Substantial***

Note: Risk Rating applies only to the context and characteristic of the project and to the risks of implementation. Total risks are rated from “High, Substantial, Moderate, to Low”.*

*Note **: Substantial risk for capacity mainly refers to the relatively weak capacity at local level, for participating municipalities. Capacity Risk at central level is Moderate.*

*Note ***: Overall risk rating is “substantial” and is improved from the “High” of Metro Colombo Urban Development Project*

B. Overall Risk Rating Explanation

27. The overall project risk is rated “Substantial”. This is partly because it is an Environment Category-A project with potential resettlement needs. It is the first time that the Bank has engagement in the country’s urban sector outside of CMR and most of the local municipalities have much weaker capacities compared with the CMR. It will also be the first time for some of the PPAs to work on a Bank-financed project.

28. Project implementation risk is rated substantial. The project’s main risks and mitigation measures are summarized below:

a. *Sector and multi-sector risks.* Despite MoDUD’s ownership of the project, overlapping responsibilities of many line agencies could be an obstacle to effective planning and service delivery at the city level. To mitigate these risks, coordination mechanisms between the PMU and line agencies have been formalized, and a Steering Committee and Coordination and Consultative Committees have been set up to facilitate inter-agency collaboration.

b. *Capacity risks.* MoDUD has gained experience as an implementing agency for Bank projects, e.g., Metro Colombo Urban Development Project (MCUDP). However, local authorities in Kandy and Galle are weak in planning, engineering, procurement and monitoring. Integration with technical agencies such as RDA for roads and SLLRDC for

drainage can be improved. To mitigate these risks, MoDUD has established a PMU which is staffed by required technical staff, and supported by technical staff from agencies. The Bank will provide support through training and professional development programs to strengthen staff capacities.

c. *Design risks.* The project will be implemented by highly specialized agencies which are technically strong in their specific areas of expertise. However, limited experience and capacity to operate in the urban sector and in multiple cities complicate project design and implementation. To mitigate these risks, the project will recruit technical expertise to support required studies, analysis and preparation of design briefs to fast track the development of sub-projects. MoDUD will provide leadership and guidance to other agencies in the design of sub-projects to the required standards.

d. *Social risks.* Implementation of selected schemes may require land acquisition and/or resettlement. To mitigate these risks, the project will build upon the experience of MCUDP. A resettlement policy framework, which has been developed to guide future resettlement planning, includes participation and communication strategy and a gender action plan to facilitate public participation and mainstreaming gender aspects in the project.

e. *Environment risks.* The project will improve the overall environment in the project cities; however, adverse impacts, mostly temporary in nature, would arise during construction. In order to mitigate these impacts, procedures have been developed in the Environmental Assessment and Management Framework (EAMF) to carry out environmental planning and mitigation at the sub-project level that comply with safeguards policies of the Bank and that of GoSL. Particular attention will be paid to capacity building and strengthening compliance with agreed mitigation measures. All Year 1 investments have been prepared in accordance to procedures stipulated in the EAMF.

VI. APPRAISAL SUMMARY

A. Economic Analysis

29. A cost benefit analysis (CBA) was undertaken for the major Year 1 investments. Year 1 investments in Kandy focus on relieving severe traffic congestion through upgrading by-pass roads that will divert traffic from major roads entering the city. The economic internal rate of return (EIRR) of upgrading the three roads is 22.7 percent⁹. In Galle, the major focus of Year 1 investments is the rehabilitation of the Morogoda Ela (Morogoda canal); deterioration in the canal's conveyance capacity has resulted in instances of severe flooding¹⁰. The estimated EIRR

⁹ The discount rate used in the analysis was 10 percent for a 20-year period. These EIRRs are robust to both a 10 percent cost escalation and a 10 percent reduction in benefits.

¹⁰ The 2010 floods directly impacted 3,428 households and 12,908 individuals. 190 business properties were also damaged, as were all major roads connecting Galle with adjoining city centers.

using the avoided losses method is 14.2 percent(15.3 percent¹¹ when taking into account the impact of climate change).

30. Economic analysis will be used as a screening device in the selection of investments for the remainder of the project. An investment will have to achieve a hurdle EIRR of 11 percent. For relatively small investments, where the focus is on achieving a minimum service standard and benefits are difficult to monetize, a cost effectiveness analysis would be carried out in place of CBA.

B. Technical

31. Proposed first year investments were appraised based on their relevance to the project development objectives, supported by preliminary/early strategic planning frameworks, followed by technical soundness and readiness, and the subsequent application of the necessary safeguard screening and other safeguard instruments. Sub-projects for the remainder of the project will be appraised in the same manner.

32. *Under Component 1*, the proposed priority improvements to system-wide urban services are essential for addressing gaps in local service standards and to relieve the negative impact of traffic congestion on the overall livability of the city. Proposals on traffic improvements, Kandy municipal water supply system augmentation and rehabilitation, drainage rehabilitation, and urban upgrading are technically sound and will contribute to improvement of city functions. Most of the sub-projects after Year 1 require studies, design, and planning which are either ongoing or are to be conducted. These studies will support the detailed development of these sub-projects and provide design and supervision support to some of the PPAs with weak capacity.

33. *Under Component 2*, priority improvements proposed by the PPAs to reduce impacts of urban floods and coastal erosion affecting Galle and its coastal belt system were confirmed to be essential to ensure the functionality of the City Region. Together with Year 1 investments, these will enhance the functionality of public spaces in the Fort Area and along the coast. Proposals on flood reduction, coastal erosion reduction, and urban upgrading are technically sound and will contribute to the improvement of city functions. Beyond the fully appraised proposal for the rehabilitation of Morogoda canal, most of the sub-projects require studies, design, and planning which are either ongoing or are to be conducted; these studies will support the detailed identification of specific projects and activities and provide design and supervision support to some of the PPAs with weak capacity.

C. Financial Management

34. The MoDUD that is presently implementing the IBRD financed MCUDP is also responsible for implementing the proposed project. The FM performance of the MCUDP since effectiveness has been rated as Satisfactory. The task team conducted an assessment of the PMU that has been established under the MoDUD to implement the proposed project to ensure that the proposed

¹¹ A discount rate of 10 percent was assumed for a 40 year period. These results are robust to both a 10 percent cost escalation and a 10 reduction in benefits.

project's FM arrangements can provide the Bank with accurate and timely information regarding the activities that will be financed under the project, as well as provide reasonable assurance that Bank funds will be used for intended purposes. FM procedures and practices for the project are adequate to meet IDA fiduciary requirements as per OP/BP 10.00. The project has a Moderate FM risk rating. The PMU under the MoDUD is responsible for the project's FM activities, including compliance with the financial covenants of the legal agreement. There are no ineligible expenditures or outstanding audit reports for Bank projects implemented by MoDUD. Details of the FM assessment and the project FM arrangements are given in Annex 3.

D. Procurement

35. The PMU will be responsible for procurement, including preparing the Procurement Plan. However, design and preparation of BOQ and specifications (including preparation of bidding documents) will be the responsibility of the PMU with support from PPAs. Procurement of goods, works and services will be carried out in accordance with: World Bank "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Procurement Guidelines); "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Consultant Guidelines); and the provisions stipulated in the Financing Agreement.

36. *Procurement Risk Assessment and Mitigation:* The PMU will be staffed with a Deputy Project Director (Procurement), supported by a Procurement Officer. Additional procurement support will be needed when the project becomes fully functional. The procurement capacity assessment and procurement arrangements are described in Annex 3. The key risk mitigation measures to address procurement risks are: (i) improving and publishing the complaint handling mechanism; (ii) use of agreed Standard Bidding Documents (SBDs) for procurement of goods and works under NCB, and the Bank SBDs for ICB and consulting services; (iii) preparation and adoption of a Project Procurement Administration Manual, acceptable to the Bank; and (iv) further training of procurement staff on procurement in Bank financed projects.

37. *Procurement Plan.* The initial procurement plan for the first 18 months of project implementation, acceptable to the Bank, has been prepared by the PMU. This plan has been agreed between the PMU and the Bank on March 3, 2014 and is available at the PMU website, MoDUD website, and in the Bank's external website. The Procurement Plan will be updated annually or when required to reflect project implementation needs and improvements in institutional capacity.

E. Social (including Safeguards)

38. *Social Impacts.* The majority of project works are expected to have significant positive social impacts by improving the urban environment and livability of Kandy City Region and Galle City Region. Long term adverse impacts are likely to be caused by unavoidable land acquisition and resettlement in some sub-projects. As a result, OP 4.12 on Involuntary Resettlement has been triggered. OP 4.10 on Indigenous People has not been triggered, as the SA clarifies that no indigenous community lives in the project cities.

39. *Resettlement Risk Mitigation.* Based on the SA, a Social Management Framework (SMF) has been prepared for the Project, including measures to ensure sustainable resettlement of project affected persons and recovery from adverse social impacts to properties and livelihoods. The SMF provides a resettlement policy framework (RPF) to ensure that all affected persons will be able to improve (or at least restore) lost assets and livelihoods to the pre-project level. The SMF also states that no project affected household or person shall be displaced or evicted without the provision of compensation and rehabilitation benefits as per the entitlement matrix in the SMF. Social surveys and Resettlement Action Plans (RAP) have already been completed, in line with the SMF for the first-year sub-projects.

40. *Safeguards compliance arrangements.* Safeguard compliance arrangements proposed under this project involve the preparation of safeguards instruments for screening of sub-projects, instituting systems and building capacity for safeguards management at the PMU and PPAs. This will include hiring of a Deputy Project Director (Social Development) for the PMU and Social Development Officers (SDOs) at local (city) levels, hiring consultants for resettlement planning, and building capacity for safeguards management in implementing agencies.

F. Environment (including Safeguards)

41. The net environmental impact of the project will be positive, with project interventions contributing to improved drainage, water quality, road safety, traffic management, walkability, and recreational space, as well as the overall appeal of the two cities. The general environmental foot print of the majority of investments is anticipated to be construction related, consisting of short-term localized impacts that can be easily managed. However, certain envisaged investments would require particular attention: (i) construction in landslide prone and environmentally sensitive areas in Kandy; and (ii) canal cleaning and subsequent disposal of debris mixed sediments in Galle.

