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Report No: ICR00004270

**IMPLEMENTATION COMPLETION AND RESULTS REPORT**

**IDA-47280**

**ON A**

**LOAN/CREDIT/GRANT**

**IN THE AMOUNT OF US\$ 106 MILLION EQUIVALENT**

**(LKR 16,420 MILLION)**

**TO THE**

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**FOR THE**

**NORTH EAST LOCAL SERVICES IMPROVEMENT PROJECT (NELSIP) ( P113036 )**

**June 23, 2018**

Social, Urban, Rural And Resilience Global Practice  
South Asia Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2018)

Currency Unit =	Sri Lankan Rupee (LKR)
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LKR 159.48 =	US\$1
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US\$0.0063 =	SDR 1
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### FISCAL YEAR

July 1 - June 30

Regional Vice President: Ethel Sennhauser

Country Director: Idah Z. Pswarayi-Riddihough

Senior Global Practice Director: Ede Jorge Ijjasz-Vasquez

Practice Manager: Catalina Marulanda

Task Team Leader(s): Yarissa Lyngdoh Sommer

ICR Main Contributor: Jessica Rachel Schmidt

## ABBREVIATIONS AND ACRONYMS

<b>ACLG</b>	Assistant Commissioner Local Government
<b>AF</b>	Additional Financing
<b>CAS</b>	Country Assistance Strategy
<b>CDD</b>	Community Driven Development
<b>CLG</b>	Commissioner of Local Government
<b>COPA</b>	Committee on Public Accounts
<b>DFAT</b>	Department of Foreign Affairs and Trade
<b>EIRR</b>	Economic Internal Rate of Return
<b>ESMF</b>	Environmental and Social Management Framework
<b>FAC</b>	Financial Analysis Cell
<b>GoSL</b>	Government of Sri Lanka
<b>GGRC</b>	Good Governance Resource Centres
<b>GRM</b>	Grievance Redressal Mechanism
<b>GN</b>	Grama Niladhari
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>IEC</b>	Information Education and Communication
<b>LA</b>	Local Authorities
<b>LAPDP</b>	Local Authority Participatory Development Plan
<b>LDSP</b>	Local Development Support Project
<b>LKR</b>	Sri Lankan Rupee
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MIS</b>	Management Information System
<b>MPCLG</b>	Ministry of Provincial Councils and Local Government
<b>NELSIP</b>	North East Local Services Improvement Project
<b>O&amp;M</b>	Operation and Maintenance
<b>PAD</b>	Project Appraisal Document
<b>PAT</b>	Project Appraisal Team
<b>PCU</b>	Project Coordinating Unit
<b>PDO</b>	Project Development Objective
<b>ProMIS</b>	Provincial Management Information System
<b>SAC</b>	Social Audit Committee
<b>SLPAS</b>	Sri Lanka Public Sector Accounting System
<b>TTL</b>	Task Team Leader

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**DATA SHEET****BASIC INFORMATION****Product Information**

Project ID	Project Name
P113036	North East Local Services Improvement Project (NELSIP)
Country	Financing Instrument
Sri Lanka	Specific Investment Loan
Original EA Category	Revised EA Category
Partial Assessment (B)	

**Related Projects**

Relationship	Project	Approval	Product Line
Supplement	P150140-North East Local Services Improvement Project - Additional Fianancing	29-Apr-2014	Recipient Executed Activities
Additional Financing	P152623-North East Local Services Improvement Project - Additional Financing	26-Aug-2015	IBRD/IDA
Additional Financing	P158048-AF -North East Local Services Improvement Project		IBRD/IDA

**Organizations**

Borrower	Implementing Agency
Government of Sri Lanka	Ministry of Provincial Councils and Local Government



## Project Development Objective (PDO)

### Original PDO

The primary development objective of the project is to improve the delivery of local infrastructure services by local authorities in the Northern and Eastern Provinces of Sri Lanka in an accountable and responsive manner.

### PDO as stated in the legal agreement

To support local government authorities in the North and East Provinces of Sri Lanka to deliver services and local infrastructure in a responsive and accountable manner.

## FINANCING

	Original Amount (US\$)	Revised Amount (US\$)	Actual Disbursed (US\$)
<b>World Bank Financing</b>			
P113036 IDA-47280	50,000,000	49,931,693	50,642,125
P113036 TF-13787	20,300,000	20,299,131	20,299,131
P113036 IDA-56880	20,000,000	19,886,426	19,787,897
<b>Total</b>	<b>90,300,000</b>	<b>90,117,250</b>	<b>90,729,153</b>
<b>Non-World Bank Financing</b>			
Borrower	34,000,000	14,000,000	14,000,000
Local Communities	2,000,000	2,000,000	2,000,000
<b>Total</b>	<b>36,000,000</b>	<b>16,000,000</b>	<b>16,000,000</b>
<b>Total Project Cost</b>	<b>126,300,000</b>	<b>106,117,250</b>	<b>106,729,153</b>

## KEY DATES

Project	Approval	Effectiveness	MTR Review	Original Closing	Actual Closing
P113036	13-May-2010	15-Dec-2010	12-Mar-2013	31-Dec-2015	31-Aug-2017
P150140	29-Apr-2014				



## RESTRUCTURING AND/OR ADDITIONAL FINANCING

Date(s)	Amount Disbursed (US\$M)	Key Revisions
29-Apr-2014	49.96	Additional Financing
17-Aug-2015	50.00	Additional Financing
13-Nov-2016	70.54	Change in Loan Closing Date(s) Reallocation between Disbursement Categories

## KEY RATINGS

Outcome	Bank Performance	M&E Quality
Moderately Satisfactory	Moderately Satisfactory	Modest

## RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US\$M)
01	19-Oct-2010	Satisfactory	Satisfactory	.30
02	08-Jun-2011	Satisfactory	Satisfactory	11.30
03	10-Dec-2011	Satisfactory	Satisfactory	19.46
04	05-Jun-2012	Satisfactory	Satisfactory	29.84
05	16-Dec-2012	Satisfactory	Satisfactory	37.74
06	02-Jun-2013	Satisfactory	Moderately Satisfactory	37.74
07	21-Oct-2013	Satisfactory	Moderately Satisfactory	37.74
08	13-Apr-2014	Satisfactory	Satisfactory	49.96
09	24-Nov-2014	Satisfactory	Moderately Satisfactory	50.00
10	08-Jun-2015	Satisfactory	Moderately Satisfactory	50.00
11	09-Nov-2015	Satisfactory	Moderately Satisfactory	50.00
12	08-Apr-2016	Satisfactory	Moderately Satisfactory	50.00
13	05-Oct-2016	Moderately Satisfactory	Moderately Satisfactory	64.42
14	15-Feb-2017	Moderately Satisfactory	Moderately Satisfactory	70.54



15	22-Jun-2017	Moderately Satisfactory	Moderately Satisfactory	70.54
<b>SECTORS AND THEMES</b>				
<b>Sectors</b>				
Major Sector/Sector				(%)
<b>Agriculture, Fishing and Forestry</b>				<b>15</b>
Irrigation and Drainage				15
<b>Public Administration</b>				<b>30</b>
Sub-National Government				30
<b>Transportation</b>				<b>40</b>
Rural and Inter-Urban Roads				40
<b>Water, Sanitation and Waste Management</b>				<b>15</b>
Water Supply				15
<b>Themes</b>				
Major Theme/ Theme (Level 2)/ Theme (Level 3)				(%)
<b>Public Sector Management</b>				<b>0</b>
Public Finance Management				13
Public Expenditure Management				13
Public Administration				13
Transparency, Accountability and Good Governance				13





<b>Social Development and Protection</b>	<b>0</b>
Social Inclusion	25
Participation and Civic Engagement	25
Fragility, Conflict and Violence	26
Conflict Prevention	13
Post-conflict reconstruction	13
<b>Urban and Rural Development</b>	<b>0</b>
Rural Development	25
Rural Infrastructure and service delivery	25

**ADM STAFF**

Role	At Approval	At ICR
Regional Vice President:	Isabel M. Guerrero	Ethel Sennhauser
Country Director:	Naoko Ishii	Idah Z. Pswarayi-Riddihough
Senior Global Practice Director:	John Henry Stein	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Gajanand Pathmanathan	Catalina Marulanda
Task Team Leader(s):	Seenithamby Manoharan	Yarissa Lyngdoh Sommer
ICR Contributing Author:		Jessica Rachel Schmidt



## I. PROJECT CONTEXT AND DEVELOPMENT OBJECTIVES

### A. CONTEXT AT APPRAISAL

1. **The North East Local Services Improvement Project (NELSIP) was prepared during and in the aftermath of thirty years of conflict in Sri Lanka.** While no official figures exist, by 2009, 100,000 civilians had been killed, 800,000 people were internally displaced, and 100,000 people were reported as refugees in the southern state of Tamil Nadu with a large diaspora of nearly one million in North America, Europe, and Australia who migrated during the war years.<sup>1</sup> The protracted war resulted in the loss of community cohesion, disruption of local economies and public services, damage to essential infrastructure, and the breakdown of social and economic links. Severe regional imbalances, rural poverty, and pockets of urban poverty existed.<sup>2</sup> According to national estimates, only 10-15 percent of road surfaces in the Northern Province were intact after the conflict and only 46 percent of the population of the North and East had access to safe drinking water.<sup>3</sup> The cost of the conflict's destruction varied, but estimates were as high as US\$200 billion.<sup>4</sup> The country faced enormous challenges to re-establish political, social and economic stability.

2. **The conflict weakened the ability and capacity of government institutions in the Northern and Eastern Provinces to plan, implement, and coordinate infrastructure development and service delivery.** In much of the Northern Province, elections had not been held in sixteen years, resulting in an institutional vacuum at the local level. In 2007, the Government of Sri Lanka (GoSL) drafted post-conflict development plans for the Northern and Eastern Provinces. These documents complemented a ten-year national development framework and were based on three pillars: (i) integrating those displaced or affected by the conflict; (ii) resuming service delivery through investments in physical infrastructure; and (iii) strengthening the role of local governments.<sup>5</sup> Local Authorities (LAs) in Sri Lanka are highly dependent on national level funding, and operate with low levels of development expenditures and own source revenues<sup>6</sup>. They have low institutional capacity and limited operational systems and technical expertise.

3. **Sri Lanka has an institutionally bifurcated local infrastructure development and service delivery system.** The “devolved” local government system is made up of 335 LAs, which fall institutionally and legally under the Provinces and the Ministry of Provincial Councils and Local Government (MPCLG).<sup>7</sup> The “decentralized” system comprises a three-tier structure (District – Division – Grama Niladhari (GN)) of national government administrations, which are overseen by the Ministry of Public Administration. The two systems have their own parallel funding flows and project planning and execution responsibilities.

<sup>1</sup> World Bank “Strategic Social Assessment of the Conflict-Affected Northern and Eastern Provinces” August 2017.

<sup>2</sup> Poverty rates are highly concentrated in specific districts in the Northern and Eastern Provinces, and in Moneragala district of Uva Province. While Sri Lanka's national poverty rate is 9.7% (based on a poverty metric of US\$3.20 per person per day), poverty rates in several districts in the Northern, Eastern and Uva Provinces remain higher: specifically, poverty rates were estimated to be 29.9% in Mullativu, District (Northern Province), 33.4% in Kilinochchi, District (Northern Province), 22.6% in Batticaloa, District (Eastern Province), and 21.0% in Trincomalee, District (Eastern Province).

<sup>3</sup> Compared to 62% percent of the national population having access to safe drinking water. NELSIP PAD.

<sup>4</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5231380/>

<sup>5</sup> NELSIP PAD, Annex 1.

<sup>6</sup> The Thirteenth Amendment to the Constitution, passed in 1987, allocated greater powers to the Provincial Council and strengthened lower levels of governments. However, its success was limited as sub-national governments are not autonomous and the bifurcated systems remain.

<sup>7</sup> Functions assigned to Provincial Councils include internal law and order, education, agriculture and land.

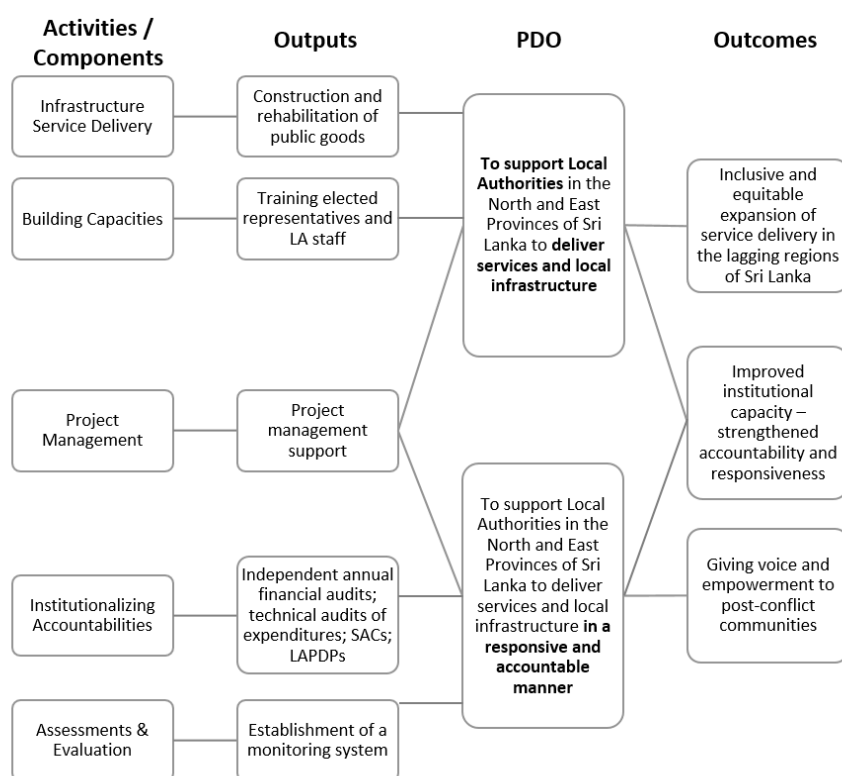


While they conduct periodic planning coordination meetings and processes, these are on a case-by-case basis and generally ad hoc. Although LAs are formally responsible for service delivery, the decentralized system maintains authority over key development activities.

4. **The World Bank Sri Lanka Country Assistance Strategy (CAS) for 2009-2012 reflected GoSL goals and ensured Bank operations matched these needs.** The CAS outlined three strategic objectives: (i) expand economic opportunities in the lagging regions for inclusive and equitable economic development; (ii) improve the investment climate and competitiveness for accelerated growth; and (iii) strengthen the quality, efficiency and effectiveness of service delivery. The Bank sought to improve opportunities in the North and East and identified integrated urban and rural infrastructure development as one of the key interventions. NELSIP complemented several other Bank-funded operations<sup>8</sup> that aimed to address the urgent and long-term needs and to improve local capacity in the conflict-affected areas.

**Figure 1 presents the results chain for the Project as envisaged at the time of appraisal.**

**Figure 1: Theory of Change**



### Project Development Objective (PDO)

5. The original PDO in the Financing Agreement was “To support local authorities in the North and

<sup>8</sup> NELSIP was a component of the overall package of Bank-financed interventions in the Northern and Eastern Provinces, including the community-driven development Reawakening Project (P086747) and its Additional Financing (P119152), North East Housing Reconstruction Program (P083932), Health Sector Development Project (P050740), Education Sector Development Project (P084570), Emergency Northern Recovery Project (P118870), and Provincial Roads Project (P107847).



**East Provinces of Sri Lanka to deliver services and local infrastructure in a responsive and accountable manner.”** The wording in the Project Appraisal Document (PAD) was somewhat different, but similar in intent: “To improve the delivery of local infrastructure services by local authorities in the Northern and Eastern Provinces of Sri Lanka in an accountable and responsive manner.”

6. **NELSIP was designed to test an approach for participatory and demand-driven investment planning, budgeting, execution and maintenance of projects at the local level in a sensitive post-conflict setting.** Local Authority Participatory Development Plans (LAPDPs), supported by predictable and transparent capital grants to the LAs, were the main instrument of this bottom-up approach.

#### **Key Expected Outcomes and Outcome Indicators**

**The key performance indicators included in the PAD were:**

- Service delivery coverage, measured by number of households receiving improved local services
- Percentage of capital grants allocation released to LAs
- Percentage of planned LA spending aligned with people’s preferences as indicated in LAPDPs
- Satisfaction of local people measured by score cards and assurance audits to verify improved access and quality of local service delivery.

Intermediate Indicators can be found in Annex 1.

#### **Original Components**

7. **Component 1: Infrastructure Service Delivery (US\$ 76 million):** This component aimed to improve the quantity and quality of infrastructure and public services delivered and maintained by LAs. Sub-projects were funded by grants eligible to LAs that met core conditions.

8. **Component 2: Institutionalizing Accountabilities (US\$ 2 million):** This component ensured LAs undertook public expenditures and delivered local services in a transparent and accountable manner. It supported: (i) independent annual financial audits of LAs; (ii) social and technical audits of public expenditures undertaken by LAs; and (iii) systems and processes for greater transparency. The Project utilized community-driven development (CDD) initiatives such as participatory planning (e.g. LAPDPs), grievance redress, and Social Audit Committees (SACs) to ensure community engagement and LA accountability throughout the Project lifecycle. This component also supported an Information Education and Communication (IEC) campaign.

9. **Component 3: Building Capacities (US\$ 4 million):** This component strengthened the service delivery systems and capacities of the LAs as well as improved the monitoring capacities of the provincial and national-level institutions. It supported: (i) improving the efficiency of LA systems and procedures related to planning, budgeting, financial management, revenue management and procurement; (ii) improving the efficiency, timeliness and follow up of the internal and external audits of LAs; (iii) training elected representatives and staff of LAs; (iv) day-to-day support to LAs; and (v) developing a long-term LA capacity building strategy.

10. **Component 4: Assessments and Evaluation (US\$ 1 million):** This component financed: (i) the establishment of a comprehensive monitoring system; (ii) the evaluations of technical and social audits and preparation of citizens score cards; and (iii) other needed analysis.

11. **Component 5: Project Management (US\$ 3 million):** This component supported the key agencies at the central, provincial and local levels involved in project management and procured necessary



consultancy, equipment and operational support for the implementation of the Project.

## B. SIGNIFICANT CHANGES DURING IMPLEMENTATION

### Additional Financing:

12. **In 2014, NELSIP underwent a Level One restructuring with the approval of the first Additional Financing (AF) Agreement.** A co-financing grant of US\$20.3 million from the Australian Government's Department of Foreign Affairs and Trade (DFAT), was approved in April 2014 to expand the Project to the Uva, North Western and North Central Provinces, which resulted in a change to the PDO and a change to the financial allocations among the components.<sup>9</sup> At the time of AF approval, the cumulative disbursement was 82.7%. The DFAT Grant was timely and helped maintain the momentum of the Project. Capital grants to LAs in the three adjoining Provinces were fully financed by DFAT, which emphasized gender issues, job creation, and livelihoods. As a result, there was a renewed effort to further integrate women into advisory roles and female participation improved overall. DFAT also prioritized the investigation of the use of asbestos in sub-projects, provided additional monitoring and oversight, and financed the geo-referencing exercise at Project completion.

13. **In December 2015, an additional credit of US\$20 million was approved,** which addressed a shortfall in the GoSL's counterpart financing. The GoSL could provide only US\$14 million of the originally envisaged US\$34 million due to budgetary constraints. The funding shortfall mainly affected infrastructure service delivery sub-projects under Component 1, which had already been approved.<sup>10</sup> At the time of approval, the International Development Association (IDA) credit and DFAT grant were 99% and 85% disbursed respectively. No accountability issues were identified by internal audit reports or the Bank. This restructuring introduced changes to the loan closing date, institutional arrangements, disbursement arrangements, disbursement estimates, and the Results Framework.<sup>11</sup>

14. **The Project was extended again in November 2016 at the request of GoSL,** with a change of closing date from December 31, 2016 to August 30, 2017. This extension ensured that fifty sub-projects financed under the 2014 AF that required additional implementation time would be completed by the Project closing date. The restructuring included a reallocation of proceeds between disbursement categories; no further IDA funding was needed.<sup>12</sup>

### Revised PDOs and Outcome Targets

15. The primary development objective was amended during the 2014 AF and Level One Restructuring to reference the expanded geographic area: **"To support Local Authorities in the Northern and Eastern Provinces and Adjoining Provinces to deliver services and local infrastructure in a**

<sup>9</sup> The revised amounts of the components of the 2014 Additional Financing (AF): Component 1: US\$76 million to US\$89.9 million; Component 2: US\$2 million to US\$1 million; Component 3: US\$4 million to US\$12 million; Component 4: US\$1 million (no change); Component 5: US\$3 million to US\$2.5 million. The savings in Components 2 were due to extensive use of existing government staff. Component 3 was increased because of a GoSL request to reconstruct local authority (LA) office buildings that were damaged during the war.

<sup>10</sup> The component allocation remained the same as the US\$ 20 million equaled the shortfall in counterpart funding.

<sup>11</sup> The closing date was extended from December 2015 to December 2016. The institutional changes were the result of the GoSL PCU being moved under the newly created MPCLG. The results framework was revised to introduce indicators that had been monitored but were not officially part of the framework, while other indicators were removed due to duplication or refined to improve relevance.

<sup>12</sup> Disbursement under Category 2 exceeded the original allocation by 18% due to accommodating additional urgent civil works that were identified, completed, and agreed with the Bank. In the Project restructuring, GoSL proposed to reallocate US\$ 28,800 (LKR 4.5 million) from Category 1 to Category 2. The reallocation did not affect Category 1 as the originally allocated funds were not needed to the extent anticipated at appraisal.



responsive and accountable manner”.

#### **Revised PDO Indicators**

16. **The Results Framework was revised under the 2015 AF** to introduce indicators that had been monitored, but were not officially part of the framework, while others were refined for clarity. The revised PDO-level indicators and measurement methods:

- Beneficiaries that feel project investments reflected their needs (percentage)
- Construction and rehabilitation of waste collection facilities (number)
- Construction and rehabilitation of rural electrification (km)
- Construction and rehabilitation of markets and maternity homes (number)
- New piped household water connections that are resulting from the project intervention (number)
- Construction and rehabilitation of playgrounds and nurseries (number)
- Construction of drainage systems (number)
- Roads rehabilitated, rural (number)
- Improved community water points constructed or rehabilitated under the project (number)

#### **Revised Components**

17. No changes to components were made.

#### **Other Changes**

18. **Geographic Scope.** Initially, the Project included seventy-nine LAs in the Northern and Eastern Provinces. With the approval of the 2014 AF, the Project area was expanded to the Polonnaruwa, Anuradhapura, Puttalam and Moneragala Districts in the North Western, North Central, and Uva Provinces for a total coverage of 101 LAs.

19. **Implementing Agency.** Following the 2015 elections, the implementing agency, the Ministry of Economic Development, closed and MPCLG became responsible for implementing the Project. A new Project Coordinating Unit (PCU) was established. The Project’s 2015 AF reflected this change, and noted that while the coordinating ministry had changed, the institutions responsible for implementation at the provincial and local levels were unaffected. However, the changeover delayed transfer of funds to LAs for approximately six months.

#### **Rationale for Changes and Their Implication on the Original Theory of Change**

20. **The Theory of Change was not affected by the Project restructurings** as the issue of GoSL budgetary constraints was due to institutional reforms following the 2015 election, and the addition of counterpart funding by DFAT and the expansion to the adjoining regions were extensions of the Project. Although the 2014 Level One Restructuring modified the PDO, there was no change in objectives. The Project was therefore assessed based on the expanded scope, and a split rating was not warranted.

### **I. OUTCOME**

21. **The Project was successfully implemented with results that extended beyond the intended benefits.** Approximately 2.5 million people were the direct beneficiaries of the 1,214 sub-projects within 101 LAs. NELSIP provided a flexible mechanism for LAs to respond to urgent needs in the post-conflict



areas. Beyond the physical investments, significant institutional capacity was achieved as LA and PCU staff received technical assistance in providing local public services. Other institutional benefits included improved community engagement, increased participation of women in public life, and enhanced inter-institutional coordination. Project mechanisms, including a standardized LA accounting system, SACs, and LAPDPs, have been or will be institutionalized and will positively influence the design and implementation of future local government and service delivery projects.

#### **A. RELEVANCE OF PDOs**

22. **NELSIP was part of a larger World Bank package to help GoSL improve service delivery and institutional capacity in the Northern and Eastern Provinces.** At appraisal, the Project was aligned with two of the three CAS pillars as it both strengthened the quality, efficiency, and effectiveness of service delivery and expanded economic opportunities in the country's lagging regions. GoSL's post-conflict development plans also focused on the improvement of service delivery and strengthening local governments, which NELSIP directly addressed. The PDO remained relevant for the life of the Project and is still applicable. NELSIP directly supports Pillar II of the 2016 Country Partnership Framework, under Objective 2.3. *"Improving living standards in the lagging areas"*, which focuses on disadvantaged areas, namely the post-conflict and estate Provinces, and states the need to establish a model that "empowers and equips local authorities with resources to deliver demand-driven public services to close the delivery gap." MPCLG remains an effective partner in Sri Lanka, and the Ministry has requested a follow-on engagement with the Bank to continue this partnership of strengthening local governments. The Local Development Support Project (LDSP) (P163305), currently under preparation, builds on NELSIP's achievements of more efficient and accountable local governance and aims to further improve service delivery.

23. **The Project was also an important part of GoSL's efforts to rebuild government-community ties in the conflict-affected regions.** The GoSL's post-conflict development strategy focused on resettlement, reintegration, and reconciliation through the resumption of service delivery and rejuvenation of political institutions at the sub-national and local levels. The 2014 AF noted that the LAs on the fringe of the NELSIP project area were significantly impacted by the spillover effects of the conflict. Districts like Polonnaruwa, Anuradhapura, and Puttalam in the adjoining Provinces were affected by the displaced populations and their infrastructure and service delivery systems suffered. In addition, the district of Moneragala in Uva Province, though not directly impacted by the conflict, was included during the AF due to its high poverty rate. The Province is remote and has historically been a plantation and agriculture-dependent economy with a sizable population of Indian-origin Tamils who work at the plantations and did not have Sri Lankan citizenship for many decades. This precluded them from government-provided basic services and social benefits. These factors prompted GoSL to include Moneragala district at the AF. More recently, the GoSL's *Vision 2025: Sri Lanka's Path to Prosperity*, published in 2017, highlighted how unequal economic development across Provinces has contributed to large income disparities and proposed a balanced approach to development to ensure lagging regions do not hinder Sri Lanka's long-term growth prospects. The relevance of the PDO to the Provinces added at AF was therefore relevant and remains relevant.

**Overall Relevance Rating: Substantial**

#### **B. ACHIEVEMENT OF PDOs (EFFICACY)**

##### **Assessment of Achievement of Each Objective/Outcome**

24. **NELSIP's PDO achievement was consistent despite challenging circumstances.** The post-conflict context, inconsistent patterns of resettlement by the displaced, poor local capacity, and institutional





uncertainties at the national level created substantial ambiguity during the implementation period. Nevertheless, NELSIP remained on track to achieve the PDO throughout implementation and progress was consistently rated *Satisfactory* or *Moderately Satisfactory*, including in the restructuring documents. The assessment of efficacy is based on reported results which were verified at ICR and supplemented by findings of the beneficiary survey and data from the pilot geo-referenced spatial analysis. Two outcomes of the PDO: (i) delivery of services and local infrastructure; and (ii) strengthening responsiveness and accountability are discussed in the following paragraphs. Additional achievements, including job creation and female participation, can be found in Section E.

## **OUTCOME 1: DELIVERY OF SERVICES AND LOCAL INFRASTRUCTURE**

25. **Eight PDO-level indicators were monitored, seven of which tracked specific service delivery and provision of local infrastructure in sub-project categories.** Four intermediate indicators were also relevant.

**Table 1: PDO Indicators – Delivery of Services and Local Infrastructure**

No.	Indicator	Target	Actual Achieved	Status
1	Capital grants released against allocation (%)	70	99	Achieved (141%)
2	New pipes household water connections that are resulting from project interventions (#)	600	2,275	Achieved (380%)
3	Construction & rehabilitation of rural electrification (km)	10	11	Achieved (110%)
4	Roads rehabilitated, rural (km)	1,000	790	Partially achieved (79%)
5	Construction & rehabilitation of markets & maternity homes (#)	200	155	Partially achieved (78%)
6	Construction of drainage systems (m)	245,000	49,898	Not achieved (20%)
7	Playgrounds & nurseries (#)	205	84	Not achieved (41%)
8	Construction & rehabilitation of waste collection facilities (#)	100	1	Not achieved (1%)

**Table 2: Intermediate Indicators - Delivery of Services and Local Infrastructure**

No.	Indicator	Target	Actual Achieved	Status
1	Acceptable financial audits of accounts	60	100	Achieved





				(166%)
2	Number of LAs preparing annual financial statements within three months after close of the financial year	70	100	Achieved (143%)
3	Funds released to LAs for sub-project implementation	100	100	Achieved (100%)
4	Quarterly progress reports including status of project processes, submitted by PCU before end of the following month	4	4	Achieved (100%)

26. **The intermediate indicators were relevant to achieving the overall outcome as they related to institutional development and capacity building of LAs in delivering local infrastructure and services.** All were fully achieved. NELSIP was a demand-driven local governance project and the sub-projects selected reflected community needs, which could not be determined a priori at the start of the Project. The Project's service delivery indicators and end targets did not adequately reflect the demand-driven nature of project design or accurately capture its achievements in delivering services and local infrastructure. Further, the Bank missed opportunities to modify the Results Framework (Refer to Section III.A). As a result, three of the PDO-level indicators were not achieved due to deviations in anticipated community priorities<sup>13</sup>. Table 3 presents the list of local infrastructure and services provided under the Project.

27. **NELSIP disbursed US\$72 million (Sri Lankan Rupees (LKR) 11 billion) of capital grants among LAs, which is 99.73 percent of the total allocation of capital grants, and led to the implementation of 1,214 sub-projects.** Most of the investments under NELSIP were in the Northern (39.3%) and Eastern (56.5%) Provinces with the rest of the funds going to select districts in the adjoining Provinces of North Central (2.7%), North Western Province (0.8%) and Uva (0.7%). GoSL estimated that over 2.5 million people benefitted from the increase in public services, of which 1.3 million were female and 1.2 million were male. In addition, DFAT calculated that NELSIP resulted in the creation of 3,900 new jobs annually, US\$241.8 million in infrastructure-related economic activity over the Project lifetime, and the improved capacity of 200 local contractors. The Northern, Eastern, and Uva Provinces remain among the poorest in the country, and, in 2015, still had the weakest links to the labor market. These persistent inequalities have made the economic multiplier effect of NELSIP highly relevant and essential, as it created economic opportunities for local contractors and industries as well as for those who used the new and revitalized public infrastructure to create or grow their business.

**Table 3: Sectoral Breakdown of Sub-Projects**

	Project Category	Total Number of Sub-Projects	Percentage of Sub-Projects (% of Total)	Number of Beneficiaries*
<b>PDO-LEVEL INDICATOR SUB-PROJECTS</b>				
1	Water supply	19	1.6	29,819
2	Rural electrification	11	0.9	33,333
3	Roads	776	64.0	2,572,768
4	Markets / Weekly fairs	135	11.0	1,804,310
5	Drainage systems	79	7.0	403,327
6	Public parks and playgrounds	77	6.0	659,661

<sup>13</sup> Individual sub-project reports prepared by the LAs note the sub-projects ranking in the LAPDP.



7	Waste collection facility	1	0.1	4,264
<b>ADDITIONAL SERVICE DELIVERY SUB-PROJECTS</b>				
8	Office buildings	47	4.0	844,889
9	Cultural hall	25	2.0	253,877
10	Other (e.g. nurseries, guest house)	21	1.9	89,743
11	Multipurpose buildings	11	0.9	140,371
12	Libraries	10	0.9	10,100
13	Bus stand	4	0.3	46,359
14	Passenger boat	1	0.1	4,550
	<b>Total</b>	<b>1,214</b>	<b>100</b>	

\* As stated in the client ICR and/or Impact Assessment Report.

**Table 4: Sub-Projects by Province**

	District	Total Number of Sub-Projects	Percentage of Sub-Projects (%)
<b>Northern Province</b>			
1	Jaffna	224	18.4
2	Killinochi	45	3.7
3	Mannar	98	8.1
4	Mullaitivu	48	3.9
5	Vavuniya	63	5.2
	<b>Subtotal</b>	<b>478</b>	<b>39.3</b>
<b>Eastern Province</b>			
6	Ampara	291	24.0
7	Batticaloa	166	13.7
8	Trincomalee	228	18.8
	<b>Subtotal</b>	<b>685</b>	<b>56.5</b>
<b>North Central Province (included at AF)</b>			
9	Annuradhapura	27	2.2
10	Polonnaruwa	6	0.5
	<b>Subtotal</b>	<b>33</b>	<b>2.7</b>
<b>North Western Province (included at AF)</b>			
11	Puttalam	10	0.8
	<b>Subtotal</b>	<b>10</b>	<b>0.8</b>
<b>Uva Province (included at AF)</b>			
12	Monaraggala	8	0.7
	<b>Subtotal</b>	<b>8</b>	<b>0.7</b>
	<b>Total</b>	<b>1,214</b>	<b>100</b>

28. The reliability and responsiveness of service delivery was also improved through (i) capacity building, (ii) strengthened fiscal transfer system, and (iii) project management and oversight. NELSIP had an important impact in clarifying roles and responsibilities of existing staff within the LA, accompanied by regular training opportunities. This reduced institutional overlaps, expanded skillsets, and helped LAs implement infrastructure sub-projects and deliver services to their community.

29. **Capacity Building.** Staff placement and training was a part of project design. Each LA was required to have a Project Secretary, Community Development Officer, Technical Officer, Procurement Officer, and Finance Officer. Training programs were conducted for staff, covering topics such as



participatory methodologies, financial and procurement management, good governance, social auditing, and information and communications technology. The Project also provided training on contract management and supervision of local expenditures areas, which LA staff had limited or no experience with prior to NELSIP. A total of 282 training programs for 9,941 officials were conducted in Tamil and Sinhala, and the Impact Assessment noted that 95 percent of staff who attended were satisfied with the training provided. In addition to LA staff, Investigation Officers attached to the Assistant Commissioners of Local Government (ACLG) offices in each District were mandated to visit each LA to supervise their accounting and auditing matters regularly, which had the added benefit of strengthening the Investigation Officers' capacity, while also improving LA accountabilities.

**30. LA capacities in the Northern, Eastern, North Western, North Central, and Uva Provinces were strengthened in the areas of financial management, procurement, and community engagement.** Demonstrated improvements in these three key areas were required as qualifying criteria for LAs to receive capital and performance grants. The Project measured capacity building through intermediate indicators such as the preparation of acceptable financial audits and participatory budgets, which were implemented by all 101 LAs.

**31. Strengthened Fiscal Transfer System.** Capital and performance grants were awarded to LAs to strengthen the reliability of the fiscal transfer and local government financing system.

- a. **Capital Grants.** The fiscal transfer system established predictable and transparent capital grant transfers directly to LAs, which previously relied on ad hoc transfers and earmarked grants from the Central Government via the Provinces. NELSIP awarded US\$70.5 million (LKR 11 billion) to 101 LAs throughout the five Provinces in capital grants. LAs in the Northern and Eastern Provinces received an average of US\$810,600 (LKR 126.46 million) each, and LAs in the North Central, North Western, and Uva Provinces received an average of US\$316,000 (LKR 49.03 million) each. NELSIP's capital grant transfers were based on a weighted formula, including population, land area, and damages suffered during the conflict. LAs were evaluated for acceptance into the program and annually assessed. The capital grant was allocated to all LAs that met set institutional development eligibility criteria, which were measured as intermediate indicators, including the establishment of a participatory budgeting process, a working grievance redressal mechanism (GRM), the preparation of annual financial statements, and mechanisms in place for post-project sustainability and operations and maintenance (O&M).
- b. **Performance Grants.** NELSIP also awarded one-time performance-based grants which were based on criteria related to planning, budgeting, service delivery, financial management, community participation, grievance redressal, and sustainability and reinforced PDO and intermediate indicators. Assessments were carried out by committees formed by the Chief Secretary of each Province and based on the MPCLG annual performance evaluation questionnaire. The criteria and assessments evaluated accountability and sustainability, ensuring that monthly progress review meetings were held, that implementation instructions were followed, and that LAs increased maintenance budgets to ensure sub-project sustainability. NELSIP disbursed US\$ 1.8 million (LKR 280 million) to 55 LAs (29 in the Eastern Province and 26 the Northern Province – 70 percent of the two Provinces' LAs) as performance



grants. The average size of a performance grant was US\$ 32,100 (LKR 5 million). To encourage participation, MPCLG held a competition to recognize the best-performing LA. The LAs that were added at the time of the Additional Financing were not considered for performance grants, as their period of performance was not long enough to evaluate. Additional information, including the criteria, can be found in Annex 4.

32. **Project Management and Oversight.** NELSIP established several governance requirements, allowing for additional oversight of the implementation process. This required additional capacity building to plan and implement service delivery and local infrastructure. Some of these requirements have been formally adopted by GoSL. Examples include:

- a. **Project Progress and Completion Reports.** All sub-projects were required to complete quarterly progress reports and a completion report. Information collected included the sub-project's LAPDP ranking, any implementation extensions received and the cause for the delay, SAC members, payments made, the community contribution including amount and type, the number of beneficiaries, and the status of the business, maintenance, and environmental management plan.
- b. **Good Governance Resource Centers (GGRCs)** were established within each of the twelve NELSIP Districts to sustain participatory planning, procurement administration, financial management, social auditing, and safeguards mechanisms. The GGRC's positioning at the District level gave them authority to convene LAs and function as a coordination mechanism. At the provincial level, a Local Government Division was organized under the Commissioner of Local Government (CLG) to guide and monitor the twelve GGRCs. Provincial administrative authorities have assigned relevant staff to allow GGRCs to continue to operate. The LDSP is expected to use GGRCs for LA training and to encourage regional coordination between LAs for possible sub-project clustering.
- c. **Project Appraisal Team (PAT).** At the District level, PAT staff appraised and reviewed sub-project proposals for safeguard and technical compliance. There were several examples where the PAT rejected sub-projects or amended the design to comply with environmental standards. All completion reports noted the date of PAT approval. The PAT built awareness and capacity on the importance of following appraisal and safeguards procedures.
- d. **Financial Analysis Cell (FAC).** A model FAC was piloted in the Office of the Deputy Chief Secretary in the Northern Province to monitor financial reports and responses prepared by LAs on internal and external audit findings. Each LA was given an annual performance score (out of 100 points) based on criteria such as collection efficiency of own source revenue, efficiency in total expenditures, and managing surplus. Initial scores ranged between 25 and 58 points. By 2017, scores had improved to between 46 and 96 points, with twenty-eight of thirty-four LAs scoring over 60 points. FAC also identified new revenue sources for the Department of Provincial Revenue and the LAs, developed performance-based monitoring frameworks for budgeting and expenditures, and provided Provincial Management Information Systems (ProMIS).



After Project closing, FAC continued to operate, and in December 2017, it conducted a workshop to assist the Northern Province's LAs with the preparation of their 2018 budgets. MPCLG is considering expanding the FAC to other Provinces to enhance LA fiscal and revenue management.

- e. **Local Accounting System.** Since the establishment of LAs in 1987, an accounting system called the Wickramanayake Accounting System was used to prepare LA annual accounts. After the introduction of the Sri Lanka Public Sector Accounting Standards (SLPAS) in 2012, the Auditor General's external audits noted the existence of two standards for local accounting. Under NELSIP, the Wickramanayake System was replaced with a simplified SLPAS, and a manual for annual financial reports was introduced. A January 2018 GoSL Cabinet decision approved the preparation and implementation of a common accounting scheme for all local government institutions based on the NELSIP system.

**33. At Project closing, the Bank and Client carried out additional assessments of NELSIP's results via a combination of beneficiary's surveys and geo-referenced spatial analysis.**

- a. **Beneficiary Survey.** The Client ICR measured direct beneficiary satisfaction levels in each district and reported 95.5 percent of those surveyed were "satisfied" or "extremely satisfied" with the Project. At Project closing, an Impact Assessment survey was randomly conducted of 100 residents (50 males and 50 females) in each of the 101 LAs. The Impact Assessment surveyed direct beneficiaries on the major sectoral investments made in their communities. The survey results indicated that beneficiaries felt positive about the roadworks' direct benefits, including reduction of travel times (100%), enhancement of travel comfort (100%), and reduced accident rates (95%). They were also very satisfied with the indirect benefits, including increased land value (100%), reduced vehicle maintenance (97%), and increased access to employment and education (93%). For drainage sub-projects, the main benefits were listed as improved road conditions (100%), reduction in mosquito levels (100%), and lower levels of incidence of floods (100%). Beneficiaries were also satisfied with the construction of parks and playgrounds, indicating improved social connections (97%) and improved mental health (100%). The improvement of water supply and sanitation systems reduced the incidence of water borne diseases (95%) and improved school attendance (94%).<sup>14</sup>
- b. **Sub-Project Implementation Completion Reports.** All sub-projects were required to complete individual Implementation Completion Reports. These reports included a survey of direct beneficiaries, contractors, technical staff and Social Audit Committee members regarding satisfaction with execution, and quality of work.
- c. **Geo-referencing.** A pilot geo-referenced spatial analysis undertaken by the Bank showed that NELSIP sub-projects led to improvements in local accessibility and service provision. The analysis of 982 sub-projects and in-depth case studies of twelve sub-projects estimated the number of beneficiaries from the sub-project through satellite data and isochrone maps to measure improved connectivity to local assets

<sup>14</sup> *Social, Institutional, Environment, and Economic Impact Assessment of NELSIP.* August 2017.



(e.g. schools, markets). Assets and residential units falling within the radius were mapped to establish likely travel patterns and assess site suitability. The results of the geospatial analysis depicted reduced travel times and improved overall accessibility. As a post-project review, the analysis was most informative in verifying the number of beneficiaries. See Annex 6.

**Table 5: Geo-referenced case studies and beneficiaries within walking distance**

Sub-Project	Type	Service Area Population within Walking Distance				
		5min	10min	20min	30min	60min
NCP-Pol-4	Children Park	579	1,719	4,052	7,526	34,112
EP-Tri-112	Public Playground	58	145	514	1,610	3,646
EP-Bat-19	Library Building	156	349	650	860	2,603
EP-Bat-22/23	Library Building	498	3,769	22,121	44,453	74,964
NP-Man-10	Library Building	86	200	379	1,227	3,003
UVA-Mon-2	Library Building	369	1,197	3,230	6,499	12,899
EP-Tri-13	Community and Health Centre	64	334	1,615	2,188	4,136
NCP-Ann-18	School and Day Care Centre	350	1,068	2,875	5,992	12,154
Ampara Bus Terminal	Bus Stand	635	2,161	6,219	13,385	25,360

## OUTCOME 2: STRENGTHENING RESPONSIVENESS AND ACCOUNTABILITY

34. Citizen participation was integral to the Project, and the related PDO-level and intermediate indicators were achieved.

**Table 6: PDO Indicator - Community Engagement and Responsiveness**

No.	Indicator	Target	Actual Achieved	Status
1	Beneficiaries that feel project investments reflect their needs (#)	1,900,000	97.7 <sup>15</sup>	Achieved

**Table 7: Intermediate Indictors - Community Engagement and Responsiveness**

No.	Indicator	Target	Actual Achieved	Status
1	Number of LAs whose revenues, expenditures and procurement decisions are publicly disclosed	70	101	Achieved (144%)

<sup>15</sup> The beneficiary satisfaction indicators targets were set as numbers, but measured as percentages in the ISRs. However, 97.7% of 2.5 million is 2.44 million, which is above the target set.



2	Number of LAs with budgets prepared in a participatory manner	70	100	Achieved (143%)
3	Grievance registered related to delivery of project benefits that are actually addressed within a quarter	80	98.7	Achieved (123%)
4	Subprojects for which arrangements for community engagement in post project sustainability and O&M are established	80	96.4	Achieved (120%)
5	Percentage of people in the project area aware of the subproject priority targeting criteria	90	100	Achieved (111%)
6	Subprojects with community contribution	100	98.4	Substantially Achieved (98.4%)

35. **Local Area Participatory Development Plans (LAPDPs).** Following village-level consultations, local council members, village leaders, LA staff, and PAT staff members developed the LAPDP. These five-year plans served as the main tool for determining sub-project prioritization and considered criteria such as: (i) size of population and villages; (ii) cost effectiveness; (iii) ability to contribute to improved local services; (iv) ability to acquire technology and resources; and (v) social outcomes and environmental impacts. At the time of Project closing, LAPDPs were in place and annually revised in all LAs. Interviews with LA staff routinely mentioned these plans as a key achievement, and all participating LAs and Provinces intend to continue the practice. The LAPDPs will be carried forward by the proposed LDSP project and expanded to include infrastructure, social, and economic needs.

36. **Social Audit Committees (SACs).** SACs were the most visible community engagement mechanism. Each sub-project was required to have a SAC, and a total of 1,228 SACs were formed with 6,610 members. Members were identified and elected at community meetings and later trained on social auditing and basic technical skills. They acted as community liaisons between the NELSIP PCU, local officials, and the community. The mechanism proved effective in quality control and ensuring timely delivery of inputs and adherence to the sub-project's schedule. It also provided an informal social space for villagers to voice their concerns, communicate information on behalf of the LA, and mediate dispute management. MPCLG has drafted a policy paper mandating SACs for all future local level service delivery (including GoSL-financed projects) for Cabinet review.

37. **Grievance Redress Mechanism (GRM).** A grievance and comments dropbox was placed at each LA office and assigned a responsible officer. For more info on GRM, see Section III.B.e.

38. **Right to Information.** NELSIP conducted Right to Information training on public participation methods and provision of timely information requested by citizens. All sub-projects had information available to the public including brochures, signboards, print and electronic media, and/or websites.

**Overall Efficacy Rating: Substantial.** The Project was successfully implemented with results that reached beyond the originally intended benefits. Some of the PDO indicators were not achieved; NELSIP sub-projects were demand-based and the indicators selected only partially reflected the service delivery results. However, a number of other factors demonstrate the Project's efficacy: (i) targets for all other indicators measuring outcomes under other Components were achieved or substantially achieved; (ii)





99.73% of the total allocation of capital grants was disbursed and targets were achieved, including in the Provinces added under the AF; (iii) satisfaction rates were high (between 93% and 100%) for the majority of the interventions; (iv) the geo-spatial analysis demonstrated improved accessibility to employment, education, and social services (v) GoSL has legally adopted a common accounting system introduced by the Project; (vi) preparation of a LAPDP is now the accepted norm for NELSIP LAs; (vii) 1,228 SACs were formed giving voice and allowing active engagement of community members; and (viii) GoSL is in the process or considering a process of institutionalizing LAPDPs, SACs, GGRCs, and FACs and have submitted policy papers for some of these to the Cabinet.

## **C. EFFICIENCY**

### **Assessment of Efficiency and Rating**

39. **Aspects of design and implementation contributing to efficiency.** Local government projects are typically assessed for one or more of the following efficiency arguments: (i) allocative efficiency examines whether public expenditures reflected community priorities; (ii) production efficiency examines whether public goods were produced more efficiently; and (iii) fiscal efficiency examines whether resources were mobilized or utilized in the most efficient manner. NELSIP was designed and implemented with processes and structures to maximize efficiency through procedures described below:

- Robust engagement and structured process of community consultation, ensuring that local infrastructure and service delivery preferences are secured through participatory local development plans and demand-driven sub-project selection, and community-based monitoring and feedback systems ensure that sub-projects are implemented, operated and maintained transparently and effectively;
- Prudent selection and implementation of sub-projects based on efficiency and effectiveness criteria in the siting of sub-projects, choice of cost effective methods of construction and delivery, and ensuring sustainability of assets created through cost recovery, where feasible, and adequate O&M;
- Establishment of a predictable, transparent and rational intergovernmental capital grant system to finance local infrastructure and services and to test a performance grant system to incentivize enhanced local government performance on a range of institutional and service delivery indicators; and
- Strengthened systems and capacities of LAs in planning, budgeting, mobilization, financial management community participation, sub-project implementation, service delivery, monitoring and evaluation (M&E), and grievance redress.

40. **Economic analysis of investments made.** Pre-project investigation of potential efficiency from NELSIP investments was made in qualitative terms as the selection of sub-projects were undertaken through a demand-driven process. The baseline survey, which was mentioned in the PAD, was only completed in 2012 and was not consistent with the Project's Results Framework. To support justification of NELSIP, a reference to satisfactory economic return of comparable investments in other countries was included in the PAD. During project implementation, financial analysis in the form of business plans were prepared for revenue-generating projects. At the 2014 AF, randomly selected sub-projects showed satisfactory economic internal rate of returns (EIRR), namely EIRR of 22% for drinking water supply sub-





projects; EIRR of 23% for drainage sub-projects; EIRR of 22% for road sub-projects; and EIRR of 22% for rural electricity sub-projects. However, based on detailed investigations and calculations of EIRRs of sub-projects during ICR preparation, there appears to be a disconnect with earlier estimates of EIRR rates presented at the AF. In the absence of supporting documentation, the ICR team did not use EIRR rates estimated at AF as a basis to compare the EIRR rates calculated at Project closing.

41. **ICR Efficiency Analysis.** At Project closing, a representative sample of sub-projects similar to the geographic and sectoral breakdown of NELSIP's sub-projects was identified. Sub-projects were evaluated for processes, efficiency of individual investments, and sustainability of O&M where data was available. Roads were evaluated using the least cost alternative method. Revenue-generating sub-projects were evaluated for their ability to recover O&M costs, and the economic impact of utilities was measured based on beneficiaries' willingness to pay for services. Other sub-projects were evaluated from a qualitative perspective using the beneficiary survey. Sustainability of overall O&M was investigated by determining the activities' net impact on the LA's fiscal budget. The results of the sample show positive economic returns for water supply (between 5 and 29 percent), electricity (55 percent), markets (between 9 and 36 percent), and drainage (9 percent). The weighted average return using investment amounts was 21% for public markets, 12% for water supply sub-projects, 55% for power supply sub-projects, and 9% for drainage sub-projects. The level of efficiency of individual sub-projects within the following categories was assessed:

- a. *Public markets* - From rents collected, public markets are likely to eventually recover the cost of O&M at a level of 1.2 to 3.5 times, although rents are not yet at a level to recover the full costs. Using an increase in shopkeepers and stallholders' income as a proxy for economic benefits, the investments yield a return between 9 and 36 percent. Geo-referencing verified the number of beneficiaries within walking distance.
- b. *Water supply and electricity sub-projects* - The charged utility fees can recover the costs of O&M. A positive forecast of EIRR above 5 percent was assessed using willingness-to-pay methodology for these sub-projects.
- c. *Road sub-projects* – Roads accounted for almost 65 percent of all sub-projects. Technical designs were appropriate and cost effective, selecting the least cost solution of metallic tarring over concrete (US\$ 50,800/ LKR 7.9 million vs US\$ 70,100 /LKR 10.9 million per kilometer). Roads had suffered major damage during the conflict, and the rehabilitated roads reduced travel time, increased all-season accessibility, and provided connections to income-generating opportunities. Beneficiaries rated the roadworks very positively (refer to Section I.B.) Geo-referencing analysis confirmed the reduction in travel time compared to the shortest alternative route and calculated the number of direct beneficiaries. Based on other World Bank-funded rural road projects in Sri Lanka, the EIRR is expected to be around 20 percent.

42. **The grant system established under NESIP ensured predictable, rational and transparent capital grant transfers to LAs** The grant criteria for LAs included basic institutional capacity requirements, which supported timely implementation of the sub-projects and allowed for efficient and timely utilization of Bank resources maintaining a steady disbursement rate. The Project used a fifteen-point criterion to



evaluate the performance of LAs to award performance grants. The indicators measured LA capacity building, such as better planning, budgeting, service delivery, revenue management, accountability, and sustainability. Around 70% of eligible LAs received performance grants.

43. **Sustainability of sub-project investments will rely on the LAs fiscal capacity to operate and maintain the assets built.** At Project completion, NELSIP's fiscal impact on local government was assessed for the Nochchiyagama Pradeshiya Sabha (Annuradhapura District, North Central Province), Mihintale Pradeshiya Sabha (Annuradhapura District, North Central Province), and Puthukkudiyiruppu Pradeshiya Sabha (Mullaitivu District, Northern Province). The assessment showed that NELSIP had an overall positive fiscal impact after covering of O&M costs for implemented sub-projects. In the three sample LAs, revenue generating sub-projects such as water supply and markets offset the non-income generating sub-projects, including day care centers, a library and roads, for a net impact of between 1.6 and 6.2 percent of LA revenue. Refer to Annex 4 for Economic Analysis.

44. **Project extensions.** Approximately 80 percent of the sub-projects were completed within budget and 60 percent on time. However, two Project extensions were required due to implementation delays caused by delays in procurement. Extending the closing date allowed the Project to disburse US\$8.24 million and complete fifty sub-projects. The restructuring and extension allowed for the completion of several major sub-projects, including the Ampara Bus Terminal. In 2016-17, implementation delays were monitored using a DFAT-developed system, which tracked implementation progress and identified any sub-projects at risk of not being completed on time.

**Overall Efficiency Rating: Modest.** The overall project implementation experience reflects inefficiencies in terms of funds shortfall and data collection, which led to implementation delays. LA offices were short-staffed as a result of the conflict, and GoSL policies of regular transfers sometimes left positions vacant. The need for the Bank to bridge the lack of counterpart funding resulted in an AF and two extensions.

#### **D. JUSTIFICATION OF OVERALL OUTCOME RATING**

**Rating: Moderately Satisfactory.** Overall outcome rating is **Moderately Satisfactory as the Relevance of the PDO is Substantial, Efficacy is Substantial, and Efficiency is Modest.** The Project's assistance in rebuilding post-conflict areas started from a very low base with respect to LA capacity and its ability to respond to emergency community needs. Within this context, the Project resulted in substantial improvements in service delivery coverage; institutionalization of a robust bottom-up planning process; greater community engagement and transparency; improved beneficiary satisfaction; strengthened capacity of the LAs; and other unanticipated outcomes, such as greater gender inclusion, improved coordination between government agencies, and creation of local jobs. In addition, the MPCLG remains an effective partner in Sri Lanka; and significant capacity was built for the benefit of not just the Project but the greater local governance national agenda. However, the Project's weak M&E system was not adequately designed at inception to capture the extent of the Project's impacts and to compellingly link those to the development objectives. Alternate methods for measuring impacts, other than those included in the Results Framework (e.g. surveys, geo-referenced impact assessments, cost efficiency estimates), have been used in this ICR to complement and strengthen outcome ratings. Nevertheless, the overall results achieved in terms of transformation and strengthened LAs in the participating Provinces reflect positive post-conflict development outcomes.



## **E. OTHER OUTCOMES AND IMPACTS**

45. **Increased Gender Inclusion.** Gender was recognized as an important dimension of the Project. The PAD noted that female representation in elected bodies in Sri Lanka was negligible, as was their representation on Standing and Advisory Committees. The Project recommended that women should constitute at least 30 percent of decision-making roles and 50 percent of participants at village assemblies (and youth comprising 30 percent). As a result, 2,065 out of the 6,610 members of the SACs were women. According to the 2017 Gender Integration Assessment Report, women also participated in the initial village-level consultations and were equally likely to utilize the GRM tool. Sub-project progress and completion reports noted the number of women who had recommended the sub-project during the LAPDP process and female beneficiary satisfaction.

46. **DFAT continually highlighted the need for greater gender equality.** With DFAT's input, a consultation process with different LAs and a questionnaire on the status of gender inclusiveness was conducted in 2015, which led to the creation of a Gender Responsive Mechanism and a Gender Action Plan.<sup>16</sup> DFAT's input also introduced gender-focused indicators in the Results Framework. A Gender Integration Assessment Report was concluded at Project closing. The report noted the introduction of the Gender Action Plan midway through the Project limited its effectiveness, and that the participation thresholds suggested in design documents were generally not enforced at the local level.

47. **Institutional Strengthening.** Strengthening local government institutions to deliver public services and undertake administrative functions was one of the core objectives of the Project and was prominently captured in the PDO and the project design. The mutually reinforcing approach of providing grants based on institutional performance and focused capacity building support worked well. The key interventions and outcomes have been highlighted in the Efficacy section.

48. **Institutional Coordination.** Coordination between government agencies within Sri Lanka's complex governance structure was previously limited and ad-hoc. NELSIP implemented several mechanisms that required sustained communication and coordination between the Central, Provincial, Divisional, District, and LA levels. Examples included the PAT, FAC, GGRC, and supervision by the ACLG of financial management. This resulted in better oversight of the sub-projects as well as institutional development for multiple agencies.

49. **Poverty Reduction and Shared Prosperity.** The Project contributed to reducing poverty and enhancing shared prosperity in Sri Lanka's conflict-affected areas. DFAT calculated that the Project resulted in the creation of 3,900 new jobs annually and the improvement of skills of 200 local contractors. Sub-projects implemented through capital and performance grants were identified through a robust bottom-up planning process that reflected the needs and priorities of the local communities and were largely focused on services that directly contributed towards poverty reduction through boosting rural connectivity, creating local employment and educational opportunities, and providing social infrastructure and core public services.