42. The project has been categorized as environmental category A. It will trigger Bank safeguard policies on Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Forests (OP/BP 4.36), and Physical Cultural Resources (OP/BP 4.11). GoSL has prepared a comprehensive EAMF, which will serve as the guiding document for undertaking safeguards analysis for all interventions funded under the project. The EAMF includes a detail environmental screening for each sub-project at the concept design stage. The screening will determine the significance of environmental and other safeguard issues identified the need for a stand-alone environmental assessment and/or management plan, and the scope of such follow up assessment. Application of the EAMF to Year 1 interventions has been completed and the documents have been disclosed. During the preparation of EAMF consultations were held with key stakeholders in both cities, and further consultations were held with the affected public as part of sub-project specific environmental screening and assessment for first year sub-projects. The EAMF was publicly disclosed in-country and through the Bank Infoshop on November 15, 2013.

43. Sri Lanka has a sound environmental policy and regulatory framework, which is largely consistent with the environmental safeguard policies of the World Bank. The country has a well-developed EIA system and the CEA which administers it, has demonstrated technical expertise with nearly three decades of implementation experience. Application of local EIA regulations to

development projects are governed by a set of pre-determined criteria specified in the law. Given the nature of the potential investments considered under SCDP, it is unlikely that the country EIA system would be triggered. However, application of local laws and regulations will be reviewed as part of the environmental screening on a case by case basis. Further, MoDUD and some of the key PPAs (such as UDA and RDA) have gained valuable experience in complying with Bank environmental safeguards in other Bank projects. The Project will recruit necessary staff to effectively implement environmental Safeguards. It will particularly pay attention to enforcement of EMPs and post-EA monitoring while also emphasizing on capacity building within PPAs to effectively plan and manage environmental safeguards related to their investments.

G. Other Safeguards Policies Triggered

44. *Natural Habitats and Forests.* These policies have been triggered on a precautionary basis, given the framework approach adopted by the project. Any impacts from project interventions on forests, wetlands and water resources within and in close proximity of project sites will be addressed under sub-project specific environmental screening and assessments.

45. *Physical Cultural Resources.* Kandy and Galle are cities rich in cultural heritage and are declared UNESCO World Heritage Sites. The project will pay particular attention to mitigating any inadvertent negative impact on Physical Cultural Resources (PCR). PCRs in both cities are dominated by built assets (e.g., historic buildings, monuments, temples and monastic complexes) which have been inventoried and mapped by both the Department of Archaeology (DoA) and the CEA. The most likely impact of project interventions on PCRs would be: (i) accidental physical damage due to vibration, air, soil and water pollution caused by construction traffic, use of heavy construction equipment and possible use of explosives in road improvement work; (ii) access restrictions; and (iii) unregulated access to PCR sites.

46. As specified in the EAMF, the initial impact assessment on PCRs from project activities will be undertaken as part of environmental screening and followed up, if necessary, through subsequent environmental assessments. The screening will identify the need, if any, to carry out a stand-alone Archaeological Impact Assessment (AIA) under national laws and/or obtain clearances needed prior to commencing construction. Proposed project interventions are not expected to require full scale AIAs, but may require prior approval from DoA.

Annex 1: Results Framework and Monitoring
SRI LANKA: Strategic Cities Development Project

Project Development Objective (PDO): The project development objective (PDO) is to improve selected urban services and public urban spaces in the Participating City Regions of Sri Lanka.												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3 ¹²	YR 4	YR5 ¹³				
Indicator One: Aggregate number of people benefiting from improved basic services in Kandy.	<input type="checkbox"/>	Number/day	0			134,000		320,000	Mid-term and completion	Survey and progress report	PMU / KMC/RDA	
Indicator Two Reduction in area at risk of flood inundation within the designated project area in Galle (10-year return period flood for major canals and 5-year return period flood for local canals and cross drains)	<input type="checkbox"/>	km ²	1.6			20% of baseline value		50% of baseline value	Baseline, Mid-term and completion	Hydrological-Hydraulic model simulation	PMU / PID (MoragodaEla) / GMC (all others) and design consultants	
Indicator Three New or rehabilitated urban public spaces in Kandy and Galle City Region.	<input type="checkbox"/>	Area (sqm)	0			30,000		75,000	Mid-term and completion	Progress report/ Measure area of new or rehabilitated public spaces and walkways.	PMU / UDAKandy / UDA Galle	
INTERMEDIATE RESULTS												
Intermediate Result (Component One): Kandy City Region Urban Intervention												
1.1 Number of silt traps implemented around Kandy Lake	<input type="checkbox"/>	Number	0	0	0	0	3	6	Mid-term and completion	Progress report	PMU / ID	
1.2 Length of water transmission	<input type="checkbox"/>	km	0			15		30	Mid-term and	Progress report	PMU / KMC/	

¹²Data to be revised a month from date of project effectiveness

¹³Data to be revised a month from date of project effectiveness

and distribution pipes replaced									completion		NWSDB	
1.3 Length of Underground storm water drainage rehabilitated	<input type="checkbox"/>	km	0	0	0	0	1	2	At Year 4 and completion.	Progress report	PMU / KMC	
1.4 Roads rehabilitated	<input checked="" type="checkbox"/>	km	0		10		17	20	At Year 1, 3 and at project completion	Progress report	PMU / RDA	
1.5 Number of bus terminals constructed or rehabilitated	<input type="checkbox"/>	Number	0			1		3	Mid-term and project completion	Progress report	PMU / Central Province PTA	
1.6 Asset Management system with maintenance program for municipal infrastructure developed and adopted in Kandy City Region.	<input type="checkbox"/>	Yes/No	N	N	N	N	N	Y	At project completion	From PPAs, Municipal data and progress reports	PMU / PPAs in coordination with PMU	
Intermediate Result (Component Two): Galle City Region Urban Intervention												
2.1 Length of major canals and local drains improved under the project	<input type="checkbox"/>	km	0		5		16	20	Mid-term and project completion	Progress report	PMU / PID (Moragoda Ela) / GMC (all others)	
2.2 Number of bridges rehabilitated	<input type="checkbox"/>	Number	0			1		3	At project completion	Progress report	PMU / PID	
2.3 Length of new or rehabilitated streets with sidewalks	<input type="checkbox"/>	km	0		1	1.5		2.5	At project completion	Progress report	PMU	
2.4 Length of new or rehabilitated ocean pathway	<input type="checkbox"/>	km	0		1	1.5		2.5	At project completion	Progress report	PMU / UDA and design consultants	
2.5 Asset Management system with maintenance program for municipal infrastructure developed and adopted in Galle City Region	<input type="checkbox"/>	Yes/No	N	N	N	N	N	Y	At project completion	From PPAs, Municipal data and progress reports	PMU / PPAs in coordination with PMU	

Project Development Objective Indicators	
Indicator One: Aggregate number of people benefiting from improved basic services in Kandy.	Measures the total number of persons that would potentially benefit from additional water made available to the KMC water supply system, number of users benefitting from improved bus terminals and number of users benefitting from the improved by-pass roads in Kandy.
Indicator Two: Reduction in area at risk of flood inundation with the designated project area in Galle (10 Year return period flood for major canals and 5 year return period flood for local canals and cross drains.	Performance of the improved canal network for a10 year return period flood and 5 year return period flood for local canals and cross drains established through a hydraulic-hydrological model.
Indicator Three: New or rehabilitated urban public space in Kandy and Galle City Regions.	This is a proxy measuring the accessibility of people to enhanced or new urban spaces that will be implemented as part of an integrated pedestrian network. This measures the square meter area for urban spaces such as sidewalks, squares, parks, and playgrounds.
Intermediate Results Indicators	
1.1 Number of silt traps implemented around Kandy Lake	This measures the total number of new silt traps that are implemented after completion of civil works.
1.2 Length of water transmission and distribution pipes replaced	This measures the total length of pipes replaced.
1.3Length of underground storm water drainage rehabilitated	The main underground storm water drainage system maintained by the KMC will be rehabilitated under this project. This indicator measures the total length of the drain that has undergone rehabilitation.
1.4 Roads rehabilitated	The total length of by-pass roads to be rehabilitated. This will measure the cumulative number of kilometers of all roads rehabilitated or upgraded under the project. These by-pass roads are classified by RDA as Class B roads.
1.5 Number of bus terminals constructed or rehabilitated.	This measures the number of new or rehabilitated bus terminals (including satellite bus terminals) in Kandy City Region.
1.6Asset Management system with maintenance program for municipal infrastructure developed and adopted in Kandy City Region.	This indicator will measure the capacity of KMC and PPAs to produce a maintenance program for asset management for key investments under the project, through the adoption of asset

	management systems.
Galle City Region	
2.1 Length of major canals and local drains improved under the project	Measures the length of main canals and local cross drains rehabilitated and contribute to flood reduction in Galle City Region.
2.2 Number of bridges rehabilitated	Measures the number of bridges rehabilitated over Moragoda Ela.
2.3 Length of new or rehabilitated streets with sidewalks	Measures the length of new or rehabilitated streets and sidewalks under the project.
2.4 Length of new or rehabilitated ocean pathway	Measures the total length of upgraded sections or new constructed sections of the ocean pathway. This is also a proxy to measure the extent of waterfront that is accessible to the public.
2.5 Asset Management system with maintenance program for municipal infrastructure developed and adopted in Galle City Region.	This indicator will measure the capacity of GMC and PPAs to produce a maintenance program for asset management for key investments under the project, through the adoption of asset management systems.

Annex 2: Detailed Project Description

SRI LANKA: Strategic Cities Development Project

1. The project comprises the three components described below.

Component 1: Kandy City Region Urban Interventions

2. Kandy is envisaged not only as an anchor for economic development in the region, but also as a livable and vibrant historic city encapsulating Kandy's culture, identity and religious setting. This component aims to consider priority infrastructure investments to decongest Kandy City, improve connectivity and urban services, achieve significant urban transformation to respond to economic growth in Kandy City Region, and improve the overall livability and investment attractiveness of Kandy City Region.

Traffic Improvements

3. Kandy currently suffers from major traffic congestion given its terrain and current road network and conditions which cause a large number of vehicles not bound for Kandy, to pass through the city. This has impacted not only the residents of Kandy, but also the 350,000 daily commuters coming to Kandy, about 60% of whom use public transport. In order to maintain the usability of the city streets, it is crucial that the cultural core of Kandy should be freed from unnecessary traffic and any traffic entering the area should be calmed. Two broad strategies have been identified for this purpose: traffic not bound for Kandy should be deflected from this zone by by-passes, and activities that need not be in Kandy should be progressively relocated outside of this area. The priority intervention is to upgrade selected outer and inner by-pass roads, identified through analysis carried out by RDA based on the findings of the 2009 Kandy City Transport Study. These by-pass roads will be rehabilitated by widening carriageways for the safe passage of vehicles and pedestrians. Improvements to the public transport network to reduce overcrowding of buses within the city core may require some reorganization of the city's key transport infrastructure, such as establishing an integrated, multi-modal transport hub; transport facilities outside the city at appropriate locations; a revised bus network, enhanced services, and bus priority measures on selected main routes. Traffic calming measures can also be put in place to improve pedestrian-friendliness, such as migrating on-street car parking to off-street facilities; setting up of a traffic management regime and prioritizing public transport and pedestrians within the city. Investments in by-pass roads and public transport infrastructure will be supported with a traffic management plan.

Kandy Municipal Water Supply System Augmentation and Rehabilitation

4. The Kandy municipal water supply system is currently unable to meet the demand of the KMC area and is supplemented by National Water Supply and Drainage Board (NWSDB) facilities. In addition, KMC facilities, though well-managed, consist of aging infrastructure which was last upgraded in the early 1980s. Today, the distribution network experiences frequent ruptures and leakages, which results in significant amount of Non-Revenue Water (NRW). Therefore it is proposed to rehabilitate the intake and treatment plant at Gatambe and intake and treatment plant at Dunumadalawa to augment supply and improve storage, replace selected connections, pumping mains and distribution lines to reduce NRW. Other nonstructural measures to improve system efficiency would also be introduced.

Drainage Rehabilitation

5. The city is served by a system of open canals and an old brick-lined underground tunnel built over 150 years ago to carry storm water from the city to an open stream. The high frequency of collapses of the underground drain system is a growing threat to public safety. Therefore, as a priority, parts of the storm water drainage system require rehabilitation and strengthening works to reduce the incidence of collapses.

Urban Upgrading

6. A rapid exercise to develop a strategic plan focusing on key areas in the city core was used as the basis to select priority urban upgrading interventions to be implemented using a phased approach. These include walkability enhancements by reorganizing and improving the pedestrian network, creating public spaces and improving traffic management within the city, around the lake and surrounding hillsides. In the longer term, there is also an opportunity to further enhance and transform the overall urban environment of Kandy city center by reconfiguring larger parcels of land and buildings at key areas to create attractive public spaces and facilities anchored by cultural and heritage uses that residents and visitors can enjoy. To complement these investments and to guide future interventions, the project will support the development of detailed urban development plans for key areas and an integrated master plan for the City Region. Kandy is home to numerous historic buildings and landmarks within the city core (such as the Post Office building and Bogambara prison) and within the temple and palace grounds. However the pressures of urbanization are taking their toll and many of the buildings, especially those within the city core, are in a state of deterioration. Selected historic buildings and landmarks can be restored for adaptive reuse under the project. These buildings will play a key role in improving the quality of surrounding streetscapes and public spaces. Restoration of these buildings will also form part of the urban development plans for key areas, as well as the integrated master plan for the City Region.

Institutional Strengthening and Capacity Building

7. This comprises capacity building and technical assistance to support PPAs' ability to plan, design and maintain urban infrastructure and provide municipal services. It will include activities to support the design of an asset management system and its implementation; and training in planning, design and maintenance of the City Region's infrastructure assets.

Component 2: Galle City Region Urban Interventions

8. Galle is envisaged not only as an anchor for economic development in the region, but also as a livable and vibrant historic waterfront city. This component aims to improve livability by protecting and developing the urban environment of Galle City Region, support priority investments in infrastructure and services, organize city functions to increase investment attractiveness, enhance public urban spaces, and achieve significant urban transformation to respond to economic growth in the Galle City Region.

Flood Reduction

9. Flooding in Galle is an annual occurrence due to poor drainage. Severe flooding events within the last decade took place in 2003 and 2010 and were caused by extremely high rainfall in the area. The land drained by natural streams and canals is very flat, which hampers easy drainage of storm water. This is exacerbated by the fact that the drainage system is polluted and is unfit to convey flood water to the sea due to the lack of maintenance, and partly blocked by debris, fallen palm trees, garbage dumping and overgrown weeds. Canal banks at various locations are unprotected, unstable and are encroached by illegal settlements. Gabions at many locations are poorly designed, oversized, unstable and have partly collapsed. The canal's cross-sections are generally unfit to properly and reliably convey flood waters. Cross-drains discharging to the main canals and elsewhere in the town are only partly lined, are poorly maintained and generally have insufficient capacity to convey the excess rainfall in a timely manner. This activity will address these challenges through the rehabilitation of canals such as the Morogoda canal and cross-drains, by widening bridges to remove bottlenecks along the canal together with rehabilitation of selected cross-drains and side drains, bank protection works, and improving access to canal reservations for long-term maintenance.

Coastal Erosion Reduction

10. Large sections along the Galle coastal belt are highly eroded and are in urgent need of coastal protection in order to preserve the natural assets that are an important part of the City Region's environment and economy (e.g. tourism). This activity will support infrastructure and improvements to coastal management needed for selected coastal areas in the Galle City Region, such as the eroded coastal section between Galle Fort and Light House Hotel in the North, and the short tsunami-affected coastal section between Galle Fort and Marine Drive in the South/East. Design of these infrastructures can be incorporated into the design of new public urban spaces such as beach parks, open areas and pathways.

Urban Upgrading

11. These activities are focused on enhancing urban public spaces and forming strong pedestrian connectivity between key destinations by leveraging city assets. Interventions may include rehabilitation of public areas within the Fort, such as the rampart system, bastions and squares. Outside the Fort, coastal pathways will be rehabilitated to provide continuous pedestrian access along the waterfront, and improve connectivity to the inner city and Fort entrances. Within the main city area around China Garden and the bus station, selected streets will also be enhanced to ease pedestrian-vehicular conflicts, improve walkability and connect public urban spaces. Other selected urban areas in the City Region may be earmarked for development/improvements. To complement these investments and ensure sustainability, the project will support the development of detailed urban development plans for key areas and an integrated master plan for the City Region. Galle is home to numerous historic buildings and landmarks within the city core and Galle Fort; however many of the buildings are in a state of deterioration. Selected historic buildings and landmarks will be restored for adaptive reuse under the project. These buildings will form a key role in improving the quality of surrounding streetscapes and public spaces. The restoration of these buildings will form part of the detailed urban development plans for key areas, as well as the integrated master plan for the City Region.

Institutional Strengthening and Capacity Building

12. This comprises capacity building and technical assistance to support PPAs' ability to plan, design and maintain urban infrastructure and provision of municipal services. It will include activities to support the design of an asset management system and its implementation, and training in planning, design and maintenance of the City Region's infrastructure assets.

Component 3: Implementation Support

13. This component will provide support needed to implement the project: (i) implementation support in the areas of project management, monitoring and evaluation, procurement, financial management, and environmental and social safeguards; (ii) public awareness and communications support for project interventions; (iii) purchase of vehicles, office furniture, and IT equipment for the PMU; (iv) operating costs of the PMU and PPAs; and (v) support for the Strategic Cities Program such as preparatory studies and planning for other strategic cities, and other implementation and management tools.