### **Other Unintended Outcomes and Impacts**

50. **Community Development.** While community engagement was integral to the Project, the specific mechanisms were not stated in the PAD. Best practices from other community-driven development projects, like SACs, were introduced during sub-project selection and design and required

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<sup>16</sup> Gender Impact Assessment Report, p. 9



for all projects. Refer to Section I.B for more details.

51. **Preparation of a General Accounting Scheme for LAs.** Refer to Section I.B for more details.

## **II. KEY FACTORS THAT AFFECTED IMPLEMENTATION AND OUTCOME**

### **A. KEY FACTORS DURING PREPARATION**

52. **The post-conflict context created a fractured socio-economic background and shaped project design.** Beyond the extensive physical damage to public infrastructure, the thirty-year conflict splintered community links and led to the displacement of large numbers of people. Between 1981 and 2007, the Northern Province lost much of its population – originally home to 7.5 percent of the country’s population at the start of the war, only 1.69 percent remained at its conclusion.<sup>17</sup> Many people were displaced multiple times. Former combatants and women were especially vulnerable, with several thousand widows now heading households. It was estimated that between 10 and 15 percent of the population in the Northern Province suffered from conflict-related physical disabilities, and many more experienced psychosocial problems<sup>18</sup>. Nearly all residents had poor access to the labor market and economic opportunities. To properly evaluate these issues, project preparation included a Governance and Accountability Action Plan and a Conflict and Reconciliation Filter, which emphasized improving community cohesion and building trust between citizens and the GoSL.

53. **Relevant lessons and experiences were incorporated in the project design.** Project design incorporated relevant lessons from global experience (e.g. Bangladesh, Uganda, and Indonesia), as well as lessons from similar programs and projects in Sri Lanka, prioritizing (i) community participation from inception and at all stages; (ii) rapid provision of basic infrastructure facilities using local resources; (iii) sufficient numbers of capable staff in place; and (iv) extensive information and communication to inform citizens about project design, work plans, and the grievance redressal mechanism. Most importantly, the Project combined availability of predictable and timely resources to LAs with greater local autonomy in the public expenditure process and enhancement of public accountability systems to foster responsive and efficient infrastructure development and service delivery.

54. **Risk Assessment and Mitigation.** Project design included good governance provisions to mitigate possible governance and accountability risks. Some of the risks identified included political interference with project management, weakness in technical skills, procurement, and financial management in LAs, and ineffective grievance handling mechanisms. The risks were mitigated by project design focusing on building systems of accountable and effective local governance, including technical and social audits. Priority was placed on improving institutional capacity from the outset through a preparatory advisory and capacity building program. Overall, the risk mitigation measures put in place were appropriate.

### **B. KEY FACTORS DURING IMPLEMENTATION**

55. The Project was designed to be a five and a half-year operation between July 2010 and December 2015 and was extended twice for a total of twenty months to August 2017 to accommodate the delivery of sub-projects in the Adjoining Provinces. A Mid-Term Review of the Project was conducted in March

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<sup>17</sup> Five Year Investment Programme 2009 -2013, Northern Province.

<sup>18</sup> World Bank. 2015. *Sri Lanka - Ending poverty and promoting shared prosperity: a systematic country diagnostic (English)*. Washington, D.C.: World Bank Group.



2013, at which point 74 percent of the total grant had been disbursed.

56. **GoSL Institutional Arrangements.** NELSIP was largely implemented by the Ministry of Economic Development and then by MPCLG post-2015. The Ministry PCU was responsible for project supervision and reporting. ACLGs assisted in the preparation of LAPDPs and budgets. The Chief Secretaries' Steering Committee provided oversight and functioned as a decision-making body, reducing some of the duplication of roles between the devolved and decentralized systems. The Project was designed and intended for LAs to take full responsibility for implementation with responsibilities including (i) undertaking overall project management responsibility; (ii) preparing consolidated LAPDP; (iii) utilizing capital grants; (iv) preparing and submitting progress and financial reports; (v) disseminating project-related information to stakeholders; (vi) creating and maintaining project records, including financial management, procurement and safeguards; and (vii) maintaining an accounting system and bank account. Each LA was required to have a Project Secretary, Community Development Officer, Technical Officer, Procurement Officer and Finance Officer.

57. **Institutional and Staffing Challenges.** The 2015 election resulted in the creation of a new implementing Ministry and new PCU, which delayed decision making and implementation. Between January and May 2015, there was no PCU in place, resulting in delays of six or more months in transferring funds to the LAs. Local staff capacity and turnover continued to be an issue throughout the implementation period, and the PCU positions of Procurement Specialist, Environmental Specialist, and Public Financial Management Specialist were often vacant for extended periods. M&E at the PCU was also problematic as systems were not in place until 2016 to track real-time sub-project progress.

58. **Adjoining Provinces.** The North Central, North Western and Uva Provinces joined NELSIP in 2014. As a result, these LAs did not receive as much capacity building support and training opportunities as the Northern and Eastern Provinces and were not eligible for performance-based grants.

59. **The Project aimed to strengthen both upward and downward accountability systems.** The IEC campaign was designed for stakeholders at all levels, and there were significant efforts to facilitate working with civil society stakeholders and improve regional and central governance interaction with LAs. Training was provided for both elected officials and LA staff. PATs appraised sub-projects for potential safeguard issues and assessed the viability of sub-projects. SACs oversaw project design and implementation and provided a link to the community. As a result of these capacity building and community engagement efforts, all 101 LAs publicly disclosed their revenues, expenditures and procurement decisions. At the Project outset, only twenty-eight LAs prepared annual financial statements; at Project closing, all participating LAs did so.

60. **Site Suitability.** A 2014 Auditor General report raised questions related to site suitability of thirty-two sub-projects alleged to be in inconvenient and remote locations. The Committee of Public Accounts (COPA) issued a report in September 2017 of the internal investigation's findings. The Committee found that the site issues were caused by the expectation that there would be a full return of the internally displaced population. Resettlement is ongoing in the post-conflict areas, and not all villages have been fully repopulated. In addition, land acquisition is a lengthy process in Sri Lanka, typically requiring two years, and so LAs were largely constrained by land availability for sub-project site selection. The COPA report concluded that these issues were beyond the control of the Project.



### III. BANK PERFORMANCE, COMPLIANCE ISSUES, AND RISK TO DEVELOPMENT OUTCOME

#### A. QUALITY OF MONITORING AND EVALUATION (M&E)

##### M&E Design

61. **The Project's M&E system was designed to trace project expenditures by LAs, fund flows, and LA administrative functions.** A computerized Management Information System (MIS) was developed to track expenditures by LAs against measurable outputs (e.g. service delivery indicators). The Project supported the utilization of a single and uniform format, in which expenditure and outputs could be aggregated easily.

62. **The Project's Results Framework was not sufficiently flexible, in terms of indicators and targets, to reflect outputs and outcomes responding to demand-driven service delivery prioritization processes.** Since sub-projects were demand-driven, a number of likely areas of physical outcome indicators were identified, but specific service delivery targets were not included in the PAD. It was expected that the expenditure tracking system would monitor outputs. Indicators were monitored informally, but targets were only set formally in the 2014 AF and revised in the 2015 AF. The 2015 AF targets often reverted to the original informal targets referenced in the 2014 AF, but these did not reflect project progress to date. The Project could have been more proactive in realigning, as needed, both its indicators and targets to better reflect local infrastructure and service delivery priorities represented in the LAPDPs.

63. **Selection of PDO and Intermediate Indicators.** The Project was innovatively designed and successfully tested and institutionalized many tools of local governance and CDD operations, but it did not choose PDO-level indicators that fully captured the impact of these design choices, such as staff capacity building, LA accountability, and community engagement, all of which were key PDO outcomes. Although institutional accountability was central to the PDO, only intermediate indicators (e.g. "Grievance registered related to delivery of project benefits that are actually addressed within a quarter") monitored these achievements. There was also no indicator tracking the active participation of women.<sup>19</sup> A breakdown of indicators among regions, particularly after the AF would also have been relevant.

64. **Updates to Project Results Framework.** Some services that were prioritized by citizens and delivered by the LAs under the Project were not included in the Results Framework and therefore results on the ground were not fully captured. There were errors with regards to the unit of measurement and phrasing of indicators, most noticeably with the PDO-level indicator and sub-indicators related to beneficiaries. The "Grievance registered related to delivery of project benefits..." intermediate indicator was introduced in the 2014 AF with a progress to date (2012) value of 90 percent and an end target of 80 percent. The 2015 AF modified the PDO-level indicator measuring the construction and rehabilitation of drainage systems to have an end target of 245,000 m, while noting that this was not achievable.

##### M&E Implementation

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<sup>19</sup> For example, the Community Investment in Rural Areas Project (P107137) in Bolivia tracked the number of "Female heads of household considered most vulnerable in targeted communities" and "Number of beneficiaries engaged in sub-project implementation committees (of which women)." The Afghanistan National Solidarity Program III (P117103) indicators included "Minimum of 70% of sampled women representatives in the community development corporations take active part in decision making related to community development" or "Minimum of 70% of sampled infrastructure subprojects are functional and used by communities one year after completion (First block grant communities)".





65. **Project Monitoring.** The PCU and LAs made a concerted effort to collect and track financial audits and data on the infrastructure investments. LAs were trained to collect and maintain regular data and information related to sub-projects. Each of the 101 LAs carried out individual sub-project progress reports, which included information related to selection of sub-project (e.g. ranking on LAPDP priority list), costing and payments, number of time extensions and reasoning, issues and problems experienced, amount and type of community contribution, beneficiary assessment of sub-project, and the existence of a maintenance, business, and/or environmental management plan.

66. **Quarterly and Annual Progress Reports.** LAs reported individual sub-project data to CLG offices, which sent consolidated quarterly and annual progress reports to the PCU and the Provincial Department of Census and Statistics' Finance Department. Timely quarterly reports were tracked as an intermediate indicator and fully achieved.

#### **M&E Utilization**

67. **Utilization.** LA and PCU reports were utilized by the Bank team for project monitoring and evaluation. This was especially relevant in the last year of implementation, and in 2016, DFAT supported efforts to develop a matrix for tracking sub-projects at risk of not being completed by Project closing. The matrix was implemented and used by the PCU and the Bank to accelerate efforts to ensure sub-projects were completed by August 31, 2017.

68. **Beneficiary Satisfaction.** The Results Framework indicator values of direct beneficiary satisfaction were drawn from a onetime survey and were supported by the sub-project completion reports, the Client Implementation Completion Report, and Impact Assessment Study.

69. **Geo-referencing.** A post-project geo-referencing analysis confirmed the number of beneficiaries for individual sub-projects using high resolution remote sensing data to map human settlements. The population information was validated using the 2012 census and cross-checked with the completion reports.

70. **Overall, the Results Framework was not as effective as it could have been in informing the development of the Project or highlighting problem areas.** Lack of a dedicated PCU-level M&E staff was an issue as there was also no supporting staff at the Provincial or District levels assigned to M&E. Opportunities during Project restructuring to refine end targets based on sub-project prioritization and selection were not utilized, and thus service delivery indicators did not properly reflect Project investments.

**Overall Rating of Quality of M&E: Modest.** Despite some positive features of the M&E system, particularly related to local-level institutional development and regular monitoring of accounting and procurement processes, important shortcomings in the Results Framework, including the selection of indicators and targets, the monitoring system, and results reporting, made it difficult to capture important results achieved by the Project and to link them to development objectives. This had impacts on implementation effectiveness and efficiency.

## **B. ENVIRONMENTAL, SOCIAL, AND FIDUCIARY COMPLIANCE**

### **Financial Management**

71. **Financial management performance was rated *Satisfactory*** during most supervision missions, except in Fiscal Year 2015 when financial management performance was affected by staffing issues due to changes in implementing arrangements, delays in financial reporting and the submission of external



audit reports, and weaknesses in the internal audit. However, no significant issues were highlighted in the external audit reports. The Project submitted accurate and timely interim financial reports.

72. **Contract Management and Accounting.** LAs coordinated contract management during project implementation as well as contract accounting with close supervision by the ACLG Office. These processes were new to LA staff, and as the payment on contract bills was complex, it was initially difficult for LAs to manage. Capacity of the LA staff was not sufficient, and the issue was highlighted by the Bank team.

73. **Auditing.** Prior to NELSIP, the LA's accounting capacity was limited to transfers from the Central and Provincial Governments, with little oversight of local expenditures. The auditing framework was reinforced and broadened by the Project to improve accountability. All NELSIP funds underwent government audits, which were transparent, independent, and reviewed by the Auditor General, an independent entity. There was also an independent Financial Officer within the Provincial Council in charge of NELSIP oversight.

- a. **Internal Audits (PCU and LA levels).** Internal audits at multiple levels were established. An independent audit firm was assigned to carry out these out initially, and then the existing Provincial Internal Audit Department took over this function.
- b. **External Audits.** Comments from the external audits focused on the adherence to LA systems and procedures. The audits recommended a single accounting system, which NELSIP implemented.

#### **Procurement arrangements**

74. **Procurement.** Considering the high volume of procurement of the service delivery sub-projects, the efforts of the procurement team were commendable. Bank fiduciary missions were sent to the field to review procurements, sub-project implementation, and the flow of funds when disbursement seemed delayed. There was a recurring issue with contracts being awarded and implemented, but with no progress payments as contractors preferred claiming one lump sum final payment. The Bank team proposed several measures to ensure timely disbursement.

75. **Procurement Delays.** Procurement delays were due to: (i) non-availability of technical staff to prepare supporting documents for procurement activities; (ii) seasonal delays and mismatch in timing of procurement; (iii) capacity of contractors and their access to credit; (iv) availability of materials; and (v) contract management, including proper close out and completion of contracts. There were no major fiduciary issues except for one case in Northern Province, which was reported to World Bank Integrity Vice Presidency and subsequently addressed by GoSL and the World Bank.

76. **Procurement Manual.** The Procurement Manual was translated into Sinhala and Tamil and used and adopted by the LAs. Multiple trainings were conducted for the preparation and management of procurement plans. Districts with NELSIP sub-projects have begun to prepare procurement plans and monitor the performance against the set targets for all projects regardless of the source of funding.

#### **Environmental and Social Safeguards**

77. **Environmental and Social Safeguards.** The sub-projects did not pose large-scale social and environmental risks, and NELSIP was classified as *Category B*. The Environmental and Social Management Framework (ESMF) produced by GoSL was included in the PAD and revised in 2014 AF. Pertinent safeguard policies were triggered, including OP/BP 4.01 Environmental Assessment, OP/BP 4.04 Natural Habitats, OP/BP 4.10 Physical Cultural Resources, OP/BP 4.11 Indigenous Peoples, and OP/BP 4.12 Involuntary Resettlement. As the sub-projects were not identified at the time of project preparation, it was agreed





that all site selection would be based on social and environmental sustainability criteria, and sub-projects and sites would be required to have a site-specific Environmental Management Plan. Prior to all new construction, Environmental Assessments were conducted and approved with mitigation measures agreed upon based on the ESMF, which was in line with the Bank's safeguard policies and the relevant provisions under the National Environmental Act, the Land Acquisition Act and the National Involuntary Resettlement Policy, and associated regulations. PAT staff reviewed all sub-project proposals for safeguard compliance.

78. **The independent Final Environmental Compliance Audit, published in June 2017, found no major safeguard issues.** The audit identified that the oversight of construction sites due to lack of contractor capacity and low levels of focused safeguards monitoring, technical guidance, and reporting were an ongoing issue. Approximately four annual training programs were conducted to build the safeguards capacity of the implementation agencies. In June 2016, the PCU recruited an engineer and environmental consultant to assist the dedicated Environmental Officer in strengthening field-level monitoring in project implementation. Environmental Officers, appointed at the ACLG level, included officers from the Central Environmental Authority.

79. **Social Safeguards.** The IEC program included the subject of social safeguards, and the PCU produced and distributed informational handbooks and guidelines for reference. The Gender Responsive Mechanism was published in 2016. LA staff was trained to prepare sub-project specific Social Impact Assessments to record an accurate number and socioeconomic background of beneficiaries, perceived social impacts, and possible safeguard issues such as land acquisition. The team also developed Social Management Plans for critical sub-projects to address adverse social impacts.

80. **Land Acquisition.** LAs followed national requirements to obtain land via direct purchase, private donations, or transfer of ownership in the case of public property. Due process was undertaken regarding the transfer of GoSL lands to the LAs. Additional land required for any sub-project was obtained from private land donations or the purchase of private land based on market value, as determined by the Department of Valuation. The LAs retained proper legal documentation and detailed information on private land donations, land purchases, and transfers of public land. There was no physical displacement of people due to the acquisition of private land. The 2016 Assessment Report highlighted the issue of beneficiaries who consented to donate private land for the benefit of the community, most commonly for road widening projects. Sub-project completion reports documented cases of land donation as part of the community contribution requirement of the sub-project, but this data was not collated to understand the project-wide impacts. Business owners and tenants who were relocated were given places in the improved facilities.

81. **GRM.** The GRM system was established to address any safeguards problems that occurred during sub-project implementation and was one of the grant eligibility criteria. All LAs participated and reported results to ACLG. The intermediate indicator "Grievance registered related to delivery of project benefits that are addressed within a quarter" was fully achieved. The system was well used. LDSP will study how GRM was introduced and implemented, and the lessons will be incorporated.

**Table 8: Project Grievances, Requests and Suggestions by Province**

Province	Complaints	Requests/Suggestions
Northern	2,690	2,997
Eastern	12,885	1,469



North-Central	1,056	775
North-Western	6,404	3,609
Uva	927	394

## C. BANK PERFORMANCE

### Quality at Entry

82. **NELSIP marked the re-engagement of the Bank in the North and East and was part of a package of operations addressing local capacity and service delivery.** The Project was strategically relevant and consistent with GoSL policies and priorities. Key lessons from international experience and other concurrent operations in Sri Lanka and South Asia were integrated in project design. The Bank team also proactively engaged with stakeholders on project design and sought consultation and technical buy-in. The Task Team Leader (TTL) and team specialists were based in the Colombo office, which facilitated frequent field-level supervision and monitoring, as well as timely provision of assistance to the PCU.

83. **The Decision Review Meeting was held on October 10, 2008.** The risk rating was “High” due to the post-conflict context and perceived risks for misuse of funds, GoSL political ownership and policy priorities, scope and focus, complexity of implementation arrangements, diluted decision-making, capacity building, and the lack of an efficient complaint handling mechanism. Appropriate mitigation measures to address these risks were identified and agreed with GoSL. However, the M&E system did not establish baselines for beneficiary survey indicators, and safeguard documents were delayed.

### Quality of Supervision

84. **The Bank produced fifteen Implementation Status and Results Reports during the Project.** Most missions included joint field visits with GoSL and DFAT teams, and the missions were effective in identifying and addressing implementation issues. Supervision and mid-term review documentation, including the Aide Memoires and management letters, were appropriately detailed. The AFs and Restructuring were completed in a timely manner to reflect project needs, although the lack of counterpart funding due to budgetary constraints should have been anticipated and addressed in a timely manner. The Project benefitted from excellent team continuity as the TTL and key technical specialists remained for the entire Project duration. A total of 169.5 weeks and US\$690,600 were utilized in supervision.

85. **M&E.** M&E supervision could have been more rigorous including cross-checking of quarterly and annual reports, amending the Results Framework during the Project’s restructurings, and confirming the indicators monitored reflected the Project’s results.

86. **The Bank team provided needed support during the Ministry transition and establishment of a new PCU.** During the first quarter of 2015 when there was no counterpart PCU, the Bank team continued with field-based reviews and LA-level training. The team made a concerted effort to work with GoSL to institutionalize the successful practices from the Project and ensure its sustainability. This work included support and coordination with the PAT and SAC teams to ensure viable sub-projects were implemented correctly and supervised. The team also regularly met with LAs and conducted lessons learned forums.

87. **DFAT provided project support throughout implementation,** including reviewing reports, participating in missions, contributing and reviewing Aide Memoires, visiting sites independently, participating in progress reviews, and encouraging project visibility. DFAT’s financing provided the funds to expand the Project into the conflict-adjacent areas and provided service delivery and institutional



development to twenty-two additional LAs. The DFAT team developed a matrix to track sub-projects at risk of not being completed, which was implemented by the PCU.

**Justification of Overall Rating of Bank Performance: Moderately Satisfactory**

**D. RISK TO DEVELOPMENT OUTCOME**

88. **NELSIP implementation is complete and 100% of the IDA credit has been disbursed.** The grants were released on a predictable and transparent basis, and contributed to the completion of 1,214 sub-projects in 101 LAs. Financial and performance audits were carried out regularly for all LAs, and audit quality is good as evidenced by audits submitted to the Bank. Capacity building and training occurred throughout the Project's implementation.

89. **The future sustainability of the sub-projects achieved under NELSIP should be carefully monitored.** Potential issues related to the maintenance of physical infrastructure, institutional capacity at the local level, and continuation of community engagement must be addressed.

- a. **Physical Infrastructure.** During sub-project selection, each LA was required to present a business plan. A project completion report was also mandatory, which asked if business and maintenance plans were in place for commercial sub-projects. However, many of the public works projects will not generate income and a greater understanding of asset management and planned maintenance will be critical. Questions related to sub-project site suitability are an opportunity for additional geo-referencing and spatial analysis to better understand nearby beneficiaries, investments, connections, and opportunities for improvement. The results of the geo-referencing mapping should be maintained and updated by GoSL.
- b. **Institutional Capacity.** The local accounting and procurement systems of NELSIP have been carried forward into all LA operations and are now required for all local development regardless of funding source. The preparation and implementation of a common accounting scheme was a major achievement of the Project. Staff roles and responsibilities were formalized, and LAs gained experience and knowledge in participatory budgeting, community engagement, grievance redressal, progress reports, and business and maintenance plans. These were commendable results. The Project not only improved institutional capacity, it provided opportunities to rebuild LAs in post-conflict areas.
- c. **Community Engagement.** Although there is broad government support, the participation mechanisms instituted by NELSIP have not yet been institutionalized. Officials at the regional and district levels in the Northern Province have stated that they have issued instructions to include SACs for all projects implemented by the LAs, but have no means of enforcement. Versions of LAPDPs and SACs will be carried forward into LDSP, and a policy paper is being prepared by MPCLG to institutionalize the SAC mechanism into project planning.

90. **Local Area Development Support Project (LDSP).** The follow-on operation, LDSP, will incorporate several key features of NELSIP. The proposed Project will continue to strengthen technical capacity, local public expenditures, and financial management systems and institutionalize intergovernmental fiscal transfers to LAs through an expanded capital and performance-based grant system. Participatory planning



systems will be expanded to include socio-economic services, and groups such as GGRCs, PATs, and SACs will be strengthened for supervision and post-implementation O&M. Annual audits, the standard accounting system, and performance indicators pioneered by NELSIP will be maintained. To mitigate risks associated with counterpart funding and budgetary constraints, GoSL and WB are in discussion with the European Union to provide parallel financing to keep counterpart funding to a minimum.

#### **IV. LESSONS AND RECOMMENDATIONS**

91. **The Bank's support to local governments in a fragile political environment and weak governance structure benefits from a simple project design and clear implementation arrangements.** The Project was one of the Bank's first investments in the North and East following the end of the conflict, and there were many unknowns, compounded by project agencies and LAs who did not have prior experience of working with the Bank. Additionally, LAs and GoSL had difficulties estimating the return patterns of the internally displaced populations. There were initial challenges in local-level implementation, including supervision, procurement, safeguards, and staff capacity, and the Bank and PCU struggled with monitoring and evaluating the eventual 1,200 sub-projects. NELSIP's direct relationship to LAs and demand-driven investments were deliberate, but resulted in M&E complications. There is a need to develop incentives, requirements, and conditions at the outset to ensure that O&M budgets are built into government systems.

92. **Capital and performance grant system criteria.** The amount of the individual capital grant allocation was based on a formula of population size, land area, and number of displaced people. The fact that broader socio-economic factors and income levels were not considered meant that larger LAs like Jaffna and Trincomalee benefitted disproportionately. Additional criteria such as institutional capacity and presence of caste-based communities should be considered in any future operation. For performance grants, timely completion of physical infrastructure could be included as part of the eligibility criteria.

93. **Local government strengthening and institutional development is an incremental process,** especially in a post-conflict environment and requires time to show results. The Project required close support and follow up with participating municipalities as the scope and design of the Project was ambitious and complex for the project agencies and participating municipalities charged with its implementation.

94. **Coordination between nearby LAs and multiple levels of government must be encouraged.** NELSIP introduced several coordinating mechanisms between the dual systems of government that should be studied for their applicability to LDSP and strengthened. Greater collaboration between levels of government and regional LAs could eliminate the surplus of certain community needs in areas by clustering sub-projects and provide a learning opportunity for best practices. To address both coordination between government agencies and regional LAs, GoSL suggested in its Lessons Learned Report that the LAPDP could evolve into a divisional-level development plan.

95. **Social accountability.** NELSIP contributed to fostering social accountability through the LAPDP. Through the development process for the plans, the community, political authorities, and LA staff worked together and built trust. However, many officials are still more comfortable with the top-down approach and unsure how to initiate dialogue and participation. The participation of the poor and disadvantaged depended on the skill and willingness of facilitators and was not instituted systematically. Similarly, while NELSIP highlighted the importance of expanding and mainstreaming gender-sensitive interventions and promoting women's participation in the Project and in local governance more broadly, the lack of data



tracking how this was incorporated was a missed opportunity. The Project also did not monitor inclusivity for people with disabilities despite this being a critical issue in the post-conflict areas and a requirement of sub-projects to incorporate disability-accessible ramps. Participation thresholds for vulnerable groups should be established and enforced. The citizen engagement process can be further improved through the inclusion of diverse and marginalized groups and the enhancement of instituting feedback from citizens throughout the project life cycle.

96. **Transparent project prioritization and selection, sustained M&E.** It was anecdotally reported that in some LAs, community members did not understand what was within the LA's remit to implement under NELSIP and asked for sub-projects that were unfeasible. Greater outreach prior to community consultation that educated residents of what LAs are responsible for would strengthen the community's decision-making powers and ensure a smoother LAPDP process. Indicators and beneficiary surveys monitoring satisfaction of the engagement process should be considered in a future operation. Once sub-projects are selected, demand-based projects should periodically evaluate indicators and their targets to better reflect project results.

97. **SAC should be included in the post-implementation O&M.** The failure to ensure a role of SAC in post-implementation may have arisen as the result of the role description in the Project Implementation Plan. While these groups were a highlight of the Project, formalizing their involvement and a greater outreach to youth and vulnerable groups to participate would have strengthened their input and role. Providing an ongoing role in a sub-project post-implementation would also reinforce ties between the community and LA and ensure accountability. This would also help to communicate services available to residents.

98. **Local Capacity Building.** The 1,214 sub-projects employed 200 local contractors, who gained skills and experience. However, many had poor contract management skills or knowledge of contract law. All NELSIP contracts were produced in English which made it difficult for many contractors to understand the terms and conditions of the sub-project. Translation of relevant documents into Sinhala and Tamil and training for contractors should be studied for its feasibility.

**GoSL Lessons Learned.** GoSL produced a comprehensive trilingual Lessons Learned document in August 2017. Refer to Annex 8.