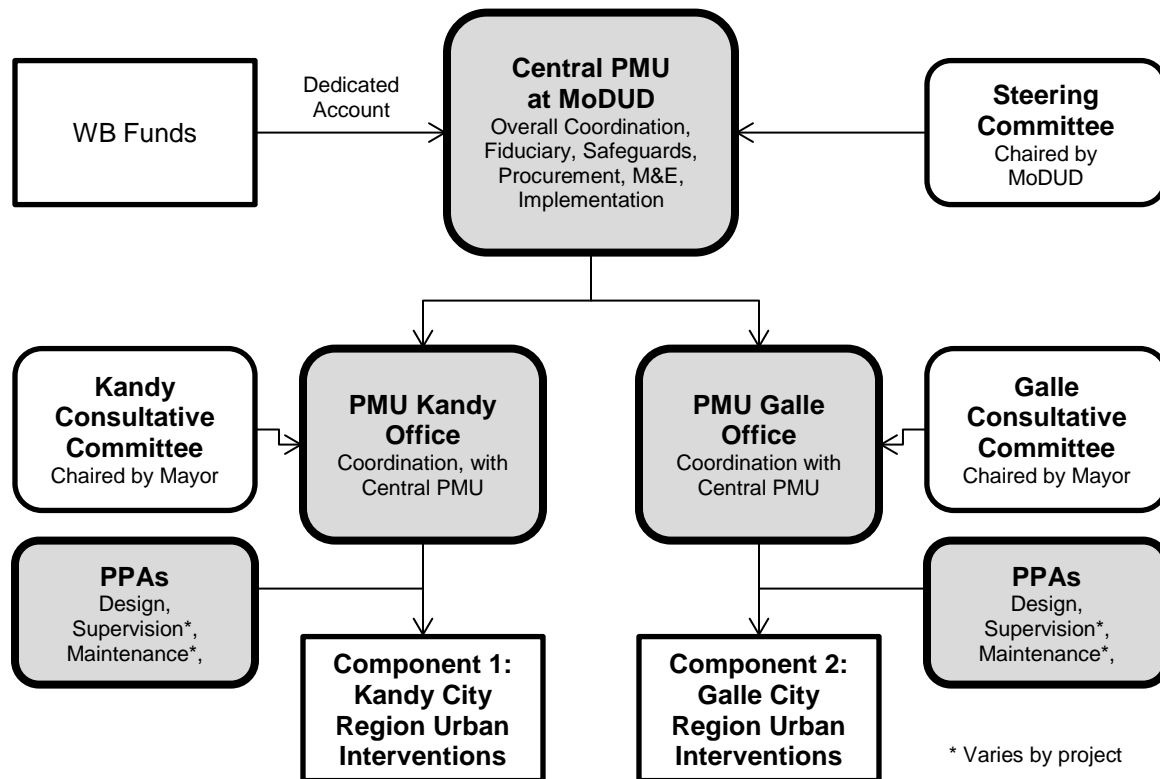
Annex 3: Implementation Arrangements

SRI LANKA: Strategic Cities Development Project

Project Institutional and Implementation Arrangements

1. A PMU has been established under the Ministry of Defence and Urban Development (MoDUD). The PMU will operate under the oversight of a Steering Committee, chaired by MoDUD and is composed of representatives from UDA, CCD, KMC, GMC, RDA Ministry of Finance and Planning, Ministry of Local Government and Provincial Councils, Ministry of Irrigation, Ministry of Ports and Highways and other relevant agencies. Other ministries and agencies will be identified as stand-by members, to join the steering committee when relevant issues are discussed (e.g. CEA, SLLRDC).
2. The PMU will play a critical role in coordinating the numerous agencies involved in project implementation, ensuring overall quality and timeliness of investments, and providing administrative services to the various agencies involved in the project. It will be responsible for fiduciary and safeguard aspects of the project, for monitoring agencies' compliance with the project's environmental and social safeguards, and for overall project M&E. In order to be more effective at the local level, local PMU offices will be established both in Kandy and Galle, headed by Deputy Project Directors and staffed with core technical and safeguard staff.
3. Project Partner Agencies (PPAs) will be assisted by consultants for detailed designs and construction supervision, when needed or when augmenting implementation capacity of PPAs is deemed necessary. Key responsibilities of the Project Partner Agencies are:
 - a. Proposing sub-projects, preparing implementation plans and carrying out detailed designs of sub-projects. The project will make available Design and Supervision consultants to work with the PPAs to carry out these tasks, in case PPAs do not have adequate capacity.
 - b. Supervising implementation of sub-projects and reporting to the PMU on progress and quality.
 - c. Assisting the PMU in ensuring compliance with the project's environmental and social safeguards.
 - d. Committing to future operation and maintenance of delivered infrastructure.
 - e. Supporting the PMU in collecting information/data required for M&E activities.
4. A project Coordination and Consultative Committee will be established both in Kandy and Galle, chaired by the respective Mayors, to ensure effective coordination between the PMU, PPAs and other key stakeholders at the local level (including, but not limited to, other government line agencies, private sector, civil society, and other donors active at city level). The flowchart below summarizes the implementation arrangements.

Implementation Arrangement Flowchart



Implementation Responsibilities

Projects by PPAs	Design	Safeguards	Fiduciary (Procurement, FM)	Supervision	Maintenance
KMC (Water Supply)	NWSDB	PMU	PMU	NWSDB	KMC
KMC (Drainage)	Consultant	PMU	PMU	Consultant	KMC
KMC (Public Transport / Traffic Management)	Consultant	PMU	PMU	Consultant	KMC
RDA	RDA	PMU	PMU	RDA	RDA
UDA / KMC (Urban Upgrading)	UDA / Consultant	PMU	PMU	UDA / PMU/Consultant	KMC/DoA
ID	ID / Consultant	PMU	PMU	ID / PMU/Consultant	ID
Galle PID	SLLRDC	PMU	PMU	PID / PMU/SLLRDC	PID
GMC (Drainage)	Consultant	PMU	PMU	GMC / PMU/Consultant	GMC
UDA/GMC (Urban Upgrading)	UDA/Consultant	PMU	PMU	UDA/Consultant	/GMC
CCD (Coastal Management)	CCD/Consultant	PMU	PMU	CCD/ UDA / PMU/Consultant	CCD (Coastal structures) / GMC (Public spaces) /

Financial Management, Disbursements and Procurement

Financial Management

5. GoSL has decided to keep project fiduciary responsibilities centralized at the PMU level. PMU FM responsibilities will include ensuring compliance with all financial covenants in the legal agreement. This entails managing funds in an efficient, effective and transparent manner, obtaining funds from IDA and making payments on behalf of all implementing agencies, furnishing financial reports to IDA, forwarding project audit reports to IDA and any other requests relating to financial management that may be requested by IDA. The head of PMU will be supported by a full time Finance Manager, who will be responsible for carrying out all project FM activities. The Finance Manager will be supported by an accountant and two accounts executives. A comprehensive financial management assessment was carried out by the Bank concluded that the proposed arrangements fulfill IDA's fiduciary requirements as per OP/BP 10.00. The project has a moderate FM risk rating.

6. Therefore, although several agencies are involved in implementing various sub projects financed under the project, financial management arrangements of the project are centralized at the PMU level. To ensure that the PMU has adequate financial management arrangements and capacity to carry out project financial management responsibilities, a comprehensive financial management assessment was carried out by the task team. During the appraisal mission the task team appraised the proposed financial management arrangements and concluded that the proposed arrangements fulfill IDA's fiduciary requirements as per OP/BP 10.00. The project has a moderate FM risk rating. There are no ineligible expenditures or outstanding audit reports for Bank projects implemented by MoDUD.

Financial Management Assessment – PMU

7. The PMU FM responsibilities will include ensuring compliance with all financial covenants in the legal agreement. This entails managing funds in an efficient, effective and transparent manner, obtaining funds from the IDA and making payments on behalf of all implementing agencies, furnishing financial reports to the IDA, forwarding project audit reports to the IDA and any other requests relating to financial management that may be requested by the IDA. The head of PMU will be responsible for the day-to-day management of the activities implemented under the project and will be supported by the full time Deputy Project Director (Finance) who will be responsible for carrying out all project FM activities. The Deputy Project Director (Finance) will be supported by an accountant and two accounts executives.

8. A government accountant with over ten years' experience has been providing financial support as the project accountant. The project accountant has designed the financial management arrangements for the project which were assessed during the appraisal mission. In addition to the project accountant, the GoSL has agreed to hire a chartered accountant as the Deputy Project Director (Finance) by project effectiveness within the provisions of the Management Circular 33 issued by the Ministry of Finance and Planning. The Deputy Project Director (Finance) and the project accountant will be supported by two accounts executives.

9. The Deputy Director (Finance) will be the head of the project financial management function and will be responsible for all project financial management activities including project budgeting, disbursement planning and forecasting, operation of the designated account (DA)

including claiming replenishments, disbursement of project funds, making project payments, maintaining books and records for project financial transactions, submission of quarterly project interim financial reports to the IDA, preparation of annual project financial statements and interact with project auditors on the audit issues and their follow up.

10. Based on the financial management that is detailed out below, it was concluded that the FM capacity and the FM arrangements of the PMU were sufficient to handle the FM aspects of the project in compliance with the IDA's fiduciary requirements.

11. *Budgeting.* IDA funds will be accounted under the overall annual budget of MoDUD. The MoDUD budget includes a budget line for SCDP. The PMU has sufficient procedures to ensure accurate project budgeting. It will prepare detailed budgets and procurement plans, based on the work schedule to be completed in each financial year. The financial management assessment noted that there have been no delays in transfer of funds from the Ministry of Finance to MoDUD for approved budget expenditure items.

12. *Accounting.* Project accounting practices will be governed by GoSL financial regulations. All funds for the Project will be routed through the PMU and the PMU will be responsible the accounting of all project expenditures. The PMU will maintain accounts on the cash basis of accounting and will also comply with the government finance regulations. Bank accounts will be reconciled on a monthly basis and trail balances and financial statements will be prepared on monthly basis to facilitate progress monitoring.

13. Initially project accounts will be maintained using MS Excel. It is envisaged that the PMU will install an accounting software package during the first year of implementation. The system will be voucher based and its functions will be based on double entry system. The accounting software will facilitate the monitoring of funds utilization of the project. This system will have the capacity to handle the any volume of financial transactions and be capable of generating project specific FM reports.

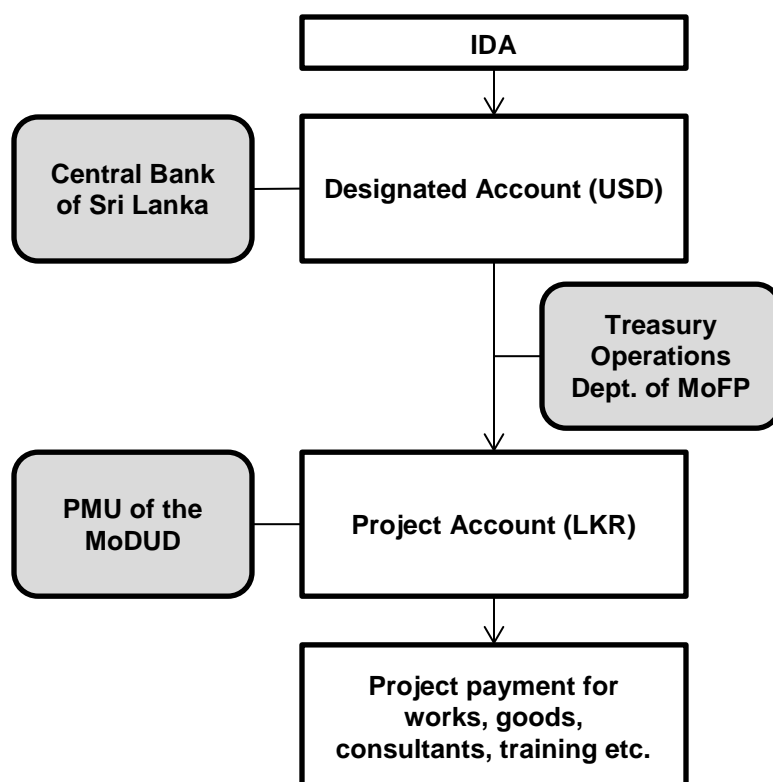
14. *Internal controls.* The framework of financial control procedures followed by the GoSL in expending and reporting on public funds is laid out in the Financial Regulations. These regulations provide a good guidance on how to maintain a sound FM system with effective internal controls. The Regulations address procedures and controls necessary for authorizing, approving, executing, recording, and reporting expenditure, and cover delegation of financial authority and inventory control.

15. The internal control environment and activities of MoDUD are adequate to ensure that projects funds will be used for intended purposes, with due attention to considerations of economy and efficiency. Compliance of the PMU with GoSL financial regulations and other applicable circulars will be assessed semi-annually by internal auditors and annually by the Auditor General. Any non-compliance identified during internal/external audits will be communicated to IDA through internal/external audit reports.

Fund flow. A designated account (DA) in US Dollars will be maintained at the Central Bank of Sri Lanka (CBSL), and will be operated by the Treasury. IDA will advance funds to the DA based on expenditure forecasts contained in quarterly interim unaudited financial reports (IUFRs). The IUFR incorporates financial and contract monitoring procurement reports and will

be submitted to IDA on a quarterly basis. Withdrawal applications will be prepared by the PMU and replenishments to the DA will be based on IUFRs approved by IDA.

16. MoDUD will open a dedicated Sri Lankan Rupee (LKR) account, which will be operated by the PMU to make payments for eligible project expenditures. Although several agencies are involved in planning and coordinating components/activities, all project payments will be made directly by the PMU to contractors/suppliers on the basis of certification received from the implementing agencies. These payments will be authorized by the Project Director and/or Deputy Project Director (Finance).



17. Bank credit proceeds will be used to finance productive expenditures necessary to meet the development objectives of the proposed project with due attention to considerations of economy and efficiency in accordance with the provisions of the Legal Agreement. If the Bank determines that loan funds have been used to finance ineligible expenditures, the amounts used for such expenditures should be refunded to the IDA by the GoSL. The task team and the GoSL agreed that the expenditure for project preparatory activities incurred from July 1, 2013 up to the date of signing of the project will be retroactively financed for an amount not to exceed \$14 million. The GoSL was informed that in order to make the project preparatory expenditure eligible for retroactive financing, IDA procurement procedures should be followed when incurring these expenditures.

18. The proceeds of the credit would be disbursed against eligible expenditures, excluding local taxes and duties, as shown in the table below. Government counterpart funds are to finance at 100% of (i) taxes and duties, (ii) financing gaps for defined road sections under Component 1 and (iii) implementation of resettlement policy framework

Category	Amount of Credit Allocated	Percentage of Expenditures to be Financed (Exclusive of taxes and duties)
Goods, works, non-consulting services, consultants' services, training, incremental operating costs for the project	\$147,000,000 equivalent	100
Total Amount	\$147,000,000 equivalent	

19. *Financial reporting.* The PMU will be responsible for reporting on all project expenditures and will coordinate with government agencies and local authorities involved in project implementation in this regard. The PMU will prepare and submit quarterly project IUFs, in a format agreed with the Bank, not later than forty five days after the end of each calendar quarter. The PMU will also be responsible for preparing the annual financial statements of the project.

20. *Internal audit.* MoDUD has an internal audit department (headed by an experienced government accountant) which has sufficient capacity to conduct project internal audits. The Internal Auditor reports directly to the Secretary of MODUD and has functional independence. The overall scope of the internal audit will include: (i) evaluating internal control systems of the project and the integrity of project financial information; (ii) assessing whether project funds have been used for intended purposes; (iii) assessing internal controls over disbursements from the project account; (iv) appraising the economy and efficiency of resource utilization in accordance with the financing agreement; and (vi) determining whether the PMU has complied with GoSL financial regulations, circulars and any other applicable laws and regulations.

21. The Internal Auditor will carry out a semiannual internal audit to assess whether funds have been disbursed on a timely basis and used effectively and efficiently for intended purposes. The internal audit will also examine the physical and qualitative aspects of the assets constructed or procured under the project. This will provide further assurance on the legitimacy and the eligibility of the payments made from the loan proceeds.

22. *External audit.* Annual financial statements of the project will be audited by the Auditor General of Sri Lanka which is the supreme audit institution of the country to maintain full transparency and provide reasonable assurance to all the stakeholders on the use of project funds. A reasonable level of physical verification will also be conducted under the project audit. The external audit will cover project activities carried out by all implementing agencies involved in the project and all payments made from the project account maintained by the PMU. The external audits would be conducted every fiscal year and will be submitted within 6 months of the end of the fiscal year. The PMU is responsible for submission of the annual audited financial

statements to the IDA within six months of the end of the fiscal year. There are no ineligible expenditures or outstanding audit reports for Bank projects implemented by MoDUD.

Procurement

23. Procurement for the proposed project would be carried out in accordance with: World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Procurement Guidelines); "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 (Consultant Guidelines); and the provisions stipulated in the Financing Agreement. Unless otherwise agreed with the Bank, the Bank's Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used.

24. In case of conflict between the Bank's procurement procedures and any national rules and regulations, the Bank's procurement procedures would take precedence. The general descriptions of various items under different expenditure categories are described below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frames have been agreed with the Bank and are included in the initial Procurement Plan. The PMU has prepared a detailed, project-specific, Procurement Administration Manual that further elaborates the project procurement methods, procedures, arrangements (including arrangements for disclosure), complaint handling and procurement audits. It has also completed a detailed matrix for procurement (and financial management) related corruption mapping and mitigating actions that would be used as an anti-corruption guiding document for the project..

25. *Retroactive Financing.* Expenditures for project preparatory activities incurred within one year prior to credit effectiveness, up to a ceiling of \$14 million may be retroactively financed. The PMU has prepared a procurement plan for the contracts financed under retroactive financing, which has been agreed with the Bank. All contracts under retroactive financing are subject to Bank review.

26. *Procurement of Works:* Works procured under this project shall be procured following ICB, NCB and may involve shopping in some cases. Bank standard documents will be used for ICB contracts. Standard Bidding Documents of the Borrower as agreed with the Bank will be used for NCB contracts. Procurement of such works shall be guided by the provisions applicable to those as laid down in the corresponding paragraphs of Procurement Guidelines as well as in the Procurement Administration Manual of the project.

27. *Procurement of Goods:* Goods procured under this project shall be done using Bank's SBDs for all ICB and National SBDs agreed with (or satisfactory to) the Bank for all NCB and Shopping. Very small value procurements (up to US\$500 or equivalent) may be done following Direct Contracting.

28. *Requirements under National Competitive Bidding (NCB).* In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non-consultant services procured under the National Competitive Bidding (NCB) method shall be subject to the following requirements:

- i. Only the model bidding documents for NCB agreed with the Bank shall be used for bidding;
- ii. Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least twenty one (21) days before, and issued up to, the deadline for submission of bids;
- iii. Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance;
- iv. Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time and place of bid opening);
- v. Except in cases of *force majeure* or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed;
- vi. Bids will not be rejected merely on the basis of a comparison with an official estimate;
- vii. Except with the prior concurrence of the Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder;
- viii. A bidder's bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract under which they are furnished; and
- ix. Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Bank.

29. Selection of Consultants: Major consultancy services to be procured shall follow the World Bank guidelines for selection of consultants and standard documents of the Bank shall be used. Short lists of consultants for services estimated to cost less than \$300,000 or equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The Bank's Standard Request for Proposal (RFP) (October 2011) will be used as a base for all procurement of consultancy services under the Project. The following methods will be applicable for selection of consultants, consistent with the relevant sections of the Bank's Consultant Guidelines:

- a. Quality- and Cost- Based Selection (QCBS).
- b. Quality-Based Selection (QBS).
- c. Least Cost Selection (LCS).
- d. Fixed Budget Selection (FBS).
- e. Selection based on Consultants' Qualifications (CQS): for services estimated to cost less than US\$300,000 equivalent per contract, in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines.
- f. Single-Source Selection (SSS).
- g. Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants.
- h. Sole Source Procedures for the Selection of Individual Consultants.

30. Thresholds for Procurement Methods and Prior Review. Review thresholds and requirements for different methods of procurement of works, goods, non-consulting services and selection of Consultants based on the current procurement risk rating are listed in the table below. These thresholds and review requirements may be modified on the basis of reassessed risk ratings during project implementation in agreement with the Bank.

Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts/Processes Subject to Prior Review
Works	>= US\$7,500,000	ICB	All contracts.
	<US\$7,500,000	NCB	All contracts over US\$5million equivalent.
	<=US\$50,000	Shopping	All contracts subject to post review.
Goods	>=US\$1,000, 000	ICB	All contracts.
	<US\$1,000,000	NCB	All contracts over US\$500,000 equivalent.
	<=US\$50,000	Shopping	All contracts subject to post review
		DC	All contracts costing more than US\$50,000 equivalent.
Consultant Services (firms)	>=US\$300,000	All competitive methods; advertise internationally	All contracts.
	<US\$300,000	All competitive methods; advertise locally	All contracts over US\$200,000 equivalent.
	<US\$300,000	CQS	All contracts costing more than US\$200,000 equivalent.
		SSS	All contracts costing more than US\$50,000 equivalent.
Individual Consultants		IC ((Section V of Consultant Guidelines)	All contracts over US\$100,000 equivalent.
		IC- Sole source	All contracts costing more than US\$50,000 equivalent.

31. *Post Review.* Contracts below the prior review threshold for goods, works and consultancy services will be subject to post review, as per the procedure set forth in paragraph 4 of Appendix 1 of the Bank's Procurement and Consultant Guidelines. The Borrower shall retain complete documentation for each contract and make it available to the Bank or its nominated consultant for carrying out the post review. At least 20% of contracts that have not been prior reviewed would be post reviewed, in terms of the Bank Guidelines given the procurement risk rating for the project is 'High'.

32. *Assessment of Procurement Capacity.* The PMU will be staffed by a Procurement Specialist supported by a Procurement Officer. Additional procurement support will be needed when the project becomes fully functional. The main procurement risks identified by the assessment were:

- a. Inadequate procurement staff.