## ANNEX 1. RESULTS FRAMEWORK AND KEY OUTPUTS

### A. RESULTS INDICATORS

#### A.1 PDO Indicators

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Beneficiaries that feel project investments reflected their needs (percentage)	Percentage	0.00 13-May-2010	1900000.00 09-Jul-2015		97.70 01-Sep-2017
Beneficiaries that feel project inv. reflected their needs - female (number)	Number	0.00 13-May-2010	600000.00 09-Jul-2015		96.70 01-Sep-2017
Total beneficiaries - female (number)	Number	0.00 13-May-2010	760000.00 09-Jul-2015		1319589.00 01-Sep-2017
Total beneficiaries - male (number)	Number	0.00 13-May-2010	1400000.00 09-Jul-2015		1224455.00 01-Sep-2017



Beneficiaries that feel project inv. reflected their needs - male (number)	Number	0.00	900000.00		98.70
		13-May-2010	09-Jul-2015		01-Sep-2017

**Comments (achievements against targets):** The beneficiary satisfaction indicators were measured as percentages, but targets were set as numbers and vice versa.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Construction and Rehabilitation of Waste Collection Facilities	Number	0.00	100.00		1.00
		13-May-2010	09-Jul-2015		01-Sep-2017

**Comments (achievements against targets):** This indicator was introduced in the 2015 Additional Financing, and reported there as a current value of 50. This value continued to be reported in the ISRs, but not included in the monitoring reports. The full sub-project list indicates only one solid waste project.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Construction and Rehabilitation of Rural Electrification	Kilometers	0.00	10.00		11.00
		13-May-2015	09-Jul-2015		01-Sep-2017

**Comments (achievements against targets):** Fully achieved.



Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Construction and Rehabilitation of Markets and Maternity Homes	Number	0.00 13-May-2010	200.00 09-Jul-2015		155.00 01-Sep-2017
<b>Comments (achievements against targets):</b> Substantially achieved - 78%					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
New piped household water connections that are resulting from the project intervention	Number	7.00 13-May-2010	600.00 09-Jul-2015		2275.00 01-Sep-2017
<b>Comments (achievements against targets):</b>					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Percentage of capital grants released against allocation	Percentage	0.00 13-May-2010	70.00 13-May-2010		99.00 01-Sep-2017





**Comments (achievements against targets):**

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Construction and Rehabilitation of Playgrounds and Nurseries	Number	0.00 13-May-2010	205.00 09-Jul-2015		84.00 01-Sep-2017

**Comments (achievements against targets):**

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Construction of drainage systems	Meter(m)	0.00 13-May-2010	245000.00 09-Jul-2015		49898.00 01-Sep-2017

**Comments (achievements against targets):** The Additional Financing document notes "this target is not achievable within the closing date since many LAs prepared master plans first using project funds and then started with prioritized drainages." However, the target was not officially revised.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Roads rehabilitated, Rural	Kilometers	0.00	1000.00		789.71



		13-May-2010	09-Jul-2015		01-Sep-2017
Comments (achievements against targets):					

## A.2 Intermediate Results Indicators

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Quarterly progress reports including status of project processes, submitted by PCU before end of the following month	Number	0.00 13-May-2010	4.00 09-Jul-2015		4.00 01-Sep-2017
Comments (achievements against targets): Fully achieved. This indicator was not monitored in progress reports, but reported in ISRs as such.					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Number of LAs whose revenues, expenditures and procurement decisions are publicly disclosed	Number	0.00 13-May-2010	70.00 09-Jul-2015		101.00 01-Sep-2017



**Comments (achievements against targets):** Fully achieved. This indicator was not monitored in progress reports, but reported in ISRs as such.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Number of LAs with budgets prepared in a participatory manner	Number	15.00 13-May-2010	70.00 09-Jul-2015		100.00 01-Sep-2017

**Comments (achievements against targets):** Fully achieved.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Grievance registered related to delivery of project benefits that are actually addressed within a quarter	Percentage	0.00 13-May-2010	80.00 09-Jul-2015		98.70 01-Sep-2017

**Comments (achievements against targets):** Fully achieved.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
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Fund Released to LAs for subproject Implementation	Percentage	0.00 13-May-2010	100.00 09-Jul-2015		100.00 01-Sep-2017
<b>Comments (achievements against targets):</b> Fully achieved.					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Percentage of people in the project area aware of the subproject priority targeting criteria.	Percentage	0.00 13-May-2010	90.00 09-Jul-2015		100.00 01-Sep-2017
<b>Comments (achievements against targets):</b> Fully achieved.					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Number of LAs preparing annual financial statements within 3 months after close of the financial year.	Number	28.00 13-May-2010	60.00 13-May-2010	70.00 09-Jul-2015	100.00 01-Sep-2017
<b>Comments (achievements against targets):</b> Fully achieved.					



Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Sub projects with community contribution	Percentage	0.00 13-May-2013	100.00 09-Jul-2015		98.40 01-Sep-2017

**Comments (achievements against targets):** Substantially achieved - 98.4%

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Subprojects for which arrangements for community engagement in post project sustainability and O&M are established.	Percentage	0.00 05-May-2010	80.00 09-Jul-2015		96.40 01-Sep-2017

**Comments (achievements against targets):** Fully achieved.

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
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Acceptable financial audits of accounts	Number	18.00	60.00		100.00
		13-May-2010	13-May-2010		01-Sep-2017
Comments (achievements against targets): Fully achieved.					



## B. KEY OUTPUTS BY COMPONENT

**Objective/Outcome:** The Project Development Objective was to support local government authorities in the North and East Provinces of Sri Lanka to deliver services and local infrastructure in a responsive and accountable manner

### Outcome Indicators

1. Beneficiaries that feel project investments reflected their needs (percentage)
  - a. Beneficiaries that feel project inv. reflected their needs - female (number)
  - b. Total beneficiaries - female (number)
  - c. Total beneficiaries - male (number)
  - d. Beneficiaries that feel project inv. reflected their needs - male (number)
2. Construction and Rehabilitation of Waste Collection Facilities
3. Construction and Rehabilitation of Rural Electrification
4. Construction and Rehabilitation of Markets and Maternity Homes
5. New piped household water connections that are resulting from the project intervention
6. Percentage of capital grants released against allocation
7. Construction and Rehabilitation of Playgrounds and Nurseries
8. Construction of drainage systems
9. Roads rehabilitated, Rural



Intermediate Results Indicators	<ol style="list-style-type: none"><li>1. Quarterly progress reports including status of project processes, submitted by PCU before end of the following month</li><li>2. Number of LAs whose revenues, expenditures and procurement decisions are publicly disclosed</li><li>3. Number of LAs with budgets prepared in a participatory manner</li><li>4. Grievance registered related to delivery of project benefits that are actually addressed within a quarter</li><li>5. Fund Released to LAs for sub-project Implementation</li><li>6. Percentage of people in the project area aware of the subproject priority targeting criteria.</li><li>7. Number of LAs preparing annual financial statements within 3 months after close of the financial year.</li><li>8. Sub projects with community contribution</li><li>9. Subprojects for which arrangements for community engagement in post project sustainability and O&amp;M are established.</li><li>10. Acceptable financial audits of accounts</li></ol>
Key Outputs by Component (linked to the achievement of the Objective/Outcome 1)	<ol style="list-style-type: none"><li>1. Infrastructure Service Delivery (US\$ 76 million) NELSIP has disbursed US\$ 70.5 million (LKR 11 billion) of capital grants among 101 LAs, which is 99.73 percent of total allocation of capital grants, and led to the implementation of 1,190 projects. The majority of the sub-projects were public works. More than 60 percent of funds were used for roads, but there was significant variety in the type of</li></ol>





investments chosen by individual communities, including transportation, education, public services and electricity, water supply and drainage services and more.

**2. Institutionalizing Accountabilities (US\$ 2 million)**

NELSIP introduced an accounting scheme for LAs that has become part of government policy. A GoSL Cabinet decision on January 9, 2018 approved the preparation and implementation of a common accounting scheme for all local government institutions based on the NELSIP system. However there were also accountability issues, such as those noted in the 2014 report of the Committee of Public Accounts.

**3. Building Capacities (US\$ 4 million)**

Training programs were conducted for the project staff, including topics such as participatory methodologies, financial and procurement management, good governance, social auditing, and ITC. A total of 282 training programs for 9,941 officials were conducted for the project staff. Several procurement trainings were conducted that resulted in developing the systems for the preparation and management of procurement plans. Districts with NELSIP projects began to prepare procurement plans and started monitoring the performance against the set targets not only for NELSIP but for all other procurements without differentiating the source of funding. This practice strengthened the public procurement system.

**4. Assessments and Evaluation (US\$ 1 million)**

The project supported the development of a comprehensive strategy to monitor all development activities carried out by different stakeholders within the geographical space of a LA. Numerous investments are undertaken by institutions other than the LAs, and often many of these institutions have their own monitoring systems. The project supported bringing all stakeholders under a single monitoring framework to enable better coordination, reduce



duplication, and enhance economies of scale and scope in development works. However, the design and implementation of the results framework was poor, and there was minimal consistency in the way indicators were tracked.

**5. Project Management (US\$ 3 million)**

The project used existing GoSL procedures for the technical design, costing and procurement of sub-projects. It included provisions to hire consultants as and when needed until the approved cadres were filled as well as commissioning independent technical audits to verify construction quality. Procurements functions were ring fenced from implementation functions and made transparent. However, there were periods when important expert staff were missing, including the PCU Project Coordinator, procurement or M&E specialists.

Procurement was also made difficult by the lack of local contractors with sufficient capacity or expertise.

**ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION****A. TASK TEAM MEMBERS**

Name	Role
<b>Preparation</b>	
Seenithamby Manoharan	Task Team Leader
Abdu Muwonge	Team Member
Mohamed Ghani Razaak	Social Safeguards Specialist
Darshani De Silva	Environmental Safeguards Specialist
Asmeen M. Khan	Team Member
Balakrishna Menon Parameswaran	Team Member
Claus Pram Astrup	Team Member
Asta Olesen	Team Member
S. Selvarajan	Team Member
Donna Thompson	Team Member
Amali Rajapaksa	Team Member
Sarath Wickramaratne	Team Member
Mohamed Ameen	Team Member
Gamini Wickramasinghe	Team Member
Saman Wijesiri	Team Member
Sepali Kottegoda	Team Member
Azhar Khan	Team Member
Sabanayagam Kuganathan	Team Member
Samantha P. Wijesundera	Team Member
Miriam Witana	Team Member
Priyantha Jayasuriya Arachchi	Team Member
Rajagopal Iyer	Team Member
Lilian MacArthur	Team Member

**Supervision/ICR**

Yarissa Lyngdoh Sommer	Task Team Leader
Asif Ali	Procurement Specialist(s)
Jiwanka B. Wickramasinghe	Financial Management Specialist
Michelle Lisa Chen	Team Member
Rama Krishnan Venkateswaran	Team Member
Samanmalee Kumari Sirimanne	Team Member
Bandita Sijapati	Social Safeguards Specialist
Bernadeen Enoka Wijegunawardene	Team Member
Mokshana Nerandika Wijeyeratne	Environmental Safeguards Specialist
Jessica Rachel Schmidt	Team Member
Bianca Moldovean	Team Member
Knud Lauritzen	Team Member
Anusha Bandara	Team Member
Roman Skorzus	Team Member



## B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US\$ (including travel and consultant costs)
<b>Preparation</b>		
FY09	32.700	148,092.16
FY10	46.133	266,473.68
FY11	0	42,094.48
<b>Total</b>	<b>78.83</b>	<b>456,660.32</b>
<b>Supervision/ICR</b>		
FY11	36.079	177,833.60
FY12	29.341	219,896.01
FY13	25.633	253,987.14
FY14	22.229	207,022.19
FY15	30.854	182,719.38
FY16	37.252	329,896.40
FY17	39.271	412,733.00
FY18	26.435	608,640.72
<b>Total</b>	<b>247.09</b>	<b>2,392,728.44</b>

**ANNEX 3. PROJECT COST BY COMPONENT**

Components	Amount at Approval (US\$M)	Actual at Project Closing (US\$M)	Percentage of Approval (US\$M)
Component 1: Infrastructure Service Delivery	76.00	107.90	0
Component 2: Institutionalizing Accountabilities	2.00	1.00	0
Component 3: Building Capacities	4.00	14.00	0
Component 4: Assessments and Evaluation	1.00	1.00	0
Component 5: Project Management	3.00	2.50	0
<b>Total</b>	<b>86.00</b>	<b>126.40</b>	<b>0.00</b>



## ANNEX 4. EFFICIENCY ANALYSIS

At project entry, efficiency related to financial and economic analysis was expressed in qualitative terms as the sub-project list had not been established. During project implementation, project plans were prepared outlining financial and economic sustainability. Following implementation, completion reports were submitted. Moreover, an overall economic impact assessment was carried out as a survey among beneficiaries and showed a high level of satisfaction with the impact of the project within the individual sub-project categories: roads, drainage, water supply, public markets, playgrounds, libraries, and community centers. Upon project completion the ICR team made further investigations through interviews, site visits, and review of project documents.

### **1. Methodology.** Efficiency was evaluated from three perspectives:

- A. Aspects of design and implementation
- B. Efficiency of individual sub-project investments; and
- C. Sustainability of operation and maintenance held by LAs

**A.** NELSIP project design and processes of fund allocation and community engagement were evaluated for contributing to efficiency.

**B.** The efficiency of samples of individual sub-project was evaluated quantitatively where data available. The project team used a sample of sub-projects similar to the sectoral breakdown of NELSIP sub-projects and locations. Data was made available by the PCU, local project owners, and LAs.

Samples of main revenue generating projects such as markets and utility services were evaluated from financial and economic perspectives. A financial evaluation was made on the sub-project's ability to recover cost of operation & maintenance from fees collected. The economic impact of utility services was investigated based on willingness to pay for utility services. For markets, a proxy of an increase in sales was used to provide an indication of economic benefit.

Selected samples of road sub-projects were evaluated from a mainly economic cost-efficient perspective of selecting the least cost of surfacing. A sole sample of drainage sub-projects had data available for determination of EIRR.

Other sub-project categories were evaluated from a primarily qualitative perspective.

**C.** Sustainability related to overall operation and maintenance of sub-projects implemented was investigated for a sample of LAs by determining the activities' net impact on LAs' fiscal budget.

### **2. NELSIP design and implementation contributing to efficiency**

Structured processes managed through NELSIP project design likely improved the efficiency of the project investments:

- The fund allocation process ensured timely delivery of sub-project and utilization of saved funds.



- The structured community engagement process identified and prioritized investment opportunities from a public need perspective.

NELSIP Component 2: Institutional Accountability enabled the community engagement process by systematically implementing social and technical audits. The audits by SAC created transparency in processes and fund allocations and impacted the Social Assessment positively.

NELSIP Component 3: Building Capacities improved the general structuring and execution of project processes and as such enabled the successful fund allocation process.

#### **A. Process of Fund Allocation.**

The grant system established predictable and transparent capital grant transfers to LAs for improving basic service delivery. In Sri Lanka, LAs have traditionally relied on transfers and earmarked grants from the Central Government via the Provinces. These funds are not transferred according to any clear, regular or formula-driven system. As reporting is weak, it is also not clear that the budgeted amounts are fully transferred or that transfers take place on a timely basis, and thus LAs are reliant on the Provinces to distribute the funds on an ad hoc, discretionary basis.

**Capital Grants.** The Project used a performance-based set of criteria to qualify and select LAs for its capital grant scheme. These selection criteria included: (a) completion of all annual accounts; (b) receipt of an acceptable audit opinion from the Auditor General on the annual accounts for the past two financial years; (c) presence of adequately trained key staff at the LA level; (d) submission of a participatory plan and budget; and (e) establishment of standing committees for citizen participation. At the beginning of the Project, NELSIP conducted a preparatory advisory and capacity building program for prospective LAs for qualifying for the capital grant scheme.

The selected LAs in the Northern and Eastern Provinces received capital grants from both IDA and DFAT whereas the LAs in North Western Province, North Central Province and UVA Province received capital grants only from DFAT. The Table below shows the summary of capital grant disbursements among LAs.

**Table 4.1: Summary of capital grant disbursements among LAs**

Province	No. of LAs	No. of sub projects	Total grant allocation (1)	Total grant disbursed/spent (2)	Allocation balance (1-2)	Disbursement share of total allocations
	#	#	USD million	USD million	USD million	%
Northern	34	477	28.25	28.20	0.05	99.82%
Eastern	45	728	37.02	37.01	0.01	99.97%
North Western	7	10	2.28	2.21	0.07	96.92%
Uva	3	8	.98	.94	0.04	95.92%
North Central	12	32	3.91	3.90	0.01	99.74%
<b>Total</b>	<b>101</b>	<b>1,255</b>	<b>72.44</b>	<b>72.26</b>	<b>0.18</b>	<b>99.75%</b>

The NELSIP Project disbursed US\$ 70.5 million (LKR 11 billion) of capital grants among 101 LAs, which is



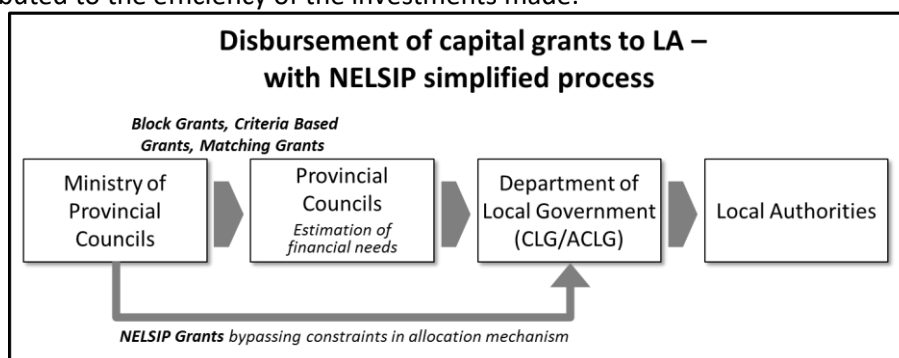


99.73 percent of total allocation of capital grants. The Project showed a very high efficiency in disbursing capital grants among the selected LAs.

Under this capital grant scheme, the LAs in the Northern and Eastern Provinces received an average of US\$ 809,000 (LKR 126.46 million) each as capital grants whereas the LAs in North Western Province, Uva Province and North Central Province received an average of US\$ 315,000 (LKR 49.03 million) each as capital grants.

Initially the Project transferred its capital grants to LAs through the Treasury of Provincial Councils. However, the disbursement of these capital grants to LAs was inefficient. After the issues were identified, the Project established a direct channel to transfer its capital grants to LAs through the Department of Local Government under the supervision and control of CLGs and ACLGs. The simplified procedure of grant transfer described above supported the timely implementation of sub-projects and increased efficiency. LAs made payments to contractors with the approval of CLG/ACLG.

With the large number of sub-projects implemented and the requirements of conforming to administrative procedures, it is likely that the overall approach in selecting the LA based on performance criteria contributed to the efficiency of the investments made.



**Performance-Based Grants.** A performance grant was a one-time capital grant, which was given to LAs solely based on their performance. The NELSIP project used a fifteen-point criterion for evaluation the performance of LAs in the North and East provinces to award performance grants. This evaluation criterion evaluated LAs' performance in planning, budgeting, service delivery, revenue management, community participation, accountability, M&E, GRM, and sustainability of project interventions.



**Table 2: List of Criteria for Performance-Based Grants**

No.	Performance Area	Performance Indicators	Weightage	Remarks
1	Planning	Difference between the budget originally approved in year 2013 and actual expenditure as reported in the final accounts of the same year is less than 10 %(10pts) if less than 20% (05pts).	10pts	Approved Budget and Audited final Accounts to be checked
2	Do	At least 15 % of the annual budget allocated for the following activities such as maternity & child care, upkeep of playgrounds, pre-schools & day care centers and 90 % of the budget is expended in 2013  a) Maternity & Child care at least 5% - 5pts  b) Playgrounds at least 5%- 3pts  c) Pre schools & day care centers at least 5%- 2pts	10pts	% of budget and 90% expenditure to be confirmed by verifying budget and actual progress with sufficient evidence
3	Budgeting	LA has prepared its annual budget in participative manner for year 2013.	10pts	Proper documentary evidence is necessary to ensure the participatory budget
4	Service Delivery	Out of the total capital grants allocated for the LA, at least 90% is expended for sub-projects as of December 31, 2013.	10pts	Allocated Grant and actual expenditure to be confirmed as per the records of the LA
5	Financial Management	Final accounts for the year 2013 have been submitted to the Department of Auditor General before 31 <sup>st</sup> of March 2014.	10pts	Acknowledgement from the Auditor General to be verified
6	Auditing	LA has received an “Unqualified Audit” opinion from the Auditor General for accounts of year 2013.	10pts	The Best Audit observation
7	Auditing	At least three quarterly Audit Management Committee meetings have been conducted in year 2013.	10pts	Audit Management Committee meeting minutes to be verified
8	Assets Management	Board of Survey of year 2013 has been completed & submitted to the Department of Auditor General before 28th February 2014.	10pts	Acknowledgement from Auditor General to be verified
9	Revenue	At least 70 % of arrears of revenue of the year 2012 has	10pts	Actual collection of revenue to be



	Management	been collected by 30th June-2014.		confirmed as per the ledgers and records of LA
10	Community Participation	LA council has made a resolution accepting the Social Audit Committee as an important community mechanism to help LAs in monitoring all activities	10pts	Documentary evidence is necessary
11	Accountability	All sub-projects implemented are correctly representing the priority order in the LAPDP approved by the council.	10pts	To be checked with approved LAPDP
12	M&E	At least 10 monthly progress review meetings were conducted by LA in year 2013	10pts	Meeting minutes should be verified
13	Grievance Redressing	A full-time trained PRO is in place to assist LA to analyze and resolve grievances monthly.  Trained PRO - 05pts  Maintenance of Ledgers -05pts	10pts	Documentary proof is necessary
14	Sustainability	LA has increased maintenance budget by 20% to sustain the infrastructure sub-projects completed.	10pts	Documentary evidence is necessary
15	Implementation	LA has followed all instructions given by the ACLG(PAT), PMU and the PCU regarding the implementation of sub-projects	10pts	Documentary evidence is necessary
		Total	150	

Accordingly, the NELSIP Project provided US\$ 1.8 million (LKR 280 million) to 55 LAs (29 in Eastern Province and 26 Northern Province) as performance grants. The average size of a performance grant was US\$ 32,100 (LKR 5 million).

**Table 4.3: Progress of performance grant disbursement**

Province	Total no. of LAs (1)	LAs that received performance grants (2)	Performance grants US\$	% of LAs, which received Performance grants (2/1*100)
Northern	34	26	869,000	76
Eastern	45	29	931,000	64
Total	79	55	1,800,000	70

Nearly 70 percent of LAs in both Northern Province and Eastern Province received performance grants.

## **B. Process of Community Engagement**

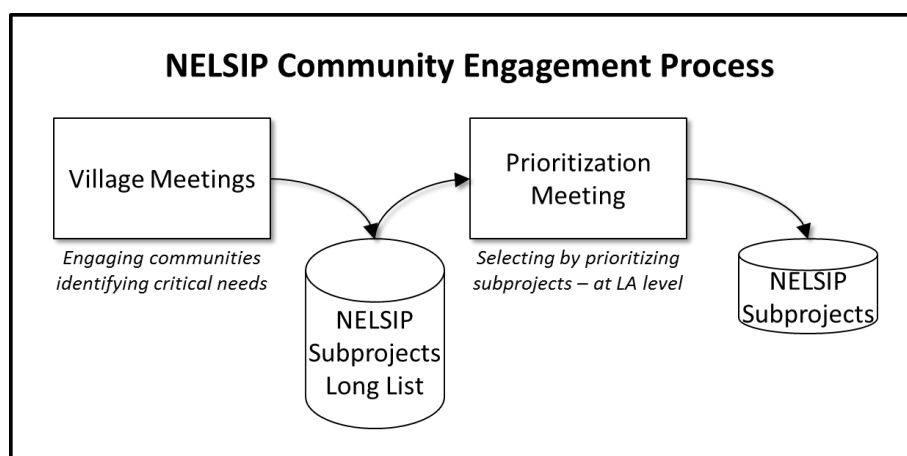
With little baseline data, such as road conditions or information on flooding or traffic, the input from local



communities was important to identify potential investments. Therefore, community engagement was implemented as a central process throughout NELSIP. All LAs implemented the process which was conducted in two steps.

**Village Meetings.** The individual LA conducted village level meetings with village communities at the beginning of the project. With the input from the communities the meetings identified infrastructure needs as well as other needs critical to the communities. The needs were documented in a long list of sub-project proposals.

**LAPDP Prioritization Meetings.** Based on the input from the Village Meetings, the LA conducted a sub project validation meeting. The meeting prioritized the proposed sub projects from criteria such as number of project beneficiaries, urgency of improving critical rural infrastructure, and availability of alternative funding. The meeting produced a prioritized long list of proposals and a short list of selected sub-projects for NELSIP.



### 3. Efficiency of Individual Sub-Projects

NELSIP implemented 1,214 sub-projects.

**Table 4.3: Sectoral Breakdown of Sub-Projects**

	Project Category	Total Number of Sub-Projects	Percentage of Sub-Projects (%)
1	Roads	776	64
2	Markets / Weekly Fairs	135	11
3	Storm water drainage systems	79	7
4	Public Parks and playgrounds	77	6
5	Office buildings	47	4
6	Cultural hall	25	2
7	Other (e.g. guest house, cemetery)	22	1.9
8	Water supply	19	1.6
9	Rural electrification	11	0.9
10	Multipurpose buildings	11	0.9
11	Libraries	10	0.9



12	Bus stand	4	0.3
13	Passenger boat	1	0.1
	<b>Total</b>	<b>1,214</b>	<b>100</b>

At project exit, the sub-project efficiency was evaluated by investigating a representative sample of the sub-project sector categories. The sub-projects were evaluated on their financial, economic, and fiscal impact.

**Table 4.4. Efficiency – Financial, Economic and Fiscal Impact**

Project Category	Financial		Economic		Fiscal
	O&M cost recovery	Investment cost recovery	Cost Effectiveness	Cost benefit	
Revenue generating					
Markets	X	X <sup>1</sup>		X <sup>2</sup>	X <sup>3</sup>
Water Supply	X	X <sup>1</sup>		X <sup>4</sup>	X <sup>3</sup>
Electricity <sup>5</sup>				X <sup>4</sup>	
Special	X	X <sup>1</sup>			X <sup>6</sup>
Non-revenue generating					
Roads			X	X <sup>7</sup>	X
Drainage				X	X
Other categories <sup>8</sup>				X <sup>7</sup>	X
1. Levels of cost recovery - full cost recovery is not expected					
2. Indicative only as based on increased revenue of market stalls holders and shop keepers					
3. In most cases fee collection can recover cost of O&M					
4. Based on Willingness to Pay – and shadow prices on capital expenditures					
5. Electricity Project are basically expenditures to Electricity Board for connecting communities					
6. Special – the Delft Ferry has a fiscal impact as it supported for its costs of O&M					
7. Qualitative benefits – based on Impact Assessment					
8. Office Buildings, Community Halls, Children Parks, Cemeteries, Slaughter Houses and others.					

**A. Sub-project Category: Markets**

Under NELSIP, 135 market sub-projects were implemented with a total value of US\$ 1.1 million (LKR 1,711,000,000). The majority were located in the Eastern and Northern Province with a few in the North-West Province. The markets category included open markets with stalls and smaller one and two-story shopping complexes with regular shops. Land was contributed by the LAs. The market was often located at the site of an existing market in need of rehabilitation. The purpose of the markets was to support local trade and the sale of local products.

A business plan was prepared for the individual market centers. The market stalls and shops were rented to stallholders and shopkeepers based on a market rent. In many cases, a temporarily reduced rent has been introduced for existing stallholders and shopkeepers. Operation costs of the markets include maintenance of the property and collection of rent by private operators.

At project closing, eight representative markets were analyzed. The markets were selected based on the type of market and representative locations - Puttalam, Jaffna, Kilinochi and Mallaithivu. The markets are presented below.



**Table 4.5: Sample of Markets**

	Category	District	LA	Sub Category	Total Investment USD	Total Investment LKR million
1	Market	Jaffna	Point Petro PS	Shopping Complex	177,600	27.4
2	Market	Jaffna	Point Petro PS	Market Fair	143,900	22.2
3	Market	Kilinochchi	Karachchi PS	Market Fair and Shops (Vaddakkachchi)	25,300	3.9
4	Market	Kilinochchi	Karachchi PS	Shopping Complex (Skanthapuram)	26,000	4.0
5	Market	Mallaithivu	Puthukkudiyiruppu	Shopping Complex (Block "B")	142,600	22.0
6	Market	Mallaithivu	Puthukkudiyiruppu	Market Fair (Block "A")	130,200	20.1
7	Market	Puttalam	Chilaw UC*	Market Fair	336,300	51.9
8	Market	Puttalam	Marawila PS*	Shopping Complex	223,300	36.0
* The markets are described in additional details below						

### Financial

The financial impact of the market projects was assessed in terms of the potential recovery of O&M costs from rental income as well as the level of return of the invested capital.

#### *Cost recovery of O&M*

With a cost recovery ranging from 1.2X to 3.5X, all the market sub-projects can recover the O&M costs from rental fees. The rent is expected to increase slightly in the future as shopkeepers from previous market facilities have received a temporarily lower rent rate.

*Case Studies.* The Marawela shopping complex has twenty-three shops in two floors. The cost recovery is at 1.2X as the first floor of the shopping complex is currently vacant as shops not on the ground floor are less desirable. The overall vacancy rate is 45%. With the first floor fully rented, the cost recovery will be at 2.2X. The Chilaw daily market is a larger open market with 294 stalls and 72 shops selling local products. The cost recovery from rents is at 3.3X. The vacancy rate at Chilaw is low with all the stalls rented but half of the shops unoccupied.