- b. Absence of a systematic procurement performance and compliance monitoring mechanism at the country level.
- c. Complaint redressal system is not streamlined.
- d. Lack of established system of public disclosure of information on procurement actions.
- e. Possible collusive practices among contractors in the procurement of works.
- f. Procurement of goods and works has normal fiduciary risks of transparency and fairness.
- g. Varying market capacity in designing appropriate qualification requirements with an ability to influence the market in receiving appropriate pricing and delivery commitments
- h. Inadequate experience in contract administration.

33. Risk management measures which have been agreed are:

- a. A procurement team headed, by an experienced procurement specialist and supported by an experienced procurement officer/s, and dedicated to SCDP, will support the PMU. Having procurement staff with engineering background will be an added advantage.
- b. Procurement staff will be imparted training, specifically on fraud and corruption flags, and on addressing complaints.
- c. The Procurement Administration Manual will include procurement procedures to be followed under each component of the project, together with standard/model documents, formats and templates to be used, as agreed with the Bank.
- d. The PMU will prepare and forward to the Bank an annual procurement progress report, which will include, *inter alia*, procurement plan updates- action on findings of post reviews and other procurement and contract administration issues.
- e. The PMU will implement a monitoring mechanism for procurement, which will include implementation, as well as the defects liability phase and warranty phase of contracts.
- f. The following key indicators will be used for assessing procurement performance and procurement risk rating:
 - (i) Percentage of procurement activities which have more than 15% delay from the original bid validity period in bid/proposal evaluation.
 - (ii) Percentage of contracts which have more than 15% modifications by value.
 - (iii) Percentage of contracts with completion period extended by 10% of the original contract period.
 - (iv) Percentage of procurement activities which had complaints.
- g. Corrective actions will be taken to address deficiencies identified by the Bank post reviews.

34. *Disclosure.* The following documents will be disclosed on the Borrower's Website: (i) procurement plan and updates; (ii) invitation for bids for goods and works for all ICB and NCB contracts; (iii) request for expression of interest for selection/hiring of consulting services; (iv) contract awards for goods and works procured under ICB/NCB procedures; (v) list of

contracts/purchase orders placed under shopping (on a quarterly basis); (vi) short lists of consultants; (vii) contract awards for all consultancy services; (viii) list of contracts under DC or CQS or SSS (on a quarterly basis); and (xi) action taken report on complaints received (on a quarterly basis).

35. The following details will be published in the Bank's external website and United Nations Development Business (UNDB): (a) invitation for bids for procurement of goods and works using ICB procedures, (b) request for expression of interest for consulting services with an estimated cost more than \$300,000, (c) contract award details of all procurement of goods and works using ICB procedure, (d) contract award details of all consultancy services with estimated cost more than \$300,000, and (e) list of contracts/purchase orders placed following SSS or CQS or DC procedures on a quarterly basis.

36. *Complaint Handling.* A complaint handling mechanism for the project will be developed and will be published on the Borrower's website. On receipt of complaints, immediate action will be initiated to acknowledge the complaint and redress in reasonable time frame. All complaints received will be forwarded to the Bank for information and the Bank will be kept informed after the complaints are redressed.

37. *Procurement Plan (PP).* The initial procurement plan for the first 18 months of project implementation, acceptable to the Bank, has been prepared by the PMU. This plan has been agreed between the PMU and the Bank on March 7, 2014 and is available at the PMU website, MoDUD website, and in the Bank's external website. The Procurement Plan will be updated annually or when required to reflect project implementation needs and improvements in institutional capacity. SEPA, the web based procurement monitoring tool, will be rolled out during the first six months of the project implementation.

38. *Frequency of Procurement Supervision:* In addition to the prior review of high value contracts, supervision to be carried out from Bank offices, the capacity assessment of the implementing agencies has recommended semi-annual supervision missions to visit the field to carry out reviews of procurement actions. In addition to the prior review of contracts by the Bank, at least 20% of the contracts that have not been prior reviewed would be post reviewed in terms of the Bank Guidelines.

39. *Capacity Building.* Project staff will be given adequate procurement training through a comprehensive capacity building program in country and overseas. Junior staff will be trained on-the-job. Bank procurement staff will assist in rolling out the capacity building program. Key procurement staff of the PMU and implementing agencies would be trained on procurement procedures pertaining to Bank Financed projects in general and specific to the project in particular. A workshop would be conducted for Procurement Staff and other key staff of the PMU and all implementing agencies to familiarize them with procurement procedures under Bank financed projects, as well as to introduce methods for identifying and mitigating risks, including corruption mapping and risk mitigation actions. The PMU would disseminate and conduct training on the Procurement Administration Manual. In addition, the Bank would facilitate training sessions on Government's procurement policy and procedures as applicable to Bank financed projects as a measure to avoid potential confusion between government procurement procedures and Bank procurement procedures. Both short-term local and overseas training would be provided to select key staff in line with the actual requirements of the project.

Several measures are being introduced as indicated in the Corruption Risk Mapping and Mitigation Action Plan for improving governance in procurement and to minimize procurement related corruption risks under the Project. Action would be taken to establish a system of handling complaints; and a procurement website as indicated in the Corruption Risk Mapping and Mitigation Action Plan. With these risk mitigation measures, procurement risk rating is likely to be improved and would be reviewed and reassessed during the supervision missions for adjustments.

Environmental (including safeguards)

40. *Environmental Assessment:* The project will contribute to an improved urban environment in both cities by enhancing where service standards and subsequent management of key urban services such as transport, drainage, walkability etc., will be enhanced. The ultimate environmental impacts of these targeted investments will be essentially positive. In Kandy, for example, traffic congestion within the city is almost paralyzing and contributes to air pollution in a significant way. With the strategic investments under the project are expected to improve mobility within the city significantly resulting in improved road safety, travel time and air quality. Similarly, in Galle flooding within the city will be reduced by the proposed improvements to the urban canal/drain network which will result in reduced risks to the public and property.

41. The general environmental footprint of the majority of investments are associated with construction impacts that include air pollution, noise, debris disposal, public safety, inconvenience, restricted access, traffic congestion, removal of vegetation in the work sites, extraction of construction material, etc. These would be localized and temporary in nature and can be mitigated with known technologies. Specific issues in some sub-projects may require greater diligence and such issues will be addressed with specific guidelines to identify and mitigate them appropriately. In Kandy, landslides constitute a major natural disaster which has been aggravated over time by poor land use practices on mountain slopes. During project planning it is imperative to consider site susceptibility to landslides and ensure proper technologies are used to mitigate any prevalent risk. . In Galle, poor drainage capacity due to blocked channels contributes to local floods and hence cleaning of canals will be undertaken as part of regular maintenance. Canal cleaning will generate debris mixed with soft sediments which would require careful disposal, especially if harmful pollutants are present.

42. The GoSL has in place a well-developed environmental policy and regulatory framework which is largely consistent with the environmental safeguard policies of the World Bank. Under the National Environmental Act (NEA), all development projects that fall into prescribed categories are required to undergo a comprehensive environmental screening and mitigation planning process (EIA or Initial Environment Examination (IEE)). CEA administers the NEA and is the main environmental regulatory agency in the country with a long track record of evaluating environmental impacts of large development projects. NEA is unlikely to apply to SCDP significantly, however, in the event it becomes applicable to one or more sub-projects, EIA requirements under the NEA and OP 4.01 will be harmonized.

43. *Physical Cultural Resources (PCRs).* The Sri Lanka Antiquities Act governs preservation of cultural assets in the country and authorizes the Director General of the DoA to request an archaeological impact assessment survey to assess the consequences on the antiquarian, historical or archaeological aspects or value of the land in question, if major impacts are

observed. However, it is unlikely that full-scale archaeological impact assessments will be required for SCDP, as no major impacts on PCRs are anticipated; however, in some cases DoA clearances may need to be obtained.

44. The project will undertake conservation of selected heritage buildings. Certain structures identified hitherto are owned by DoA, hence design and implementation will be carried out by (or carried out under close supervision of) DoA, according to a restoration plan approved by the UNESCO heritage committee established for each city and the approved historic building code. A Conservation Master Plan has been already developed for the Galle Fort World Heritage Site and any work within it would need to conform to the master plan and approved by the Galle heritage committee chaired by GMC. Such a plan does not exist for the Kandy World Heritage Site; however, necessary approvals will need to be obtained.

45. PCRs within close proximity of project sites could suffer accidental damage as a result of construction activity, either directly or indirectly. PCRs in both cities are dominated by built assets (such as historic buildings, monuments, temples and monastic complexes) which have been inventoried and mapped by both the DoA and the CEA. The project is not expected to lead to changes in demographic or settlement patterns that can lead to neglect of old areas containing historic centers. It will not undertake construction of major urban facilities or major resettlement with potential to significantly alter existing land use and townscapes. The most likely impact on PCRs could be: (i) accidental physical damage due to vibration and air pollution caused by construction traffic, use of heavy construction equipment, and possible use of explosives in road improvement work; (ii) access restrictions; and (iii) unregulated access to PCR sites. As specified in the EAMF, an initial impact assessment of project activities on PCRs will be undertaken as part of the environmental screening and will be followed up, if necessary, through subsequent environmental assessments. The screening will also identify if there is a need to carry out a stand-alone Archaeological Impact Assessment (AIA) under national laws, and/or if any clearances need to be obtained prior to commencing construction work.

46. *Forests and Natural Habitats*: These policies are triggered more on a precautionary basis. Any potential impacts to natural habitats or forests will be captured in the environmental screening. In this context, the Forest Ordinance and Coast Conservation Act are important national laws to be considered.

47. *Environment Assessment and Management Framework (EAMF)*. GoSL has prepared an EAMF, which is acceptable to the Bank. The EAMF: (i) describes the project area in terms of key physical, hydrological and biological features, and carries out an early assessment of anticipated project environmental impacts; (ii) recommends typical mitigation strategies, including for those specific issues that require particular attention; (iii) sets out safeguard management processes and instruments to be applied at the sub-project level; (iv) defines institutional roles, responsibilities and capacity building needs for effective implementation of safeguards planning and mitigation; and (v) public consultation and disclosure requirements. Criteria set out in the EAMF primarily recommend that each sub-project be subjected to a detailed screening, using a pre-determined screening template, based on which the requirement for a stand-alone and site-specific assessment, as well as the type of assessment, are determined. Application of the EAMF to sub-projects identified for implementation in Year 1 has been completed, is acceptable to the Bank, and have been disclosed.