#### *Investment cost recovery*

Initially, most of the markets will not be able to recover the investment from rents collected from stallholders and shopkeepers. Chilaw market is the only among the sample which can recover the investment. For the Marawela shopping complex, the rent collected will only cover O&M costs due to the current vacancy rate.

**Table 4.6. Cost recovery of O&M and investment made**

	LA	Sub Category	Cost Recovery of O&M	Cost recovery of Investment <sup>1</sup>
1	Point Petro PS	Shopping Complex	2.4	0.5
2	Point Petro PS	Market Fair	3.5	0.5
3	Karachchi PS	Market Fair and Shops	2.2	0.6



4	Karachchi PS	Shopping Complex	1.3	0.1
5	Puthukkudiyiruppu	Shopping Complex (Block "B")	1.8	0.1
6	Puthukkudiyiruppu	Market Fair (Block "A")	3.1	0.2
7	Chilaw UC	Market Fair	3.3	2.5
8	Marawela PS <sup>2</sup>	Shopping Complex	1.2 (2.2)	0.1 (0.3)
1: Based on investment annualized over 20 years.				
2: Numbers in brackets are when market fully rented				

## Economy

### Cost Benefit

The markets will add economic benefits to the local community and directly benefit small business owners and farmers. In qualitative terms, the local markets will improve access to quality food, provide better marketing opportunities for family farmers, create employment opportunities to local communities, increase small business formation, and enhance community economic development.

For the markets analyzed, the stallholders and shopkeepers have seen increased sales. Interviews of Marawela shopkeepers show increases in sales of 35% on average. For other markets, the increase in sales is assumed to be at least 20% based on feedback from LAs. This indicates that the markets are successful in generating trade. Taking an isolated view on the return of investment from generation of sales, the markets show a positive return on investments.

**Table 4.7: Economic Indicators**

	LA	Sub Category	Average increase in sales <sup>1</sup>	Return on investment from renters increase in net profit <sup>1</sup>
1	Point Petro PS	Shopping Complex	20%	18%
2	Point Petro PS	Market Fair	20%	36%
3	Karachchi PS	Market Fair and Shops	20%	31%
4	Karachchi PS	Shopping Complex	20%	20%
5	Puthukkudiyiruppu	Shopping Complex	20%	23%
6	Puthukkudiyiruppu	Market Fair	20%	24%
7	Chilaw UC	Market Fair	20%	18%
8	Marawela PS	Shopping Complex	35%	9%
<sup>1</sup> : Stallholders and Shopkeepers				

### B. Sub-project Category: Water Supply

Nineteen water supply sub-projects were newly constructed or renovated by the NELSIP Project at a total cost of US\$ 1.04 million (LKR 162.5 million). These water supply projects were mostly small projects, which enhanced the basic access for rural households to safe drinking water, for example by rehabilitating wells. Larger water supply projects were implemented in Nochchiyagama, Bibile and Gomarankadawela. The larger projects established new household connections and/or increased the supply capacity of exiting water distribution systems.

Two of the three larger sub-projects in Gomarankadawela and Nochchiyagama PS were investigated at Project closing. The sub-project in Nochchiyagama PS doubled the capacity of the local system from 500 m<sup>3</sup>/day to a total of 1,000 m<sup>3</sup>/day. With the capacity increase, the water supply service was upgraded to



a 24-hours/day service. Moreover, the sub-project added 150 metered connections. The project in Gomarankadawela provided a new water scheme to the township with a design capacity of 80m<sup>3</sup> per day and 260 metered connections. In this case, due to water scarcity, the water supply scheme is limited to bi-daily service during the annual dry season.

**Table 4.8: Sample of Water Supply Projects**

	Sub-project	District	LA	Sub-project Description	Total Investment USD	Total Investment LKR million
1	Water Supply	Annuradhapur	Nochchiyagama	Capacity expansion at treatment plant	190,500	29.4
2	Water Supply	Trincomalee	Gomarankadawela	New Water Supply Scheme	416,700	64.3

### Financial

The financial impact of the water supply projects was assessed in terms of the recovery of O&M cost from rental income as well as the level of return of the invested capital.

#### *Cost recovery of O&M*

The water supply project in Nochchiyagama has improved the cost recovery of the water supply operation from user fees. Pre-project the cost recovery of operation and maintenance was at 0.8X, which increased post-project to 1.3X. Therefore, the project has an overall positive financial impact. For the new water supply scheme in Gomarankadawela the current low level of service can generate sufficient revenue to recover the cost of O&M with a ratio of 1.2X. With improved extraction of groundwater and water distribution/sales, the financial position will improve significantly. Both projects have not needed to be supported by the LA thus far.

#### *Cost recovery of Investment*

None of the water supply projects are in a position to recover the full investment.

**Table 4.9. Cost recovery of O&M and investment made**

	LA	Sub Category	Cost Recovery of O&M	Cost recovery of Investment <sup>1</sup>
1	Nochchiyagama	Capacity expansion at treatment plant	1.3 <sup>2</sup>	0.8 <sup>3</sup>
2	Gomarankadawela	New Water Scheme	1.2	0.3
1: Based on investment annualized over 20 years.				
2: Pre project the ratio was 0.8X				
3: Based on with/without the project				

### Economy

#### *Cost Effectiveness*

The selection was made based on local needs.

#### *Cost Benefit*





The water supply projects improve access to safe water sources, which can increase the health and production capacity of rural households. The safer water can reduce the transmission rate of waterborne diseases and thereby reduce overall health costs and increase attendance rates at school and overall working capacity. The NELSIP water supply sub-projects benefitted a population of 29,819.

Cost benefit analysis was carried out based on shadow prices, including willingness to pay for water. The analysis shows that the water sub-project in Nochchiyagama provides an EIRR of 29% with a stated willingness to pay for water at US\$ 4.2/household/month (LKR 663) – correspondent to around 1% of household income. For the project in Gomarankadawela, the piped water sub-project provides a low EIRR of 5%.

**Table 4.10: Economic Indicators**

	LA	Sub Category	Beneficiary households	EIRR
1	Nochchiyagama	Capacity expansion at treatment plant	147 new + 953 existing	29% <sup>1</sup>
2	Gomarankadawela	New Water Scheme	271 new	5% <sup>1</sup>
1: Based on: shadow price of the capital expenditures (SCF) on 80%; WTP of LKR 66 per m3 water with annual increase on 7%; cost inflation of 5%.				

### C. Sub-project Category: Electricity

Nine electricity sub-projects were implemented under NELSIP of which seven were clustered in Thirukkivil PS. The other were implemented in Akkaraipattu PS and Kanthale PS. Total investment was of LKR 26 mill (US\$ 167,000). The electricity projects expanded the public grid to unconnected remote households. In Thirukkivil, 200 households were connected. The Electricity Board operates the established grid and are responsible for repair and maintenance costs in line with other parts of the grid.

**Table 4.11: Sample of Electricity Sub-projects**

	Sub-project	District	LA	Sub-project Description	Total Investment USD	Total Investment LKR million
1	Electricity	Ampara	Thirukkivil	Connecting Households to electricity grid	37,600	5.8

### Financial

#### *Cost recovery of O&M*

The Electricity Board will bear the costs of all O&M. The sub-project does not impact the LA's fiscal situation.

#### *Cost recovery of Investment*

All electricity fees collected by the Electricity Board will be used solely for supplying electricity.

### Economy

#### *Cost benefit*

The direct economic benefits derive from savings made by households when they replace electricity for batteries, candles and fuel.



The quantification of the economic benefits was guided by a willingness to pay for electricity investigated by other Sri Lanka projects. Willingness-to-pay at US\$ 0.12(LKR 18) per kWh, which is double the regular tariff, leaves the sub-project with significant economic benefits and an EIRR of approximately 55 percent.

**Table 4.12: Economic Indicators**

	LA	Sub Category	Beneficiary households	EIRR
1	Thirukkovil PS	Electricity	200	55% <sup>1</sup>
1: Based on: shadow price of the capital expenditures (SCF) on 80%; WTP of LKR 18 per kWh with increase of 7% annually; cost inflation of 5%.				

#### D. Sub-project Category: Roads

There were 776 road sub-projects, accounting for 60 percent of all sub-projects implemented. Total investments reached about US\$ 43 million (LKR 6.7 billion), the equivalent of 60 percent of total investments. The community engagement process showed that there was a need for improving and upgrading rural and smaller urban road conditions, especially in the Northern District. Many of the prioritized road paths connected to schools, markets, bus routes, community centers, temples, or hospitals. Improving road conditions has had a cascading effect on the life conditions of locals, as well as for the local economy. All road sub-projects were Category C and D roads, which are the responsibility of the LAs.

#### Financial

Road infrastructure investments require continued, regular maintenance work. Maintenance budgets for each of the individual road sub-projects were prepared and included in the individual LAs' road maintenance budget/program.

#### Economy

##### *Cost effectiveness*

Cost effectiveness of the road sub-projects was guided by the community engagement process prioritizing the individual investments. The communities selected the critical roads in most urgent need of rehabilitation or upgrading based on their local insight.

The technical solution for the individual roads was guided by least costs. Small roads with lower traffic and outside risk of being flooded were rehabilitated with tarring. Smaller roads with flooding in rainy season were rehabilitated with concrete slabs which is slightly costlier than tarring, but not sensitive to flooding. For some sub-projects storm water drainage was established along the road as well as culverts and reinforcements of shoulders to ensure all-season accessibility. For the few roads with heavy traffic, a carpet solution with bitumen was selected. Key costs of the road surface solution and associated costs based on a sample of road sub-projects are presented below.

**Table 4.13. Effective road surface work costs**

District	Road samples		Cost per km (LKR mill.)	
	Concrete	Tar	Concrete	Tar



Ampara	20	5	10.0	4.9
Anuradhapura		1		22.6
Batticaloa	8	7	10.5	4.9
Jaffna	2	23	11.5	6.8
Kilinochchi	1	1	25.3	5.6
Mannar	2	4	15.8	9.4
Mullativu		4		9.6
Trincomalee	5	7	9.2	13.1
Vauniya	1	5	15.7	7.3
	39	57	10.9	7.9
	<i>Total samples</i>		<i>Weighted average</i>	

### *Economic benefits*

The improved roads carried significant economic benefits. Direct economic benefits typically included time savings due to improved accessibility as well as reduced vehicle operating costs due to improved road condition. Other direct benefits included reduced expenditures linked to lower levels of accidents. These benefits can be estimated from traffic data. Assessments for the AF preparations saw EIRR of road investments at 22 percent, while other recent road projects in Sri Lanka have seen returns at the same level of 20 percent (World Bank Provincial Roads Project and Asian Development Bank Integrated Road Investment Program).

However, larger economic benefits derive from improving connectivity and are difficult to estimate in monetary terms. In the community engagement process, the choice of sub-project road was often attributed to improved connectivity. The connectivity improves residents' social welfare as well as their economic condition (e.g. farmers, industrial production, commercial activities, and tourism) and thus contributes to the livelihood of local communities.

**Table 4.14. Connectivity specified for sample of road sub-projects**

District	Road	Location	Connectivity					
			Hospital	Temple	School	Town center	Bus route	Market
Jaffna	Mavady Veethy	Urban		X	X		X	
Kilinochchi	Mukavil Main Road	Urban			X	X	X	
Kilinochchi	Uthayanagar East Geva Vaithiyar Road	Urban	X		X		X	X
Mannar	Periyakadai Mosque and Second Bazaar Road	Urban						X
Mannar	Periyakaraisalinnakarisal Road	Rural						X
Monaragala	Rathwaththa Mawatha at Buththala	Rural		X			X	
Trincomalee	Ethabendiwewa Road Stage 2	Rural			X		X	
Vavuniya	Thonikal Ixasabana Road	Rural					X	
Anuradhapura	Kuda Kekirawa Service Road	Urban		X		X	X	
Jaffna	Madaththadi Sadachchappai Road	Urban			X		X	X
Mullativu	DBST at Moongilaru	Urban					X	
Batticaloa	Thamaraikerney Road	Urban			X	X	X	
Batticaloa	Main Road at Ranamadu	Rural					X	X
Monaragala	Aluthpolawelewatta Access Road	Urban				X	X	X



**E. Sub-project Category: Drainage**

The NELSIP Project has constructed 102 drainage projects amounting to a value of US\$ 5.2 million (LKR 808 million). These drainage projects vary from new construction or rehabilitation of side drains of roads to flood control projects. In addition, the NELSIP Project prepared flood control master plans for some LAs in the flood plains.

**Table 4.15: NELSIP drainage projects**

Type of drainage project	Number
Construction/renovation of storm water drainage system of roads	79
Construction/renovation of water canals	8
Construction/renovation of drainage systems	7
Preparation of flood control master plans	6
Construction/renovation of drainage system as a part of town beatification projects	2
<b>Total</b>	<b>102</b>

Considering the types, size, and geographical spread of drainage projects, a sample of six drainage projects were selected for further investigation. The sample consisted of one flood control project and five storm water drainage projects. A detailed Cost Benefit Analysis was done for the selected flood control project and a Cost Effectiveness Analysis was completed for the selected storm water drainage projects.

The drainage project in Nochchiyagama PS rehabilitated the existing drainage system with a new channel, adding additional capacity. Design capacity of the drainage system is generally made to prevent 5-year flooding. The inundation area of a 5-year flooding in Nochchiyagama is 0.2 km<sup>2</sup> covering 200 residents.

**Table 4.16: Drainage Sub-project**

No.	Sub-project	District	LA	Sub-project Description	Total Investment USD	Total Investment LKR million
1	Drainage Supply	Anuradhapura	Nochchiyagama PS	Rehabilitation of drainage system of Diyawanna Pandulagama	125,100	19.3

**Financial**

To sustain the drainage capacity the established infrastructure requires cleaning and maintenance on a regular basis. Maintenance budgets have been prepared for the individual drainage sub-project. In some projects, O&M requires that the local community engage in the work.

**Economy**

*Cost Effectiveness*

Cost effectiveness of the drainage was guided by the community engagement process prioritizing the individual drainage investments.



### *Cost Benefit*

The drainage sub-projects' main objective is to prevent flooding. Flooding causes physical damage, but also carries diseases, hinders mobility and impacts commerce.

Cost benefit analysis was carried out based on determining the economic losses from physical damages to residential, business and infrastructure, income losses, medical expenses, and vehicle operation costs. The analyses show that the selected drainage sub-project is economically viable and provides an EIRR of 9%.

**Table 4.17: Economic Indicators**

	LA	Sub Category	Beneficiary households	EIRR
1	Nochchiyagama PS	Rehabilitation of drainage system of Diyawanna Pandulagama	250	9% <sup>1</sup>
1: Based on: shadow price of the capital expenditures (SCF) on 80%; Increase in costs and benefits of 5% annually.				

### **Construction/renovation of storm water drainage system of roads**

Nearly 80% of total drainage projects are either new construction or renovation of storm water drainage system of roads.

The construction or renovation of storm water drainage systems for roads is a basic requirement for ensuring the sustainability of roads and controlling floods in the surrounding area. The majority of storm water drainage systems have been constructed in severe flood areas – Point Pedro PS area in Jaffna district, Verugal PS area in Trincomalee district, Puttalam UC area in Puttalam district, Kattankudy UC area in Batticaloa district, etc. The following table shows the cost effectiveness of five of the storm water drainage projects

**Table 4.18: Cost effectiveness of 5 storm water drainage projects**

LA	Activity	Direct Beneficiaries #	Total Expenditure US\$	Cost effectiveness US\$/beneficiary	Cost per meter US\$/m
Kattankudy UC, Batticaloa	Construction of Road Drainage to Rasa Aalim Road	3,188	25,000	7.84	138.6
Kattankudy UC, Batticaloa	Construction of side drainage to Advocate abdul cader road	6,872	20,500	2.98	82.0
Verugal PS, Trincomalee	Construction of drainage at Vattavan school road in Verugal	852	27,000	31.70	61.7
Verugal PS, Trincomalee	Construction of drainage at Valaiththoddam	700	31,500	45.00	84.6
Jaffna MC	Reconstruction of Drainage at Sippithathrai lane	1,150	9,000	7.82	13.2



There is a high variation of both cost per direct beneficiary and cost per meter of the storm water drainage system.

#### F. Sub-project Category: Large Projects

NELSIP implemented a few larger projects of which the ferry to Delft Island and the Bus Terminal in Ampara were the most significant. The main purpose of these two projects was to increase the mobility of citizens and strengthen transportation infrastructure.

##### i. Delft Ferry

**Table 4.19: Special Projects – The Delft Ferry**

	Sub-project	District	LA	Sub-project Description	Total Investment USD million	Total Investment LKR million
1	Ferry	Jaffna	Delft PS	New ferry to Delft	1.0	156

Delft is a small island of around 5,000 residents. The island is located one hour by ferry from mainland Sri Lanka. The NELSIP Delft Ferry is among four ferries connecting Delft to the mainland - two are private ferries and one ferry is operated by the Road Authorities. The island's residents are dependent on being well connected to the mainland for social and economic reasons, including the support of tourism to the island. Around 400 residents commute daily. The NELSIP Ferry is the only ferry offering seating.

#### Financial

##### *Cost recovery of O&M*

The Sri Lanka Navy is currently operating the NELSIP Ferry. The ferry is scheduled to depart and return to Delft once a day/six days a week, transporting around 160-200 adults. One-way fares have been set at US\$ 0.5 (LKR 80) and children travel for free. Total monthly revenue is around US\$ 2,500 (LKR 400,000), which covers only the costs of diesel. Other major expenditures are personnel costs of US\$ 1,280 (LKR 200,000) per month and repair and maintenance costs of US\$ 320 (LKR 50,000) per month. Overall, the fare collected will not be able to recover the cost of operation and maintenance, and the ferry is currently operating with a deficit of around US\$ 1,600 (LKR 250,000) per month. Since the ferry is run as a social service to the Delft community, the fare is not expected to recover the full costs. To ensure financial sustainability of the investment, efforts are underway to ensure a long-term solution for recovering the costs with support from GoSL's fiscal expense budget.

##### *Cost recovery of investment*

The ferry is a social service to the community and is a part of the overall transportation infrastructure of Sri Lanka. The ferry fare is not expected to recover the investment made.

**Table 4.20: Delft Ferry Cost Recovery Indicators**

	LA	Sub Category	Description	Cost Recovery of O&M	Cost recovery of Investment
1	Delft PS	Ferry	New ferry to Delft	0.6	NA



## Economy

### *Cost Effectiveness*

The investment was selected as a part of the community engagement process, who prioritized the ferry as safe and reliable transport to the mainland from Delft.

### *Economic Benefits*

The ferry will bring economic benefits as it allows Delft residents to reduce commuting time and improves connectivity to social activities, health providers, and more. It will moreover provide improved service to tourists visiting Delft. The benefit has not been quantified.

## ii. Ampara Bus Terminal

**Table 4.19: Special Projects – Ampara Bus terminal**

	Sub-project	District	LA	Sub-project Description	Total Investment USD million	Total Investment LKR million
1	Bus Terminal	Ampara	Ampara UC	New Bus Terminal in Ampara	1.5	233

Ampara Bus Terminal is a transport hub in the Eastern Province of Sri Lanka. Fifteen long-distance bus routes to all major cities in Sri Lanka and more than fifty short-distance routes operate via the terminal, which serves more than 400 buses and up to 25,000 passengers daily. The terminal started operation in late 2017, replacing a smaller bus stand.

## Financial

### *Cost recovery of O&M*

The bus terminal receives revenue from vendors, bus operators and public toilets of US \$51,360 (LKR 8 million) annually, with annual operating expenses from labor, water, electricity and cleaning of approximately US\$ 32,750 (LKR 5.1 million). The operations have seen an increase in revenue and in costs since the opening of the new terminal.

### *Cost recovery of investment*

The bus terminal is a social service to the community and is a part of the overall transportation infrastructure of Sri Lanka. The terminal is not expected to recover the investment made from operating the terminal.

**Table 4.20: Ampara Bus Terminal - Cost Recovery Indicators**

	LA	Sub Category	Description	Cost Recovery of O&M	Cost recovery of Investment
1	Ampara UC	Bus Terminal	New bus terminal in Ampara	1.6	NA

## Economy

### *Cost Effectiveness*

The investment was selected as a part of the community engagement process, which prioritized the



improved service from the new terminal.

#### *Economic Benefits*

The new bus terminal has created social and economic benefits to bus operators, bus passengers and vendors in Ampara Municipal Council. The bus operators now park their buses inside the bus terminal, allowing the passengers to enter the buses easily and safely. The terminal bus operators and passengers now have sufficient toilet facilities, comfortable waiting areas, rest rooms and shopping facilities. The bus terminal has become a safe place due to the police post, CCTV camera system, and proper street light system. The facilities have already seen an increase in buses and number of passengers connecting through Ampara.

#### **G. Other sub-project categories**

Other projects implemented include in general office buildings for the LAs, public libraries, and children's parks, as well as many miscellaneous sub-projects servicing the population such as cemetery grounds, slaughterhouses and sport facilities. There were 225 such sub-projects implemented, amounting to US \$10,260,000 (LKR 1.6 billion) or 14% of total investments.

#### **A. Financial**

All the sub-projects in this category are non-revenue generating facilities, although some charges are introduced for slaughter houses and children's parks. However, all the facilities have a fiscal impact as they carry O&M costs.

#### **B. Economy**

The sub-projects have positive economic impact on the community as indicated by the impact assessment conducted. Improvements to local PS Office Buildings support the local governmental processes including receiving the public. The public libraries contribute to the overall economic development by supporting early literacy and school readiness, encouraging workforce participation, and providing employment information. The playgrounds foster social connections and have public health benefits.

#### **3. Fiscal Analysis**

Even though the individual sub-projects were largely based on grants, they have an impact on the LAs' future finances as they carry an obligation of O&M. The impact depends on the sub-project category. Some, such as markets and water supply, will have a positive fiscal impact. Other projects such as roads will naturally need maintenance during their lifetime to be able to provide the expected benefits.

At the time of project completion, the fiscal impact of the NELSIP Project on three LAs was analyzed as case studies. Accordingly, the fiscal impacts on Puthukkudiyiruppu PS in Mullaitivu district, Northern Province and Nochchiyagama PS and Mihintale PS in Annuradhapura district, North Central Province were analyzed. The following table shows the net impact of NELSIP's sub-projects on their fiscal position.

**Table 4.21: NELSIP impact on LAs' fiscal position**

	LA	Fiscal position 2016		NELSIP impact 2016			
		Revenue	Expenses	Revenue	Expenses	Net impact	Net impact as a % of LA
	US\$						





							revenue
1	Nochchiyagama PS	332,500	307,500	16,000	1,900	+2.2	4.2%
2	Mihintale PS	200,300	180,400	13,100	770	+1.92	6.2%
3	Puthukkudiyiruppu PS	442,300	209,900	13,500	6,420	+1.1	1.6%

Nochchiyagama PS implemented three sub-projects: a water supply scheme, a weekly fair, and a day care center. These three sub-projects created an overall positive net impact of US\$ 14,000 (LKR 2.2 million) annually for Nochchiyagama PS, which is nearly 4.2% of its total annual revenue. This is largely due to the positive cost recovery of O&M expenses from the revenue of water supply project. The other two sub-projects have limited associated revenues and costs of O&M. Therefore, these NELSIP investments in the Nochchiyagama PS are sustainable.

Mihintale PS implemented two sub-projects: a weekly fair and a preschool with a daycare facility. These sub-projects created an overall net positive impact of US\$ 12,300 (LKR 1.92 million) annually for Mihintale PS, which is nearly 6.2% of its total annual revenue. The positive cost recovery of the weekly fair is largely responsible for this overall net positive impact.

Puthukkudiyiruppu PS has implemented twelve sub-projects comprising of four market centers, a slaughter house, a library and six roads. Of these, the income generating sub-projects were the four market centers and the slaughterhouse, and they created an overall positive net impact of US\$ 7,000 (LKR 1.1 million) annually for Puthukkudiyiruppu PS, which is nearly 1.6% of its total annual revenue. Today, Puthukkudiyiruppu PS is running the slaughter house at a loss due to high O&M costs (e.g. water supply, dumping charges, license charges, etc.). However, Puthukkudiyiruppu PS has had to operate the slaughter house as a complementary facility for the meat shops in their market centers, which pay high rental charges for the LA. Therefore, the high positive net impacts of the associated market centers reduce the losses of slaughter house.

Accordingly, it is possible to conclude that NELSIP has created an overall positive net impact on the fiscal position of Nochchiyagama PS, Mihintale PS and Puthukkudiyiruppu PS.



## **ANNEX 5. BORROWER, CO-FINANCIER AND OTHER PARTNER/STAKEHOLDER COMMENTS**

### **Comments Received from Government of Sri Lanka on June 21, 2018**

The draft Implementation Completion and Results Report prepared by the World Bank was reviewed and the following comments by GOSL were shared:

- In Abbreviations and Acronyms CLG - Commissioner Local Government should be corrected as Commissioner of Local Government.
- In Abbreviations and Acronyms LAPDP – “Local Area Participatory Development Plan” should be corrected as “Local Authority Participatory Development Plan”.
- In page no: 6 under the topic of Project Context and Development Objective, Para1of Context at Appraisal sub topic indicates as “By 2009, 100,000 civilians had been killed, 504,000 people were internally displaced, and 131,000 people were reported as refugees”. We suggest to mention the accepted source where the details obtained. If not it should be removed from the para.
- In page number 18<sup>20</sup>, para 35 - Local Area Participatory Development Plans should be corrected as “Local Authority Participatory Development Plans”.
- In page number 18, last sentence in para 36 – MPCLG has drafted a Cabinet paper mandating SACs for all future local level service delivery should be changed as “MPCLG has drafted a Policy paper mandating SACs for all future local level service delivery”.
- In page number 22, para 48 – “An additional eight- month project extension from December 31, 2018 to August 31 2017 was required due to implementation delays caused because of the inability of GOSL to provide the full counterpart financing, for which the Bank provided an AF” should be changed as “An additional eight- month project extension from December 31, 2016 to August 31, 2017 was required due to implementation delays happened largely due to delays in procurement.”
- In page number 22, para 48 – “As of April 2018, only thirteen sub projects are not yet operational, but these are being monitored by ACLG officials” should be changed as “As of April 2018, only thirteen sub projects are not yet operational. However, actions were taken by the LAs to open those projects to the public utilization. These are being monitored by ACLG officials”
- In page number 25, para 62 – “During this time between January and April 2015, there was no PCU in place” should be changes as During this time between January and May 2015, there was no PCU in place.
- In page number 27, para 17 – “Although the project design included and MIS PCU was not able to implement it” should be changes as although the project design included and MIS PCU was not able to implement it due to no dedicated officials at the provincial and district level for the M&E.
- In page number 27, para 74 – “ Lack of a dedicated PCU level M&E staff was an issue” should be changes as there were no supporting staff at the provincial level, district level assigned to M&E.
- In page number 28, para 79 – “Procurement delays were due to, i). None availability of technical staff to prepare sub projects” should be changes as Procurement delays were due to, i). None availability of technical staff to prepare supporting documents for procurement activities.
- In page number 29, last sentence of the para 82 should be changed as “environmental officer

<sup>20</sup> Note that Para numbers referred to the GOSL comments, have changed in the document dues to further edits made in the ICR.



appointed at the ACLG level included officers from the Central Environmental Authority.

- In page number 30, para 91 - “twenty four additional LAs” should be corrected as twenty two additional LAs.
- In page number 31, para 93 sub topic (a) – “during sub project selection, each LA required to present a business plan. A project completion report was also mandatory which ask if business and maintenance plan were in place” should be changed as after sub project completion each LA was required to present a maintenance plan and business plans are prepared for commercial type sub projects.
- In page number 31, para 93 sub topic (c) – before the last sentence the following sentence should be included. “Therefore the policy paper is being prepared by MPCLG to institutionalize the SAC mechanism into project planning.

### Comments Received from DFAT

**Post-Conflict Context.** Peacebuilding and strengthening government systems were key issues for the project. The latter had two elements: (i) Building trust between citizens and GoSL (with the LAs being the immediate interface for most citizens) contributing to social cohesion and reconciliation; and (ii) Supporting devolution by demonstrating that with financing and technical support, LAs could deliver economic issues. NELSIP provided a flexible mechanism for DFAT and GoSL to respond to emerging needs in newly resettled areas. Twenty-one sub-projects financed in Sampoor supported business development and social cohesion within the recently resettled community.

**Project Benefits.** DFAT calculated that the Project resulted in the creation of 3,900 new jobs annually (equaling almost 20,000 jobs) and US \$241.8 million in infrastructure-related economic activity over the project lifetime. In addition, NELSIP has had significant benefits in supporting the development, capability, and quality assurance skills of local contractors. More than 200 local contractors participated in the project and have gained skills and experience to undertake much larger-scale projects in the future.