48. The same methodology will be applied to all other sub-projects. The EAMF provides a classification of sub-projects in the pipeline in accordance with (i) safeguard categories of OP 4.01 and (ii) prescribed thresholds of the Sri Lanka National Environmental Act (NEA). It recommends the type of environmental analysis suited for each type of investment commensurate with the magnitude of potential impacts. This classification is intended as guidance and will be re-evaluated at the time of screening for each specific sub-project.

49. *Institutional arrangements for environmental management.* Overall responsibility for ensuring compliance with environmental safeguards requirements will be borne by the PMU, which will be supported by a suitably qualified full-time Deputy Project Director (Environment), and a PCR expert who will work part time. The PMU will be responsible for: (i) overall policy direction; (ii) technical assistance; (iii) review and endorsement of screening reports, environmental assessments and management plans; (iv) ensuring EMPs are reflected in bid documents and contractor agreements; (v) capacity building of the implementing agencies for effective safeguards management; (vi) monitoring environmental compliance; and (vii) progress reporting.

50. Local PMU offices will be responsible for day to day planning, implementation and supervision of environmental safeguards for specific sub-projects.. An environmental officer will be recruited for each city to ensure timely and sound application of the EAMF. PEAs will draw on his/her expertise during design/implementation to complete safeguards work. He/she will work under and report to the PMU. On PCR issues, the environmental officer will work under the guidance of the Deputy Project Director (Environment) in the PMU, who will also help in coordinating with the DoA and/or the local Municipal Councils.

51. The PMU and partner agencies will be trained on the application of EAMF and in the preparation of EMPs. Where stand-alone Environmental Assessments and Management Plans are required as screening outcomes, the PMU will hire independent consultants. All screening reports, EAs and EMPs will be prior reviewed and cleared by the PMU. In addition, screening reports, EAs and EMPs for all Category A type sub-projects and a sample of Category B type sub-projects will be prior reviewed by the Bank. Project staff will provide training to contactors to enable them to carry out site monitoring. The project will also explore the possibility of building long-term capacity, especially within the participating local authorities, on the management of urban environmental issues, with a focus on environmental monitoring, through training programs and procurement of necessary equipment.

52. Day-to-day monitoring will focus on compliance monitoring based on a monitoring checklist and will be done through regular site supervision by the project's environmental staff. Monitoring of environmental parameters such as air, water, salinity, sediment quality etc will be conducted based on the requirements specified in the EMPs and is expected to take place through regular site supervision by the project's environmental officers, monitoring of environmental parameters (such as air, water, salinity, sediment quality, etc. The project will support independent environmental audits on an annual basis throughout project implementation.

Social (including safeguards)

53. Major positive social impacts of the project will be the improvement in living conditions of households living in and around both cities, as well as a large number of commuters. To address

social safeguards risks associated with land acquisition and relocation, the project follows a programmatic approach. RAPs, acceptable to the Bank, have been prepared for first year sub-projects. A resettlement policy framework has been prepared to address the requirements of sub-projects to be designed and implemented in subsequent years.

54. *Social Management Framework (SMF)*. A Social Assessment (SA) has been carried out and provides a situational analysis, key social impacts, risks and opportunities, country legislative and regulatory frameworks, review of safeguard management practices, institutional and capacity assessment, as well as gender and social inclusion aspects. An SMF, developed based on the SA, provides the legal and institutional framework, with an Entitlement Matrix and planning, implementation and monitoring arrangements to address involuntary resettlement, along with guidance to strengthen social inclusion and gender mainstreaming. Based on the SMF, social screening/impact assessment will be undertaken when sub-projects are designed after Year 1, and if required, RAPs will be prepared for such sub-projects. The SMF lays down principles and procedures for: (i) social screening and impact survey for future sub-projects with standard templates; (ii) social inclusion and gender development plans; (iii) preparing RAPs; (iv) overall legal and institutional arrangements; (v) entitlement matrix¹⁴; (vi) implementation arrangements; (vii) grievance redress mechanisms, monitoring and evaluation; (viii) information disclosure, consultation, and stakeholder participation; (ix) implementation schedule, including monitoring plan; and (x) indicative budget, in compliance with Bank safeguard policies on involuntary resettlement OP/BP 4.12 and physical cultural resources OP/BP 4.11

55. *Gender*. The SMF includes the project's gender and social inclusion strategy. The objective of the gender strategy is to ensure equity in the resettlement process, enabling women and their families to sustainably re-establish their shelter and livelihoods. The SA outlines an overall gender action plan, which includes: (i) provision of special attention for vulnerable women who may be adversely affected and lose their livelihoods as a result of land acquisition; (ii) special attention to women headed households with livelihood restoration support; (iii) equal provision of employment training opportunities for male and female youth; and (iv) ensuring women's participation in community consultations in sub project planning and implementation. Some of the gender considerations to be addressed in the RAP include: (i) special attention to women headed households in the relocation and post resettlement process, with targeted livelihood assistance; (ii) gender sensitive provision of civic infrastructure including sanitation, and transport; and (iii) facilities for women in recreational places created as a part of the project.

56. *Grievance Redress*. A grievance redress mechanism will be established, with clear procedures for handling complaints from project affected persons as described in SMF. The SMF requires consultations to be held during resettlement planning and implementation to discuss risks, entitlements, RAPs, and disclosure of relevant documents on the project website, in newspapers, and public project information centers established at the PMU and city levels.

Monitoring and Evaluation.

¹⁴The entitlement matrix offers: compensation for land and structure at replacement value, alternative housing for fully affected vulnerable households, shops on long-term lease for displaced shopkeepers, assistance for temporary loss of incomes, additional benefits for vulnerable displaced households, re-establishment of community facilities, and mitigation measures for temporary impacts. The SMF provides additional guidelines for integrating social inclusion, accountability and gender considerations while planning and implementing resettlement social management activities.

57. The PMU will be responsible for overall quality assurance, M&E, and reporting, in coordination with the PPAs (KMC, GMC, UDA, ID, RDA, PID, CCD etc.). Detailed M&E responsibilities are as follows:

- a. KMC, UDA, ID, and RDA will be responsible for monitoring results and collecting and compiling outcome and intermediate results indicators for Component 1.
- b. GMC, UDA, PID, and CCD will be responsible for monitoring results and compiling outcome and intermediate results indicators for Component 2.
- c. The PMU will be responsible for coordinating the collection and compilation of outcome and intermediate indicators, and for their consolidation based on the results framework presented in Annex 1.

58. PPAs will submit a biannual report covering their outcome and intermediate results indicators. The PMU will compile information received and produce a consolidated report on a biannual basis. Technical Assistance (TA) support for the PMU staff to carry out M&E activities is built into the project. These will build on the existing M&E systems already in place at the level of local authorities and implementing agencies, and will be strengthened during the project implementation. The detailed results framework, including baselines and targets, is presented in Annex 1.

Annex 4: Operational Risk Assessment Framework (ORAF)
SRI LANKA: Strategic Cities Development Project

1. Project Stakeholder Risks						
1.1 Stakeholder Risk The project is fully in line with GoSL Vision for Development (Mahinda Chintana), which identifies as a priority developing a system of competitive, environmentally sustainable and well-linked cities. Selected stakeholders may perceive the project as concentrating resources in relatively wealthy cities in the Center (Kandy) and South, (Galle).	Rating:	Moderate				
	Risk Management: Through effective communication strategy and awareness programs, PMU and the Bank will document and record development impacts on project to the system of cities as well as vulnerable group in city areas.					
	Resp: Client and Bank	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency:	Status: On-going
2. Implementing Agency Risks (including fiduciary)						
2.1 Capacity Resources: MoDUD has gained experience as an implementing agency of Bank projects through the implementation of MCUDP. However, Kandy and Galle City Region agencies do have experience of implementing Bank projects and do not familiar with Bank processes and requirements.	Rating:	Substantial				
	Risk Management: The PMU will have guidance of past experience from the implementation of MCUDP. The PMU will be staffed by: FM, Procurement, Social, Environment, and required technical staff for overall coordination and fast-tracking preparation of sub-projects from Year 2. Field based PMUs in Kandy and Galle will facilitate smooth project implementation.					
	Resp: PMU	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date: N.A.	Frequency:	Status: On-going
Integrated Planning and Coordination: Kandy and Galle are weak in terms of planning, engineering and monitoring, as well as areas that would require integrated planning and coordination.	Risk Management: Officers from Project Partner Agencies will provide technical expertise to the PMU. The PMU will coordinate to strengthen integrated planning of proposed investments with respective agencies. Appropriate external planning and design consultancy services would be provided to PPAs as needed.					
	Resp: PMU/PPA	Stage: Implementation.	Recurrent: <input type="checkbox"/>	Due Date: N.A.	Frequency:	Status: On-going
Procurement: Capacity Constraints and weak compliance monitoring in procurement.	Risk Management: Bank will provide continuous support through training and professional development programs to strengthen skills and capacities of procurement staff and will guide the PMU on implementation of an effective procurement monitoring mechanism.					
	Resp: Bank	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date: N.A.	Frequency:	Status: On-going
2.2 Governance	Rating:	Moderate				
The MoDUD has demonstrated the strong leadership and ownership needed to successfully fast-track project preparation.	Risk Management: MoDUD will use experience gained from MCUDP to ensure inter-agency coordination across line ministries involved. Project design includes delegating accountability to technical project agencies from other line					