To arrive at these numbers, the team used the national input output tables for 2010 and recalculated the figures for US\$ 89.8 million dollars of infrastructure, which resulted in US\$ 241.8 million of gross output over the lifetime of the project. Including the institutional development and capacity was estimated to be US\$ 276 million. The value added to the economies was calculated as US\$ 57 million, and the fixed capital investment from the project and flow is expected to be approximately US\$ 121 million.

For DFAT, a key achievement of the Project has been the economic multiplier. DFAT also looked at the number of jobs created using the employment multiplier for infrastructure, which is 1.06 jobs per million rupees. Other rates are shown in the table below, which are the employment figures for the country as a provincial breakdown currently does not exist. The multipliers are higher when the flow on economic activities generated by some of the sub-projects is considered, but there is a possibility that some of these jobs were not locally based in the NELSIP Provinces.

Sector	Backward Linkage	Forward Linkages	F+B	GVA	Employment	Expenditure \$9(m)	Gross Output (\$m)	Annual Gross Output*	Gross Value Added	Annual Gross Value Added*	Employment Total	Annual*
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Construction	1.05	1.64	2.69	0.46	1.06	\$89.8	\$242	\$48	\$41	\$8	14,816	2963
Administration	1.02	1.06	2.09	0.93	1.39	\$4.5	\$9	\$2	\$4	\$1	970	194
Capacity Building	1	1.11	2.11	0.99	2.06	\$12.0	\$25	\$5	\$12	\$2	3,848	770
						\$106.30	\$276	\$55	\$57	\$11	19,635	3927
	Investment Multiplier	1.35										

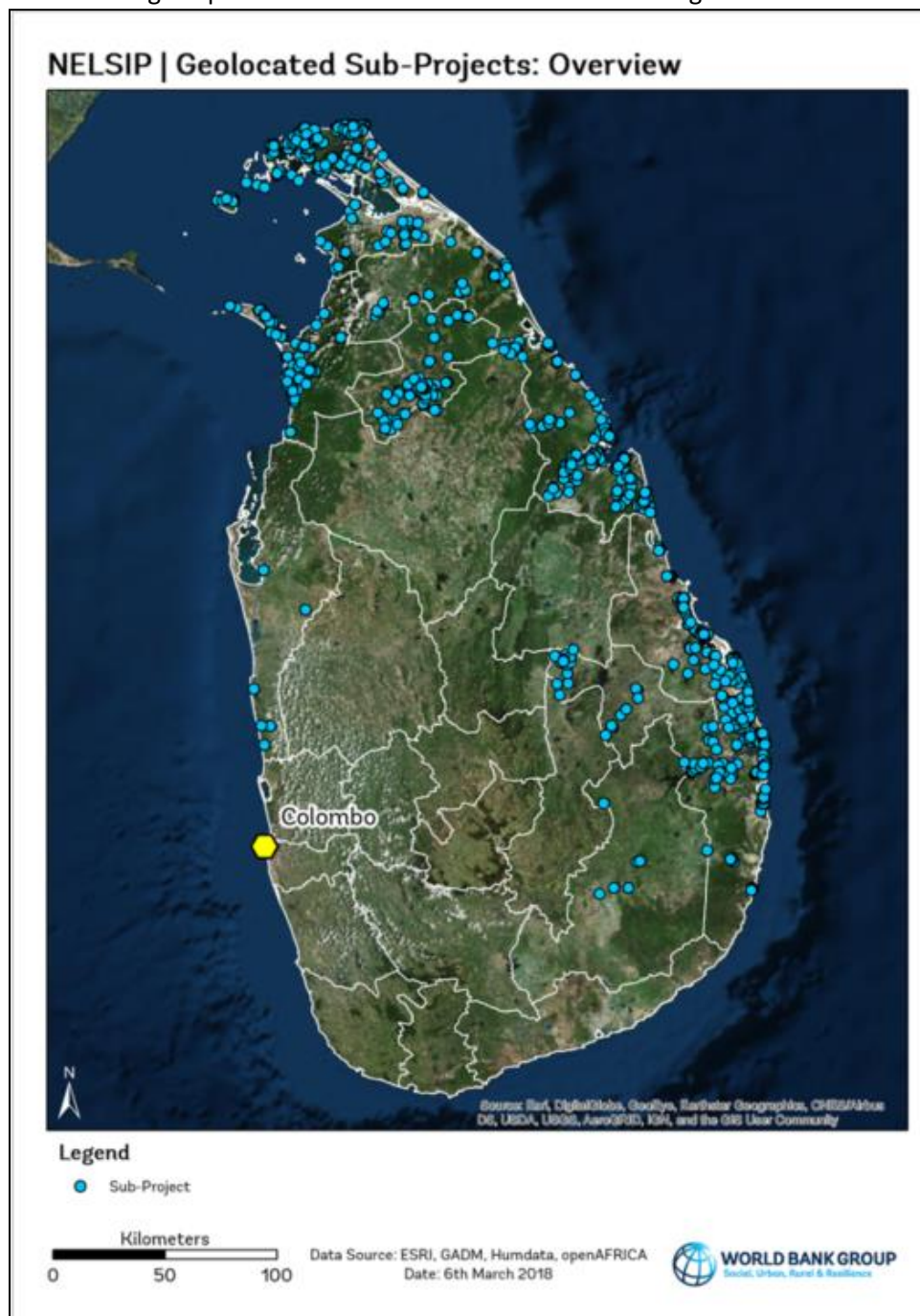
**Lessons Learned.** Lessons include: (i) the importance of developing incentives, requirements, and conditions from the outset to ensure that operating and maintenance budgets are built into government systems; (ii) promoting gender equality and disability inclusiveness must be integrated from the outset and systematically captured in the M&E; (iii) clustering LAs could lead to additional benefits and increased collaboration; and (iv) local contractors have very poor contract management skills or knowledge of contract law. All contracts were produced in English, which made it difficult for contractors to understand the terms and conditions. There could have been opportunities for fostering public-private partnership projects (e.g. bus stations and markets), however, given the limited capacity of the consulting and contracting sectors, this may have been overly ambitious.



## ANNEX 6. GEOSPATIAL ANALYSIS OF SUB-PROJECTS

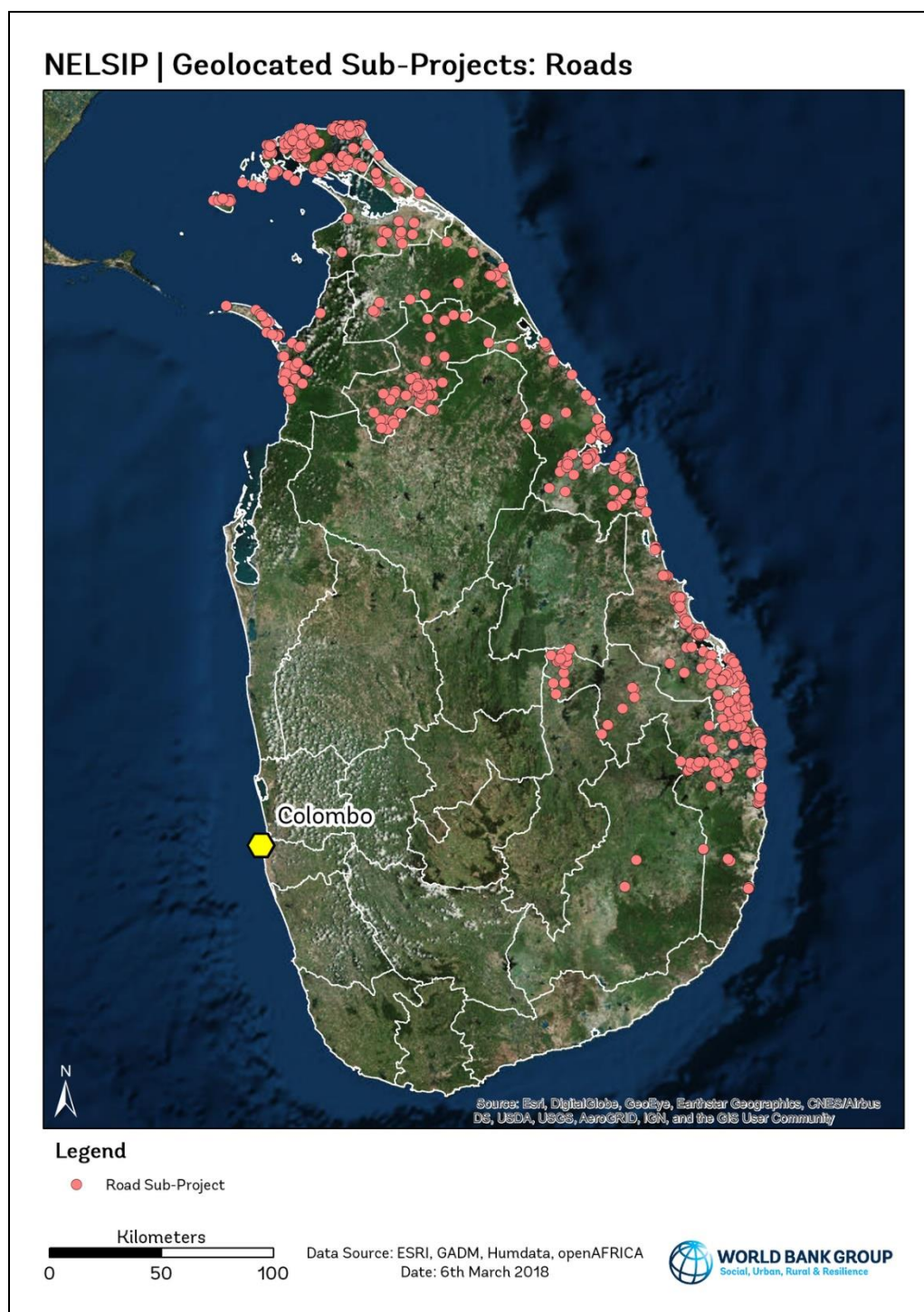
### Geospatial analysis of sub projects

The following chapter details twelve case studies showcasing the use of GIS-based spatial analysis.

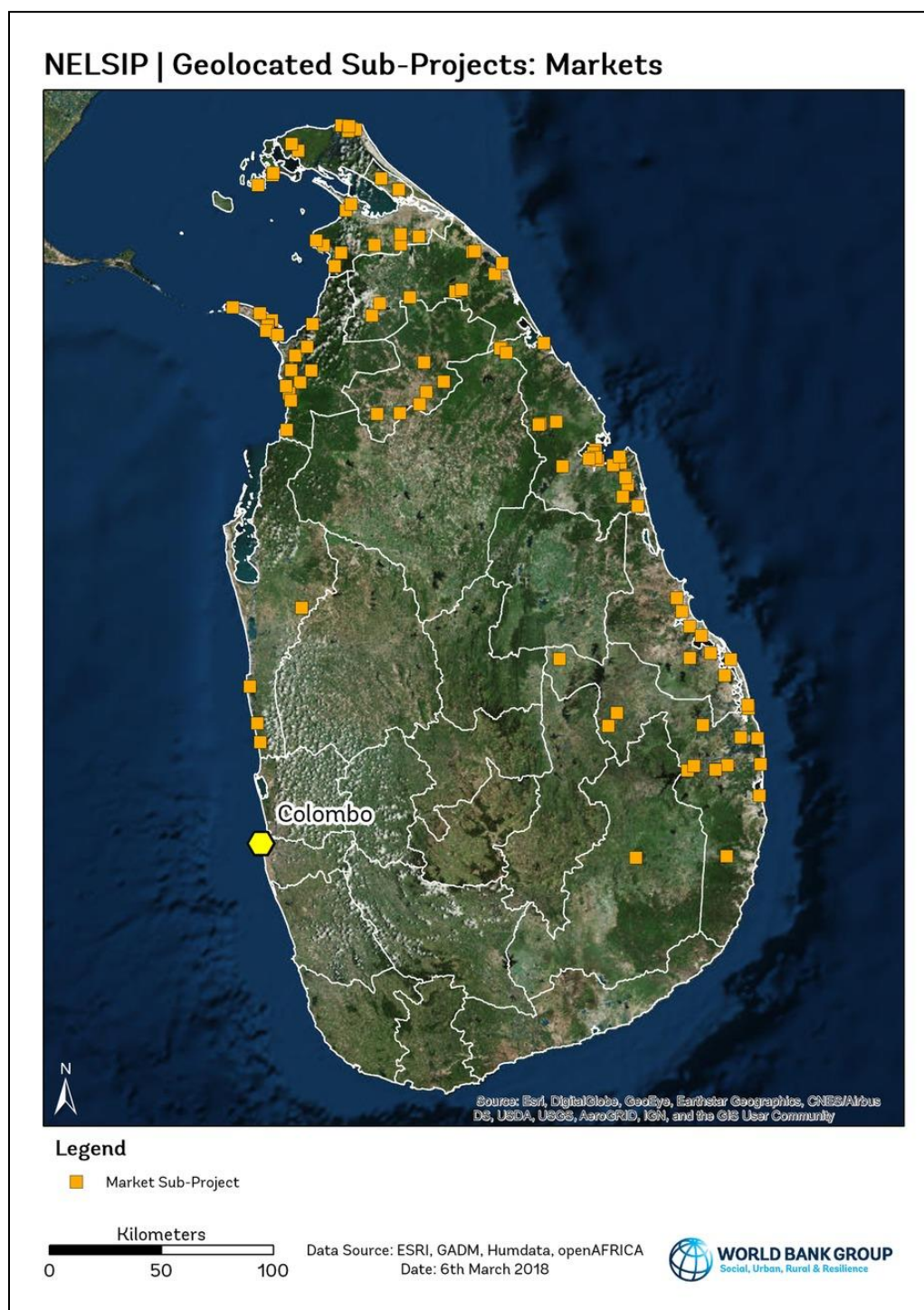


**Figure 7.1: Geospatial Case Study** – Spatial distribution of all sub-projects



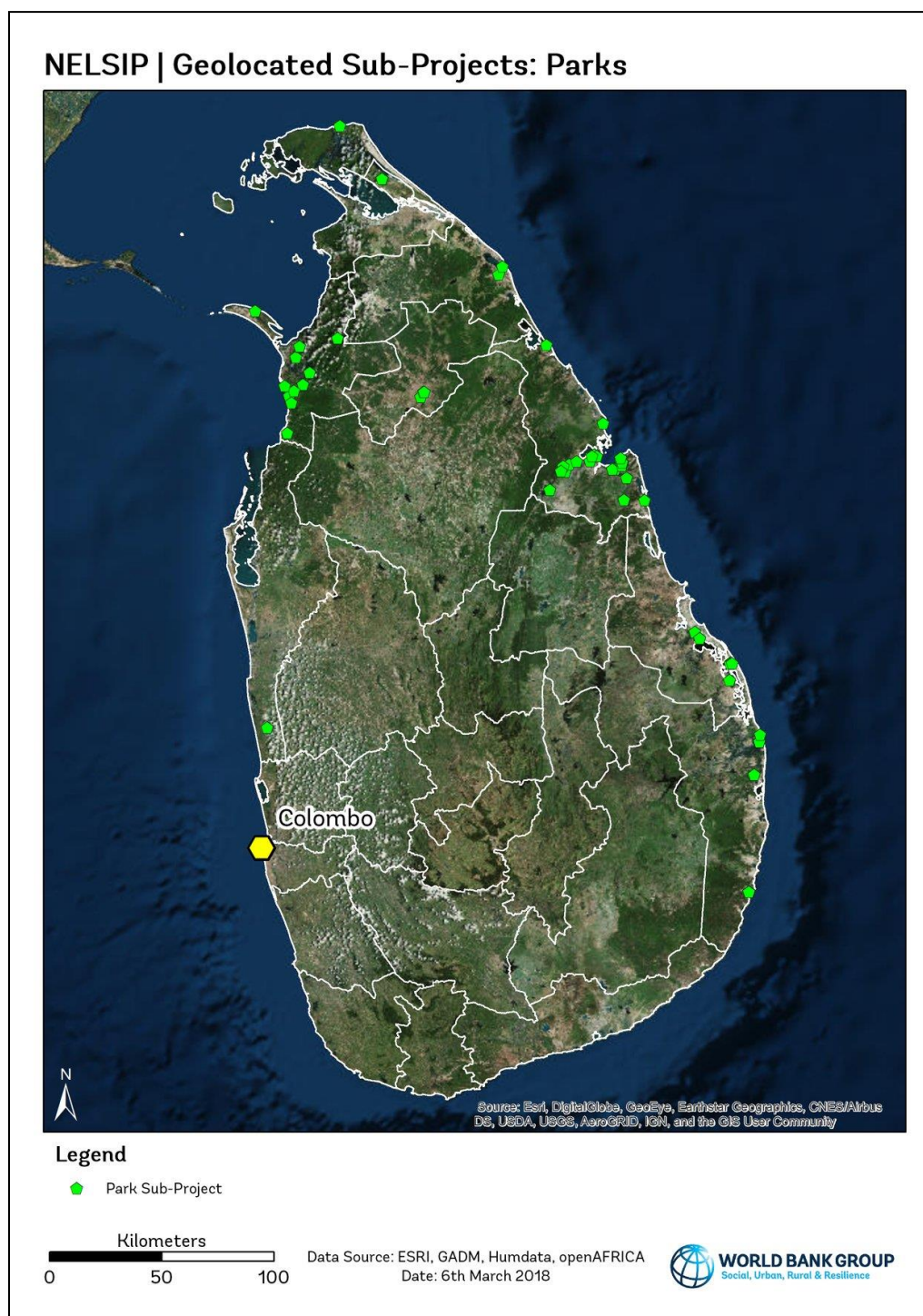


**Figure 7.2: Geospatial Case Study – Spatial distribution of road related sub-projects**



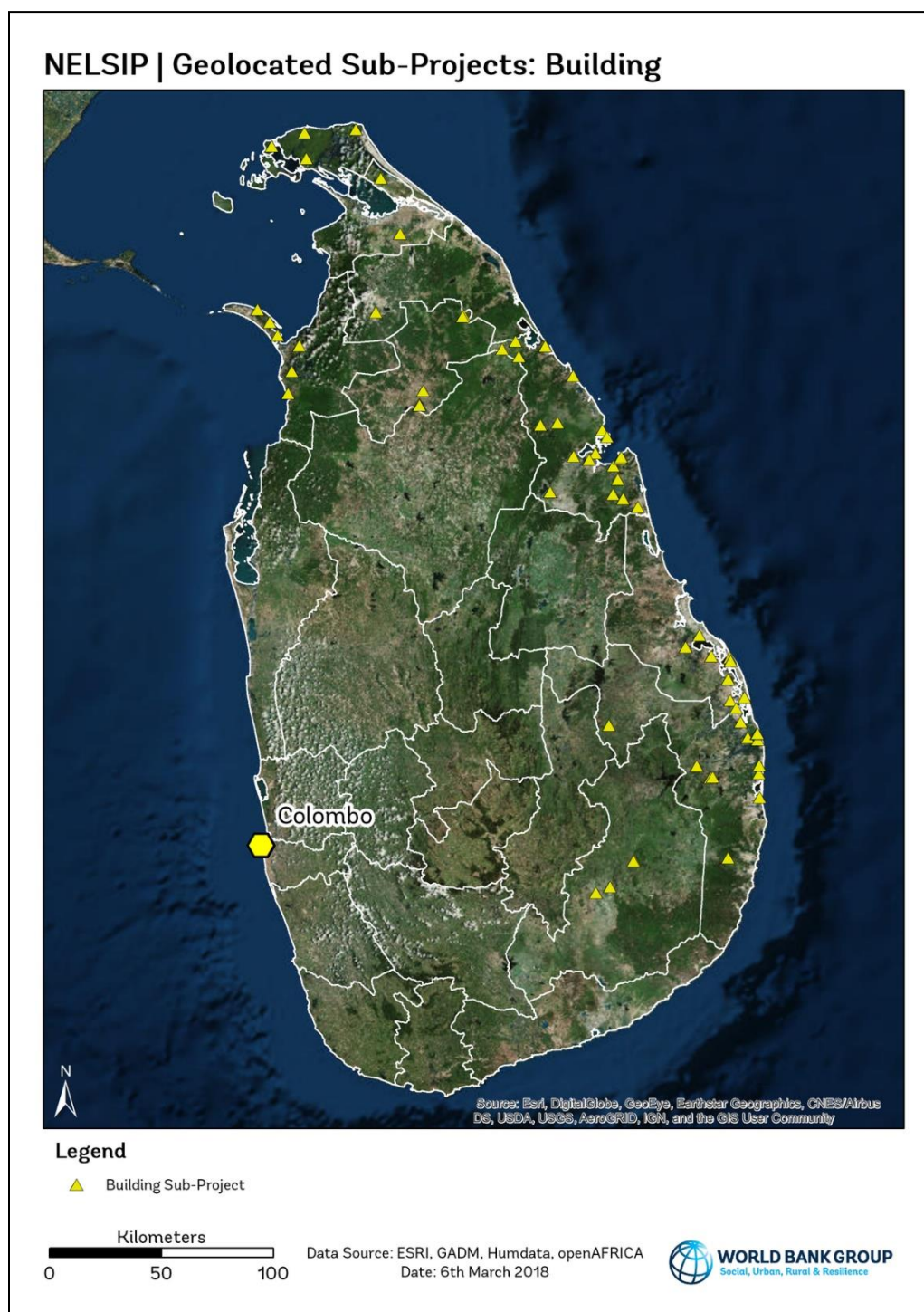
**Figure 7.3: Geospatial Case Study – Spatial distribution of market related sub-projects**



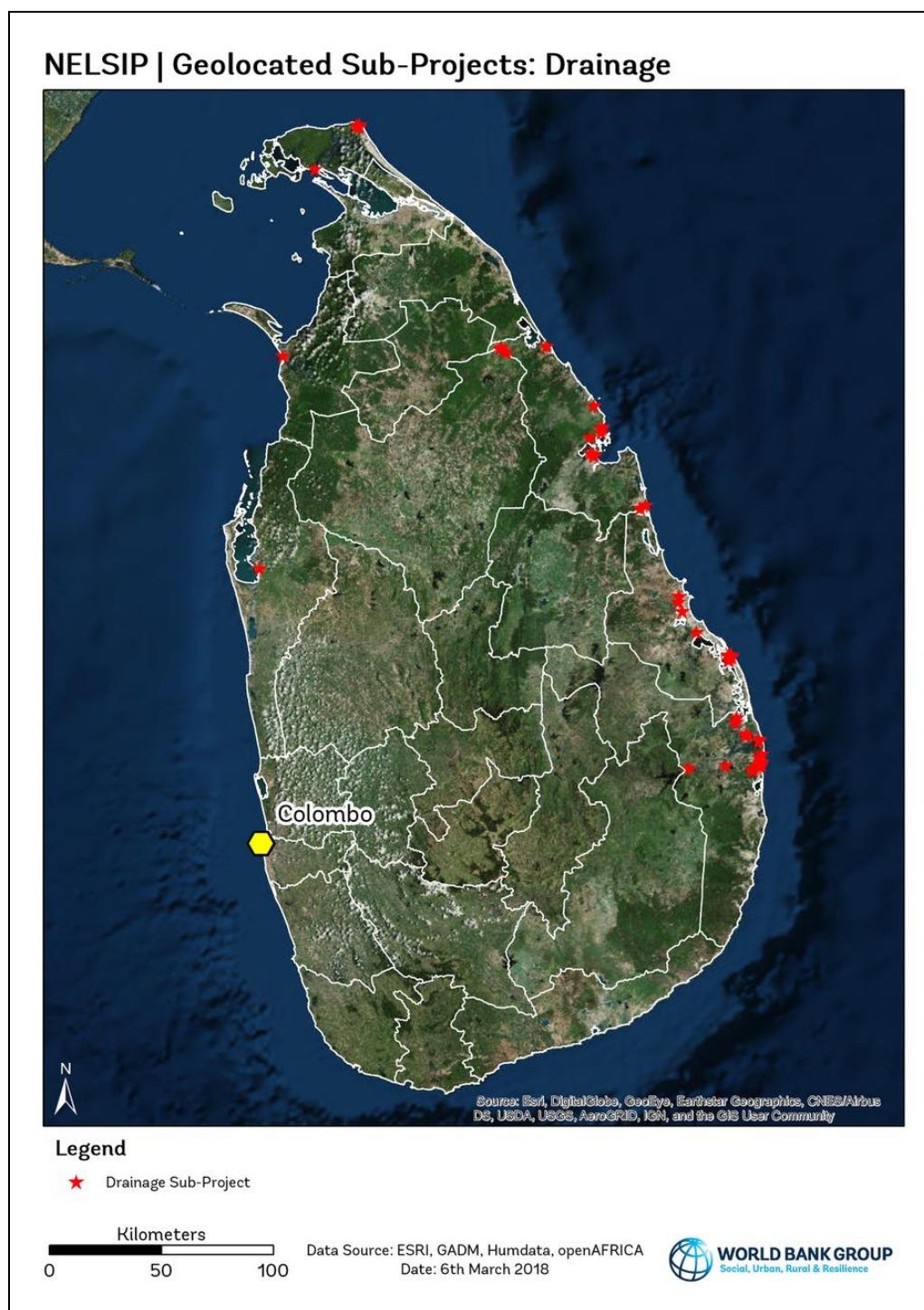


**Figure 7.2: Geospatial Case Study – Spatial distribution of park related sub-projects**



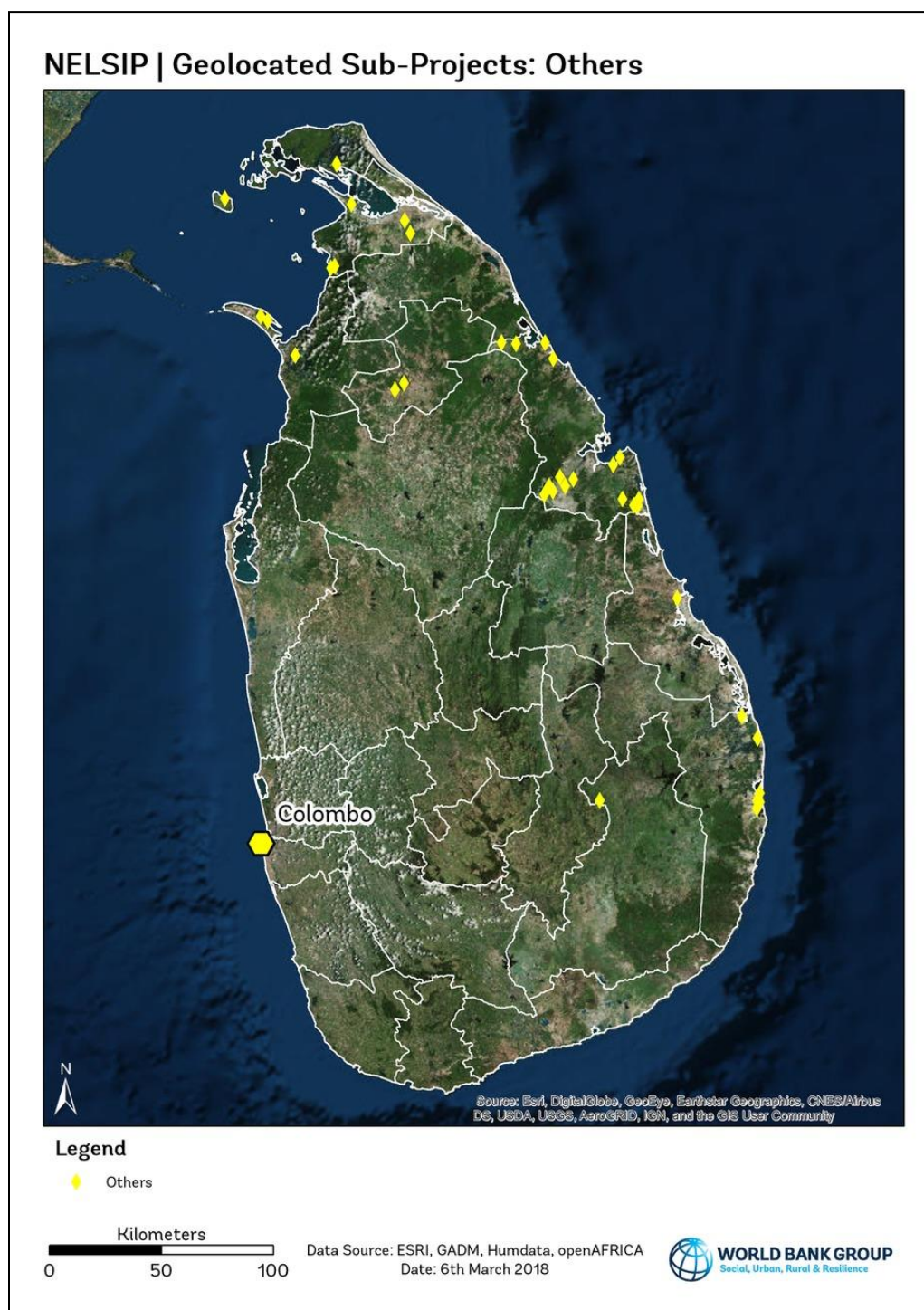


**Figure 7.4: Geospatial Case Study – Spatial distribution of building related sub-projects**



**Figure 7.5: Geospatial Case Study** – Spatial distribution of drainage & water supply related sub-projects





**Figure 7.6: Geospatial Case Study – Spatial distribution of other sub-projects**



### **Methodology**

The spatial analysis uses freely available, open source as well as self-collected geodata to perform the GIS analysis in ArcGIS.

All case studies were based on an estimation of beneficiaries within the service area of the sub-projects. To calculate the population in the catchment area, the case studies are based on settlement data. This is a data product based on very high resolution remote sensing data (Digital Globe remote sensing satellites with a spatial resolution of 0.5m) to map human settlements. The dataset was acquired from openAFRICA, an independent data repository.

The dataset has a spatial resolution of 1 arc-second or around 30m. For each pixel that depicts settlements, it provides the number of people living there. Therefore, every pixel of the raster-dataset has a population value. The settlement data is often overlaid by service areas to calculate the number and values of the pixels inside to sum the number of people living in that specific area.

Even though the settlement data offers a relatively high accuracy, a proper validation was done to confirm the quality of the information. Therefore, the water supply case study used the 2012 official census data in addition to the settlement data. This showed that the data of the settlement layer and the census are comparable. The census data is based on the GN level, and was acquired from humdata.org, a free database for human development related topics.

Since there is no official publicly available road dataset for Sri Lanka, OpenStreetMap has been used to visualize roads in the corresponding maps. OpenStreetMap is an open-source geodatabase with a very extensive global dataset related to roads, buildings and other spatial features. It is widely known as a source for free high-quality geodata.

The boundaries for the administrative areas in Sri Lanka have been acquired from GADM, the global administrative area database ([www.gadm.org](http://www.gadm.org)).



### Case studies

#### **Water Supply Project in Trincomalee, Eastern Province**

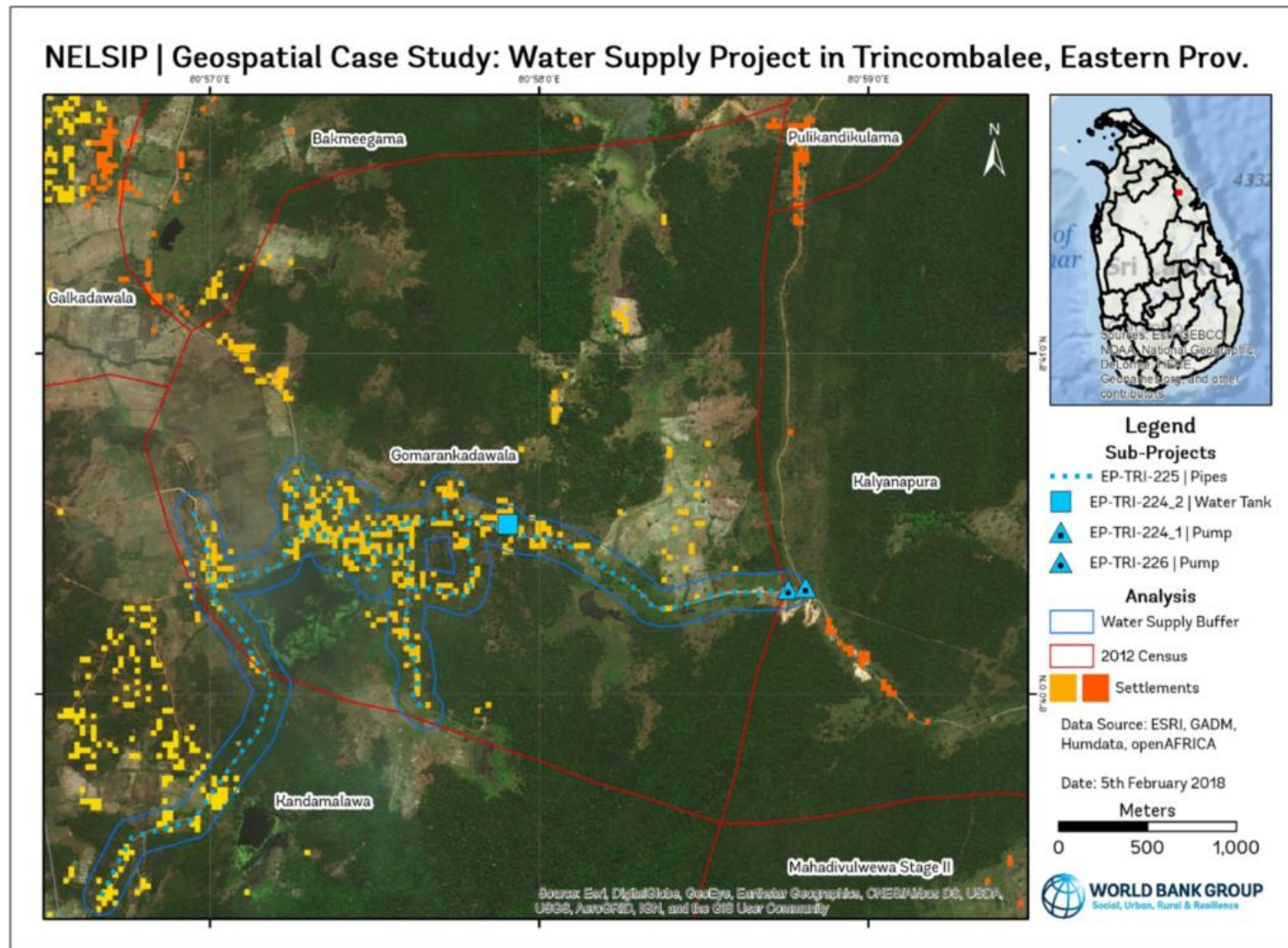
**Project Description.** The LA of Gomarankadawala invested in a new water supply scheme consisting of three different sub-projects. Officers from the LA reported that the ground water is contaminated as a result of agricultural waste water runoff.

The LA built two new pumps (sub projects EP-Tri-224\_1 and \_2) with advanced filter systems to clean the water before it is distributed to the residents of a village nearby through a new pipe system (EP-Tri-225). Moreover, a new water tank (EP-Tri-226) was installed to store excess water.

The following spatial analysis estimates the number of beneficiaries among the residents with a connection to the new water supply scheme.

**Project Methodology.** Figure 7.1 shows a map of the area. A buffer of 100m was used to estimate the service area of the water supply scheme.

**Project Results.** Based on the settlement data within a 100m buffer, there are around 1,000 people who live in the catchment area of the new pipe system and have benefited from a new clean and reliable water supply within their community.



**Figure 7.1: Geospatial Case Study - Trincomalee Water Supply.** The triangles show the new pump stations with filter systems, the square depicts the location of a water tank, and the blue dotted line represents the pipe system for the household connections. The blue solid line is a 100m buffer to represent the catchment area of the pipe system. The red lines show the boundaries of the local communities.





### **Construction of a Public and Children Parks in Vavuniya, Northern Province; Polonnaruwa, North-Central Province and Trincomalee, Eastern Province**

**Project Description.** The following sub-projects represent investments in recreational areas. Considering the possible increase in living and life quality, parks are a very suitable investment and can be easily georeferenced for additional spatial analysis.

The public park in Vavuniya (NP-Vav-15) is a highly popular investment in the area. The sub-project consists the landscape design, play equipment for children, and a food and beverage kiosk. It is the only park in Vavuniya, and local officials reported that the park is frequently visited by families in the evenings and particularly on weekends and holidays.

**Project Methodology.** Two different methodologies to calculate the service area of the parks have been applied. For the park in Vavuniya, three radial buffers demonstrating walking distance from the park have been overlaid with the settlement data to retrieve the number of pixels and their value, equaling the population within the catchment area.

For the two other parks, a network analysis based on the roads has been performed to calculate the walking distance within 5, 10, 20, 30 and 60 minutes. Both methodologies have their specific disadvantage. Whereas the network analysis shows more realistic results for roads used, the radial analysis also considers areas which are not connected to roads but can be still be used for walking. However, these case studies are supposed to show the opportunities of spatial analysis.

#### **Project Results.**

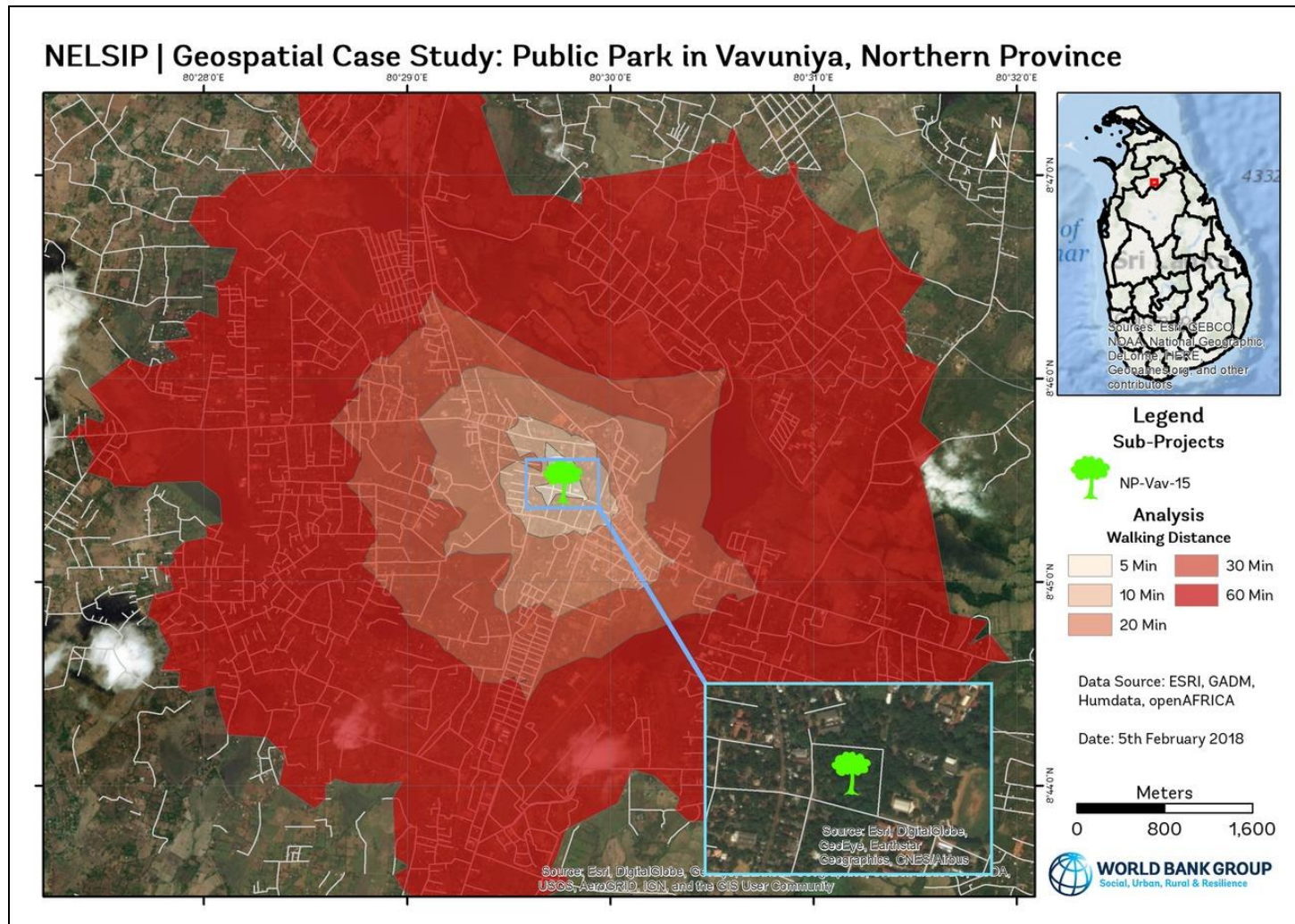
Table 3: Number of potential beneficiaries of the Vavuniya Park, NP (NP-Vav-15)

Radius	Number of beneficiaries by distance
1 km	7,444
2 km	20,940
3 km	39,095

The analysis shows that more than 7,000 people live up to 1km from around the park in Vavunya and almost 21,000 and 40,000 within 2km or 3km respectively.

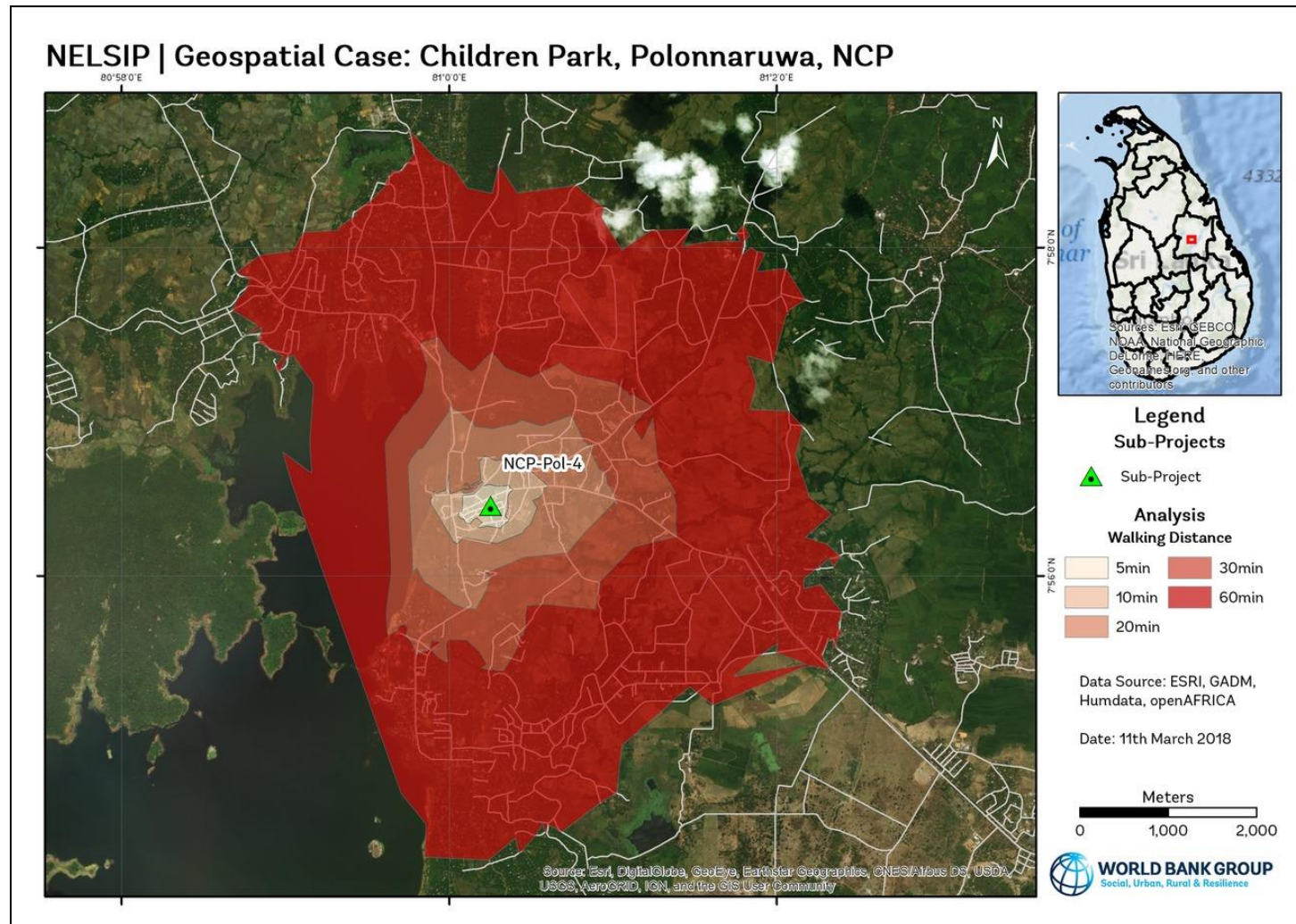
Sub-Project		Service Area within Walking Distance				
		5min	10min	20min	30min	60min
<b>NCP-Pol-4</b>	Children Park	579	1,719	4,052	7,526	34,112
<b>EP-Tri-112</b>	Public Playground	58	145	514	1,610	3,646

The park in Polonnaruwa has a much higher population density within the service area. According to that, around 4,000 and 34,000 people live within a walking distance of 20 and 60 minutes respectively. The public playground in Trincomalee has a population of 514 within 20 minutes and 3,600 people within 60 minutes.



**Figure 7.2. Geospatial Case Study - Vavuniya Park.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.

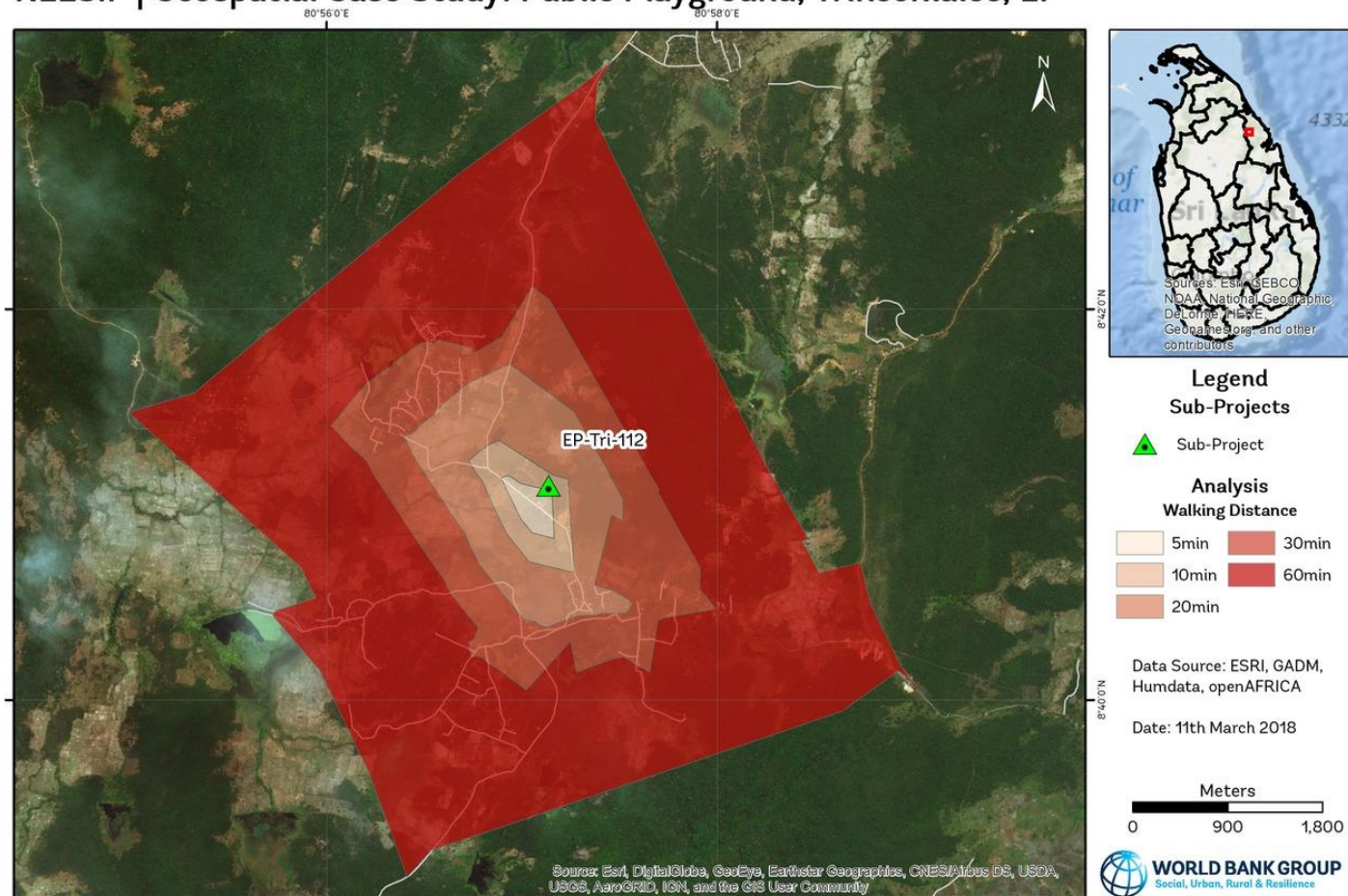




**Figure 7.3. Geospatial Case Study – Children’s Park in Polonnaruwa.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



## NELSIP | Geospatial Case Study: Public Playground, Trincomalee, EP



**Figure 7.4. Geospatial Case Study – Public Playground in Trincomalee.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



### **Access Road reconstruction and enhancement in Mannar, Northern Province**

**Project Description.** More than 60 percent of NELSIP's sub-projects were road related (e.g. reconstruction, resurfacing, as well as metaling and tarring). Before implementation, the roads were often unpaved, prone to flooding, and seasonally inaccessible.

Sri Lanka has roughly three different climate variations: a wet zone in the West, an intermediate zone in the center, and a dry zone in the East. The wet area has a constant rainfall throughout the year, whereas the intermediate zone has two rainfall periods and the dry zone has only one pronounced rainfall period.

It is important to highlight that these climate variations have a direct impact on the accessibility and seasonality of roads. The dry and intermediate zones are prone to sudden and heavy rainfall during the monsoon season. As roads without a concrete or asphalt surface become easily inundated and inaccessible, the construction all-season roads can guarantee year-round accessibility.

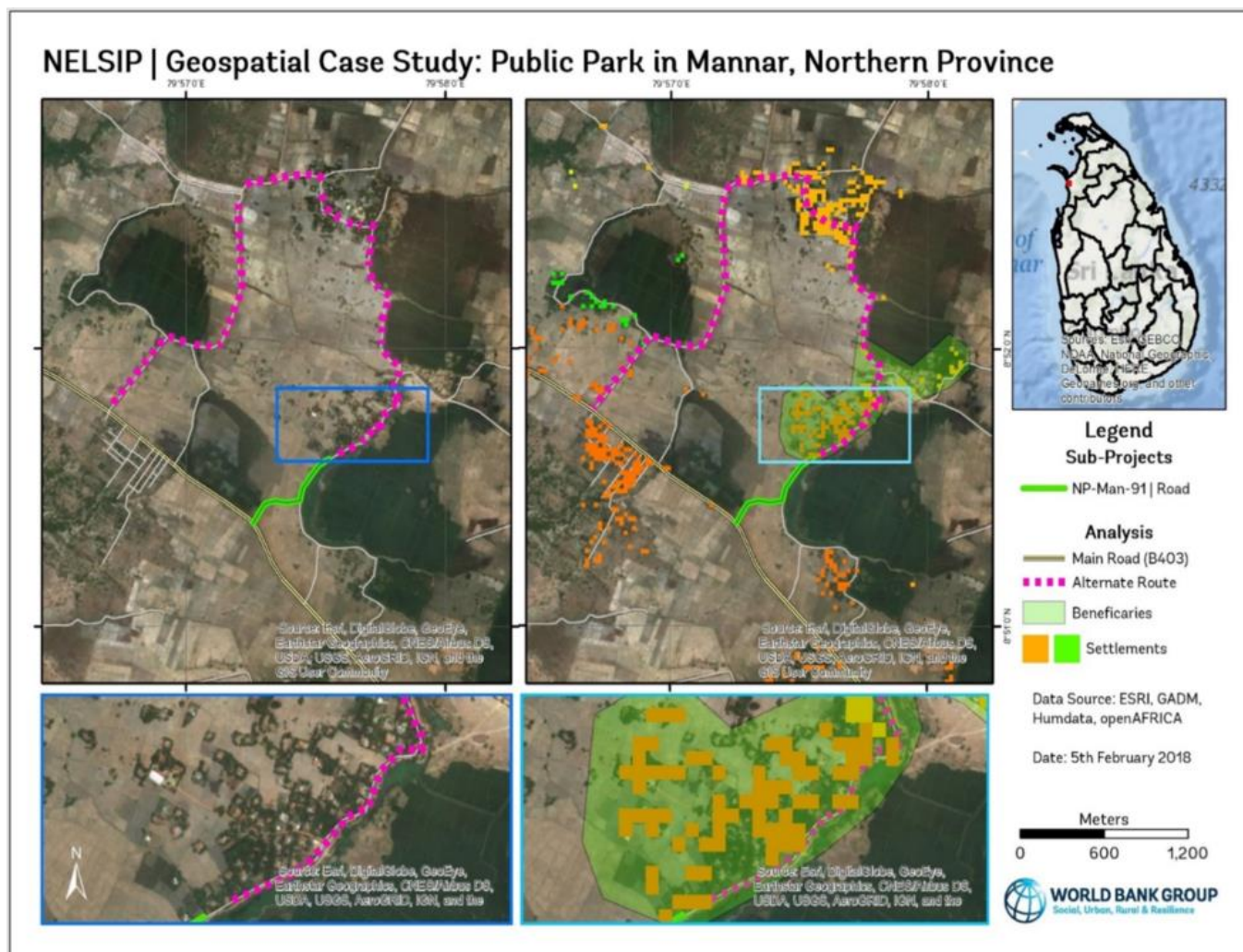
The Mannar Access Road case study showcases the significance of all-seasonal roads for local communities and economic activity. As shown in Figure 7.3, the road connects the village with the main road highway (South-Coast Road (B403)) and the nearby rice paddy fields. Under NELSIP, the road was converted from a dirt road to a paved road and was widened to increase its capacity.

**Project Methodology.** Two spatial calculations were made: the length of the new road as well as the shortest alternative road. Moreover, the population within beneficiary area has been retrieved from the settlement data.

**Project Results.** The analysis shows that the new road is 764m long and therefore much shorter than the alternative route with a length of around 5.17km. Considering the risk of inundated roads during heavy rains, the new roads offers safety, convenience and a reduction in travel time. The road also provides residents with reliable access to their rice paddy fields, particularly during the harvest period.

The population analysis has shown that around 187 residents directly benefit from the improved access of the new road.





**Figure 7.5: Geospatial Case Study - Mannar Access Road.** The green line is the exact location and track of the refurbished road, whereas the pink dotted line is the shortest alternative route from the village to the main road. The main road is shown as the project's potential beneficiaries.



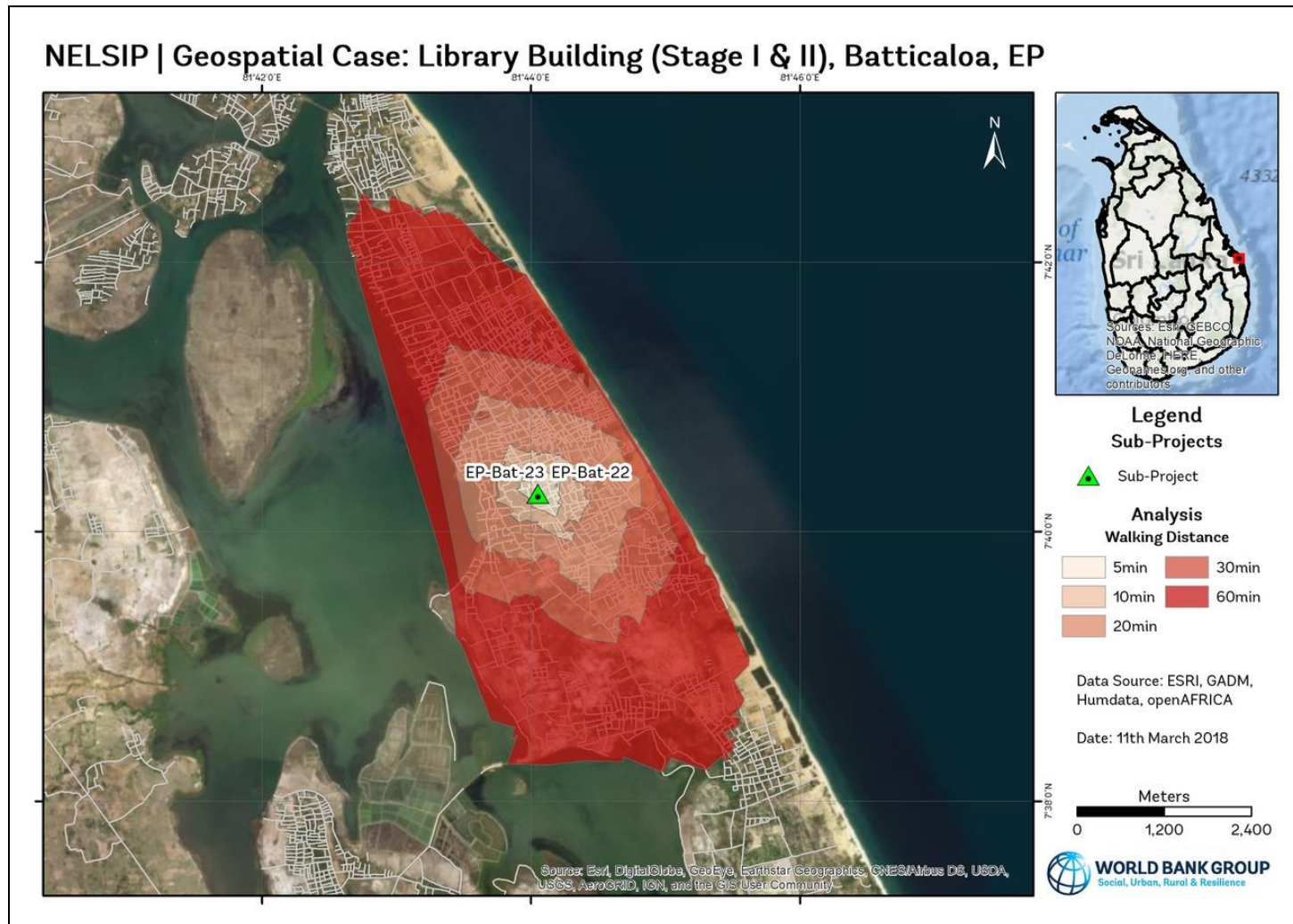
### **Library Buildings in Batticaloa, Eastern Province; Mannar, Northern Province and Monaragala, Uva Province**

**Project Description.** The following four sub-projects depict two libraries in the Eastern Province, one in the Northern Province, and one in Uva Province. Like the parks sub-projects, a network analysis is the most suitable methodology to estimate the service area.