Ensuring inter-agency coordinated and integrated planning, involving government agencies outside the purview of MoDUD might prove challenging, despite the strong support so far across all agencies and involved line ministries.	ministries.					
	Resp: Client	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status:
3. Project Risks						
3.1 Design	Rating:	Substantial				
Project design is relatively complex, as it involves multiple agencies in two city regions.	Risk Management: Required studies, analysis and preparation of design briefs will be supported through technical expertise recruited under the project. Technical support will be provided to update current plans for municipal level interventions in service delivery, especially for water supply, drainage, transport and urban upgrading interventions. MoDUD, which has experience in implementing projects in complex urban settings in Colombo and other cities in the country, will provide leadership and guidance to other agencies.					
	Resp: Client and Bank	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: On-going
3.2 Social and Environmental	Rating:	Substantial				
Social: Implementation of selected schemes might require limited land acquisition and/or resettlement. The management of this issue might be challenging, potentially delaying project implementation. An SMF and Resettlement Policy Framework have been prepared and resettlement action plans (RAPs) have been prepared for first year sub-projects. However, RAPs will need to be prepared for sub-projects of subsequent years.	Risk Management: Safeguards expertise has been included under the project to facilitate preparation of RAPs and their implementation. A participation and communication strategy will be developed to facilitate public participation. The Bank will provide support to strengthen existing institutions in safeguard management and monitor the preparation of acceptable RAPs for post-Year 1 sub-projects and the effective implementation of all RAPs through site visits, review of reports, etc.					
	Resp: Client and Bank	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: On-going
Environment: This is an environmental Category A project, and it triggers a number of safeguard policies, including, Natural Habitats, Forests, and Physical Cultural Resources. While safeguard documents have been prepared for first year sub-projects, similar documents will need to be prepared for sub-projects of subsequent years. The city regions do not have adequate capacity to implement agreed safeguard management and monitoring measures.	Risk Management: Proper procedures have been developed in the EAMF to carry out environmental planning and mitigation at the sub-project level that will comply with the safeguards policies of the World Bank and that of the GoSL, where relevant. Particular attention will be paid to Disaster and Climate proof design of investments, and to capacity building and strengthening post-EIA monitoring for compliance with agreed mitigation measures. All Year 1 investments will be completed with appropriate environmental analysis, as required by the EAMF.					
	Resp: Client and Bank	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date:	Frequency:	Status: On-going

3.3. Program and Donor	Rating:	Low				
There is interest from other donor agencies to work in specific sectors in Kandy and Galle City Regions and coordination is needed.	Risk Management: Partnership and regular coordination with bilateral donors in the urban sector will be promoted as part of project preparation and implementation, to ensure complementarity of interventions.					
	Resp: Client and Bank Partner	Stage:Implementation	Recurrent: <input type="checkbox"/>	Due Date: Ongoing	Frequency:	Status:On-going
3.4. Delivery Monitoring and Sustainability	Rating:	Moderate				
Implementation: While the centralization of The fragmented nature of investments can overstretch the already weak implementation capacity of local authorities.	Risk Management: Implementation arrangements have been designed to ensure that local authorities and other central agencies involved in the project retain critical responsibilities with regard to selection, design and supervision of sub-projects. The project includes technical assistance for project management support. Bank missions will monitor implementation quality on an on-going basis and provide advice and support, as required.					
	Resp: Client and Bank	Stage: implementation	Recurrent: <input type="checkbox"/>	Due Date: N.A.	Frequency:	Status: Ongoing
3.5 Implementation and Sustainability:	Rating:	Substantial				
While the PMU is responsible for the implementation of the project, PPAs including municipalities will be responsible for the operation and maintenance of the projects and assets. Capacity of PPAs and municipalities remain a challenge for project sustainability.	Risk Management: Technical assistance and capacity building activities is designed under the project to support municipalities for a comprehensive asset management plan and system.					
	Resp: Client	Stage: Implementation	Recurrent: <input type="checkbox"/>	Due Date: N.A.	Frequency:	Status: Ongoing
Overall Implementation Risk: Substantial						

Annex 5: Implementation Support Plan

SRI LANKA: Strategic Cities Development Project

Strategy and Approach for Implementation Support

1. The strategy for implementation support has been developed based on the nature of the project and its risk profile. It lays out the support activities that the Bank will implement, as well as the project design and monitoring features that it will adopt, in order to mitigate the most significant risks identified in the Operational Risk Assessment Framework (ORAF). The Implementation Support Plan (ISP) also identifies the requirements to meet the Bank's fiduciary obligations.
2. The PMU is expected to be familiar with Bank guidelines by project effectiveness and will be equipped to effectively carry out procurement. For packages such as roads and irrigation, technically strong PPAs such as RDA and ID will assist the PMU and be responsible for construction and supervision. Consultants will be contracted for detailed design and construction supervision, where required. To further mitigate these risks, a capacity needs assessment of the PMU and PPAs will be conducted on a periodic basis over the course of implementation to identify and monitor quality standards in terms of procurement, supervision and management of contractors, and strengthen areas where technical assistance and capacity building might be required.
3. Implementation support will comprise: (i) implementation support missions; (ii) regular technical meetings and field visits by the Bank between formal review missions; (iii) reporting from the PMU to MoDUD, Kandy and Galle offices on results monitoring and evaluation, compiled in coordination with the PPAs; and (iv) reporting and monitoring of financial management, procurement and safeguards (environmental and social).

Implementation Support Plan

4. Many members of the Bank team will be based in the Sri Lanka Country Office and other country offices in the region to ensure timely, efficient and effective implementation support to the client. Formal supervision and field visits will be carried out semi-annually, with frequent technical implementation support missions during the first years of the Project. Detail inputs from the Bank are outlined below:
 - a. **Technical Inputs.** Technical specialists will conduct site visits based on needs throughout project implementation in areas such as: technical inputs to review the preparation of the proposals and bids to ensure fair competition through proper technical specifications and fair assessment of the technical aspects of bids; and technical supervision to ensure that technical contractual obligations are met.
 - b. **FM Supervision.** The proposed project has a moderate Financial Management risk rating. The overall fiduciary aspects of the project will be the responsibility of the PMU who has adequate FM capacity. Supervision activities will consist of visits to the PMU, supplemented by desk reviews of internal and external audit reports, quarterly financial

reports and dialogue with project staff as needed. The Bank will carry out a field level FM supervision mission every six months and will assess the adequacy of FM arrangements, and assess FM performance and FM risk. As and when required, other financial management supervision tools such as joint missions with procurement will be used in an effort to periodically monitor the adequacy of financial management arrangements.

- c. ***Environment Safeguards.***: The GoSL has experience in managing environmental safeguard risks in large scale urban upgrading work such as the Metropolitan Urban Environmental Improvement and Lunawa Environmental Improvement Projects financed by international donor agencies. More recently, MoDUD has gained valuable experience in managing environmental safeguard risks through the implementation of MCUDP, which focuses on basic service delivery and urban upgrading. The CEA has almost three decades of experience in environmental management and monitoring of development projects and will make available its expertise through the project steering committee, when necessary. Agencies such as the UDA and RDA have some level of experience in Environmental Impact Assessment (EIA), either in a project approval or implementation capacity. UDA is a designated Project Approving Agency under NEA and has experience in EIA review and monitoring. The National Building Research Organization has expertise in assessing landslide vulnerability, particularly in areas such as Kandy and will work closely with the PPAs to provide expertise towards project implementation. The project will thus build on existing capacity and support implementation of environmental safeguards under the project through (i) dedicated staff appointed to assist PPAs; (ii) short-term and long-term capacity building of implementing staff through training and, if necessary, procurement of environmental consultants and monitoring equipment; (iii) technical assistance for preparing EAs and EMPs; (iv) forums for inter-agency co-ordination and (v) independent environmental audits.

For Physical and Cultural Resources (PCR) issues, the project will liaise closely with DoA which is the sole authority in preserving cultural heritage in Sri Lanka. The PMU will be supported by a PCR expert who will work closely with the Deputy Project Director(Environment) to ensure that PCR issues are integrated into the EA process and to co-ordinate with DoA on clearance and technical guidance.

The PMU will take the lead in establishing the recommended implementation arrangements and mobilizing necessary support to the implementing agencies. The Bank will assist the client by: (i) providing close supervision and necessary implementation support in the initial stages of the project in conducting screening, preparation of EAs and EMPs (if necessary through hiring an STC for each city); (ii) undertaking prior and post reviews; (iii) undertaking regular missions to review overall safeguards performance and provide further implementation support; (iv) share knowledge on technologies and best

practices; and (v) provide training support on Bank's safeguard policies and requirements of the project.

- d. ***Social Safeguards.*** The Bank will have in place a robust social safeguard supervision system, which will ensure more intense monitoring during the first 12-24 months of implementation, with the provision of hiring a dedicated Deputy Project Director (Social Development) to support the careful management and monitoring of safeguards on a regular basis. In particular, the Bank will monitor the establishment early on in Year 1 implementation of: (i) robust institutional arrangements for managing social safeguards with well qualified and experienced professionals; (ii) frameworks for efficient inter-agency coordination; (iii) mechanisms for independent safeguards compliance monitoring; (iv) processes for preparing RAPs; (v) robust consultation, disclosure and grievance redress mechanisms; and (vi) capacity building of implementing staff through training and exposure visits. MoDUD will establish these arrangements based on recommendations from the Bank, whereas the Bank will assist the client with necessary technical, training and knowledge sharing support. The Bank will undertake regular missions and provide necessary guidance to the client in the initial stages for preparing and implementing social action plans. The Bank will support the Client to organize exposure visits to enable them to address post resettlement sustainability issues. The Bank will ensure that intensive technical support is available to the client for social safeguards management, and that the process and outcome of social safeguards is closely monitored and documented.
- e. ***Procurement.*** Implementation support will include: (i) *ex-ante* and *ex-post* reviews of project procurement; (ii) review of the Procurement Plan and procurement performance; and (iii) assisting the PMU in identifying capacity building needs, providing information on training resources in Sri Lanka and South Asia, preparation of training material and modules, and needs based training to the implementing agencies on Bank's procurement guidelines. In addition, guidance be provided, as necessary, based on implementation experience on the necessary revisions if any, to the Procurement Manual, the Procurement Plan and bidding documents. Procurement supervision mission will be carried out every six months and will include visits to Project Partner Agencies to verify implementation arrangements *in situ* and make recommendations for refinement as necessary. In addition to the prior review of high value contracts, and supervision to be carried out from Bank offices, semi-annual supervision missions will visit the field to carry out reviews of procurement actions. In addition to the prior review of contracts by the Bank, at least 20% of the contracts that have not been prior reviewed would be post reviewed.