**Project Methodology.** Since libraries normally service the immediate neighborhood and therefore the local town, a network analysis based on the roads has been performed to assess the service area within a reasonable walking distance. Based on a normal walking speed, the service area within a walking distance of 5, 10, 20, 30 and 60 minutes has been modelled and the beneficiary population has been calculated.

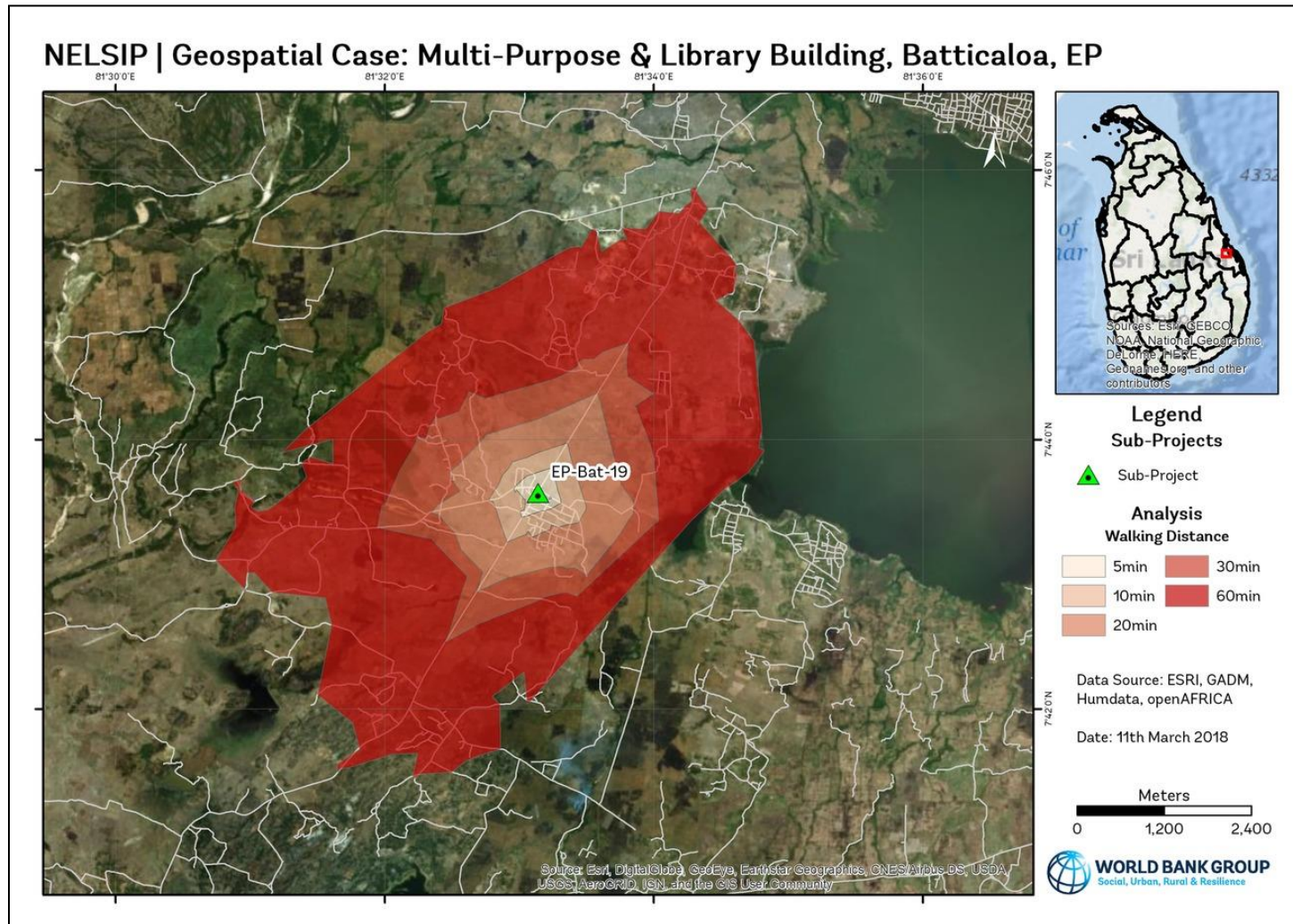
**Project Results.** The analysis shows that there is a large difference in terms of the beneficiary population among the implemented libraries. The sub-project in Mannar (NP-Man-10) and one in Batticaloa (EP-Bat-19) have a service area with relatively few immediate potential beneficiaries and around 3,000 people within 60 minutes walking time. The libraries in Uva (UVA-Mon-2) and Batticaloa (EP-Bat-22/23) have a much larger catchment area, up to almost 75 thousand for EP-Bat-22. For more densely populated areas, the number of potential beneficiaries within walking distance can be much higher.

		Service Area within Walking Distance				
	Type	5min	10min	20min	30min	60min
<b>EP-Bat-19</b>	Library Building	156	349	650	860	2,603
<b>EP-Bat-22/23</b>	Library Building	498	3,769	22,121	44,453	74,964
<b>NP-Man-10</b>	Library Building	86	200	379	1,227	3,003
<b>UVA-Mon-2</b>	Library Building	369	1,197	3,230	6,499	12,899

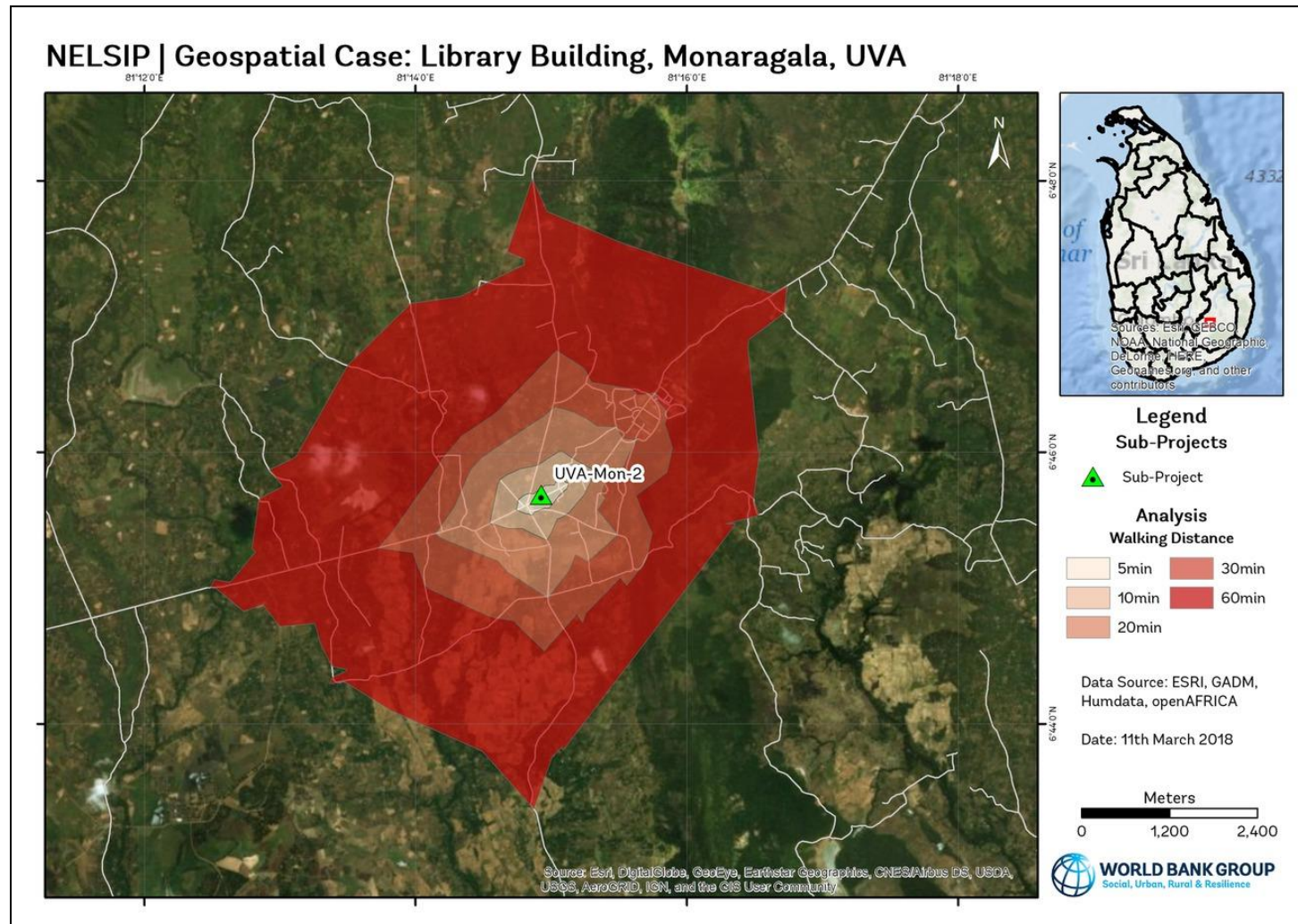


**Figure 7.6: Geospatial Case Study – Library Building in Batticaloa, EP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



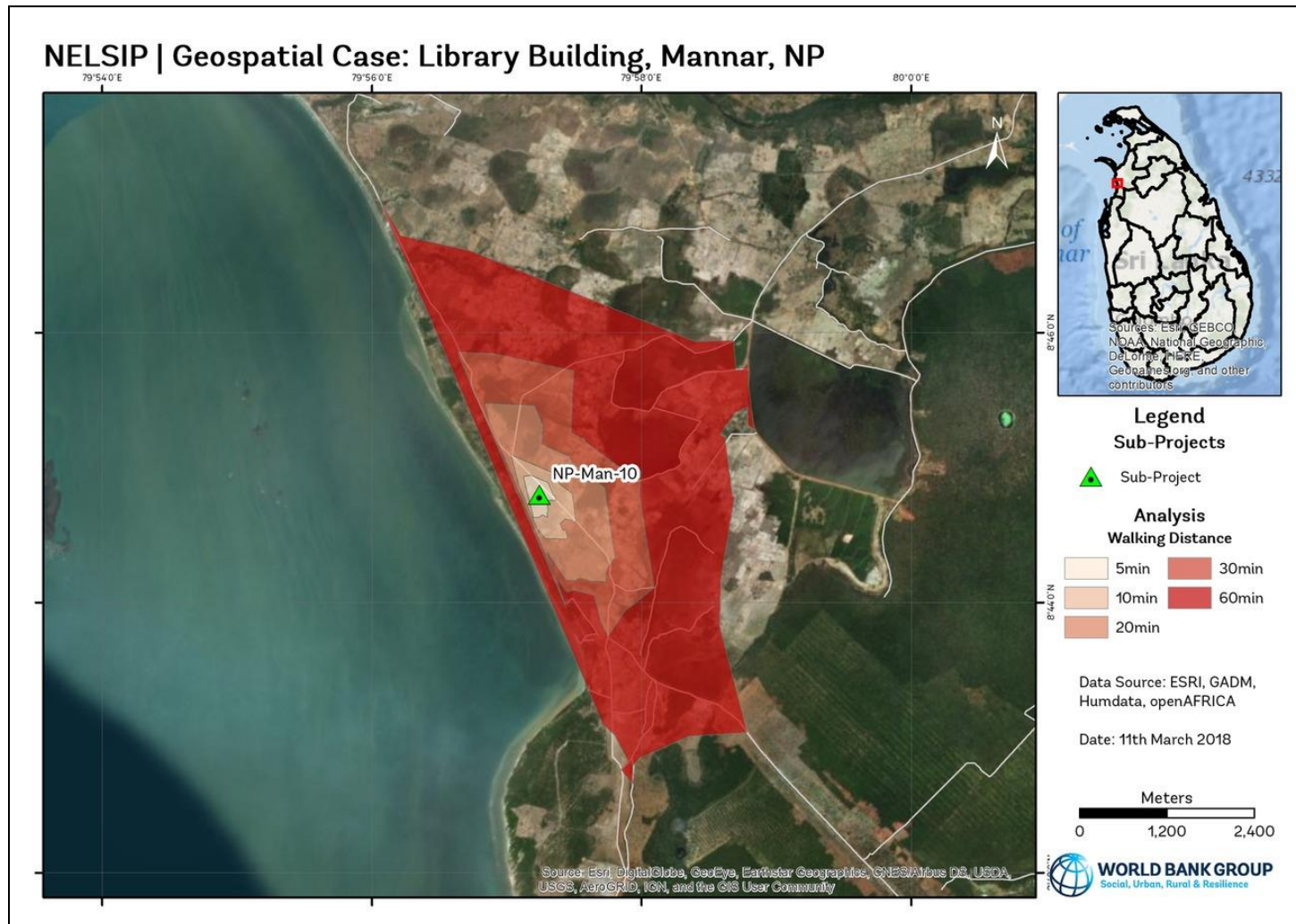


**Figure 7.7: Geospatial Case Study – Library Building II in Batticaloa, EP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



**Figure 7.8: Geospatial Case Study – Library Building in Monaragala, UVA.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.





**Figure 7.9: Geospatial Case Study – Library Building in Mannar, NP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



### **Community and Health Centre in Trincomalee, Eastern Province and School & Day Care Centre in Anuradhapura, North-Central Province**

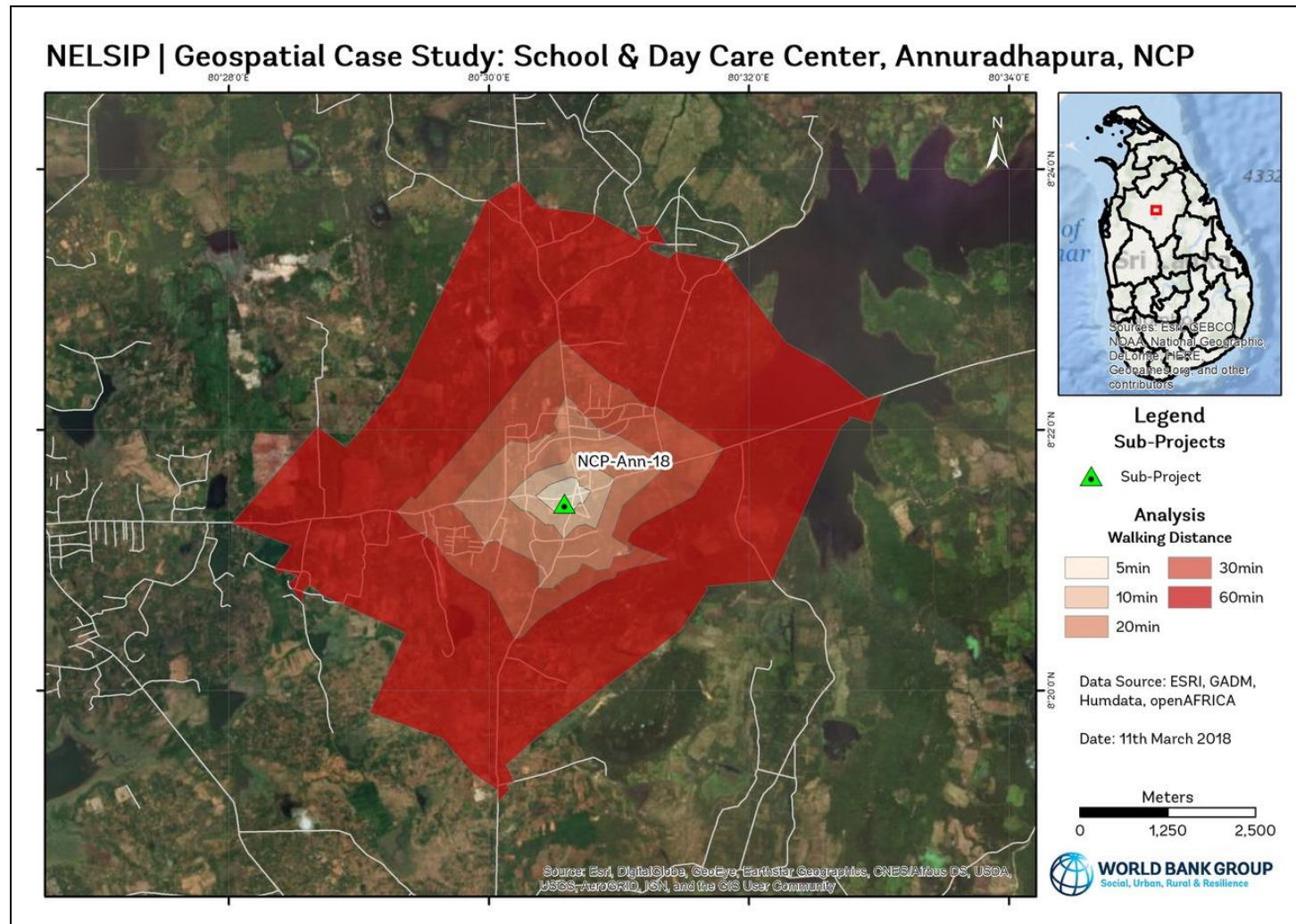
**Project Description.** The following two sub-projects show two social service facilities, a community and health center in Trincomalee and a school and day care center in Anuradhapura.

**Project Methodology.** Similar to the parks and libraries, both sub-projects primarily serve the immediate neighborhood and surrounding communities. Therefore, the same walking distance network analysis approach will be applied.

**Project Results.** The results show that the immediate service (20 minutes walking time) area of the health centers is around 1,600 and 2,900 people respectively. Considering that the health centers are relatively small scale, a larger walking time should not be assumed.

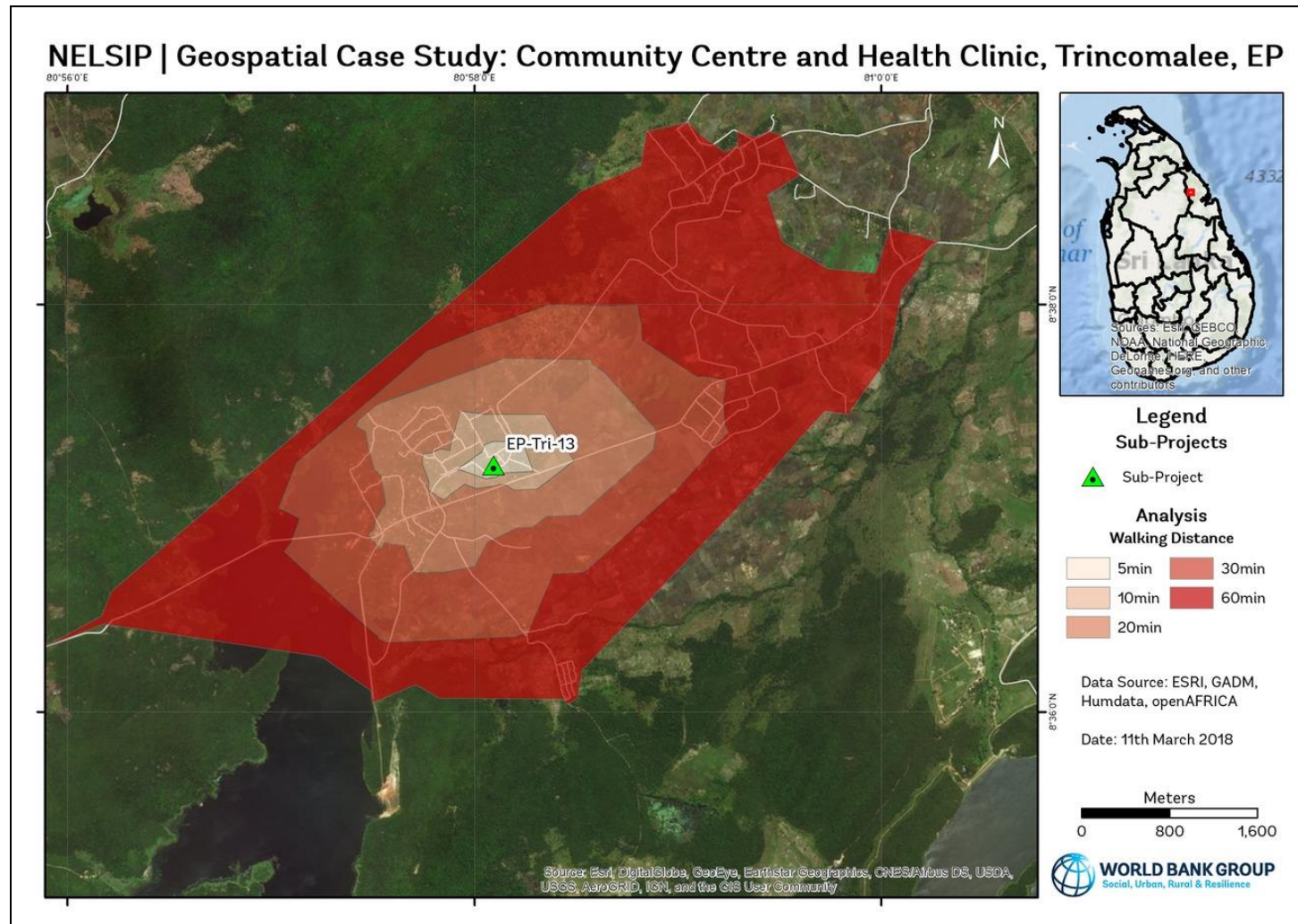
However, additional data such as the demographics of the visitors and their home location, could provide a better understanding of the real service area of health centers in Sri Lanka. Additional analysis of the quality and range of medical services in the individual health centers could also be done to specify the spatial extents of the service area and therefore the beneficiary population.

		Service Area within Walking Distance				
	Type	5min	10min	20min	30min	60min
<b>EP-Tri-13</b>	Community and Health Centre	64	334	1,615	2,188	4,136
<b>NCP-Ann-18</b>	School and Day Care Centre	350	1,068	2,875	5,992	12,154



**Figure 7.10: Geospatial Case Study – School and Day Care Center, Annuradhapura, NCP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.





**Figure 7.11: Geospatial Case Study – Community Centre and Health Clinic, Trincomalee, EP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.



### Ampara Bus Terminal in Ampara, Eastern Province

**Project Description.** The Ampara Bus Terminal is one of the biggest single projects within NELSIP. It has replaced the old, relatively poorly maintained bus stand with a state-of-the-art bus terminal. The new bus terminal consists large and convenient waiting areas, small shops serving the immediate needs of travelers (such as food) as well as a new building with toilets.

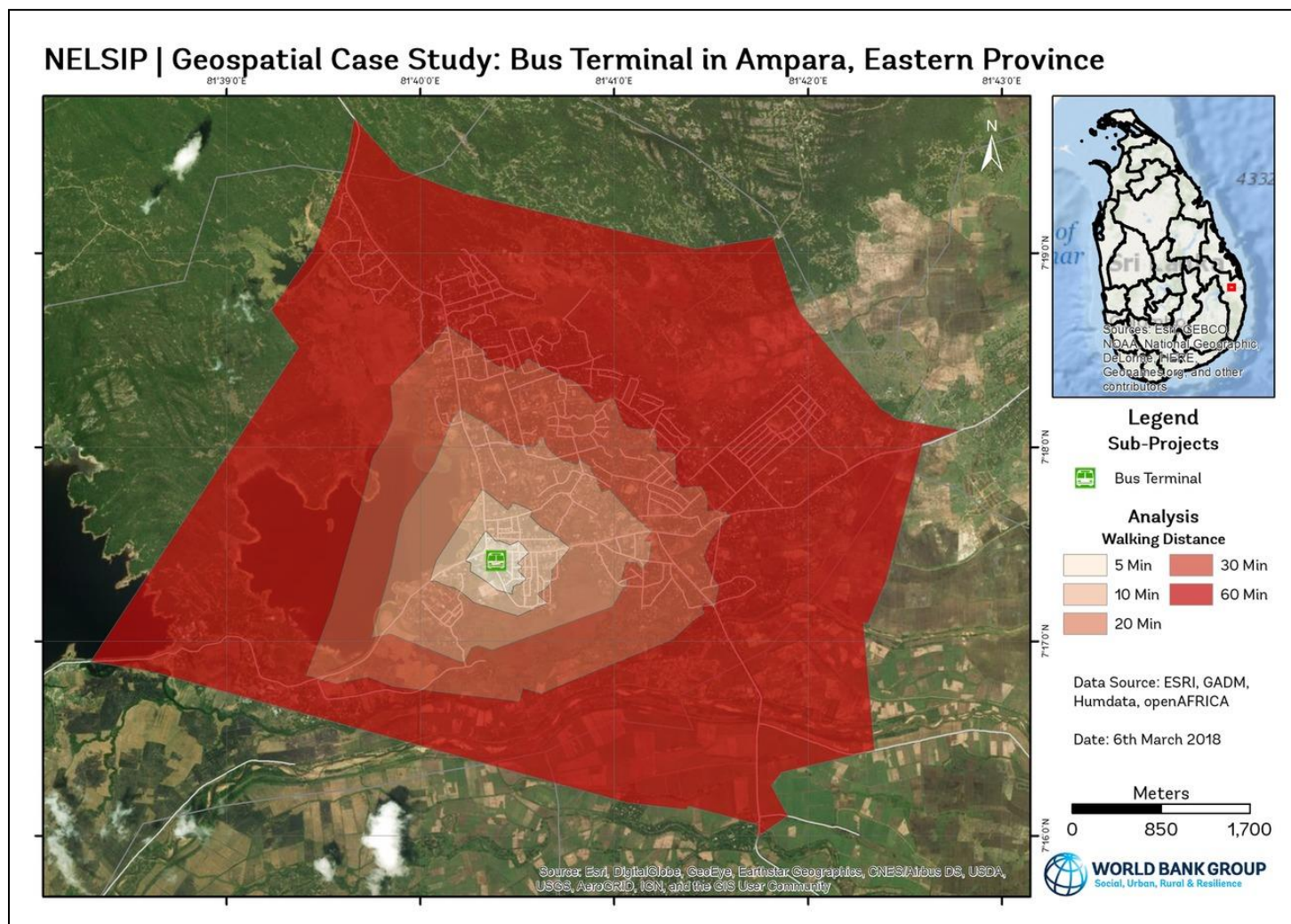
The bus terminal should not be seen as a purely local investment as it connects Ampara with other cities and towns in Sri Lanka, even to Colombo.

**Project Methodology.** The bus terminal is serving a broader population than just its local constituents. With its transit connections to other cities and towns in Sri Lanka, the potential service area is much bigger. Thus, the spatial analysis will not just focus on the service area within a walking distance, but also on a service area within driving times, if motorized transport is used. The spatial analysis has used the network analysis approach for walking and driving distance. The driving distance is defined as the maximum speed for the respective road segment. This ranges between 20 and 70km/h. Even though the traffic conditions in rural areas in Sri Lanka often do not permit the maximum speed, the spatial analysis provides a good indication of the service area if people travel in motorized vehicles.

**Project Results.** The results show clearly that the service area increases significantly if the motorized travel is taken into consideration when estimating the service area. Whereas the service area within walking distance is accounting for around 25,000 people, the service area is approximately 114,000 within 20.

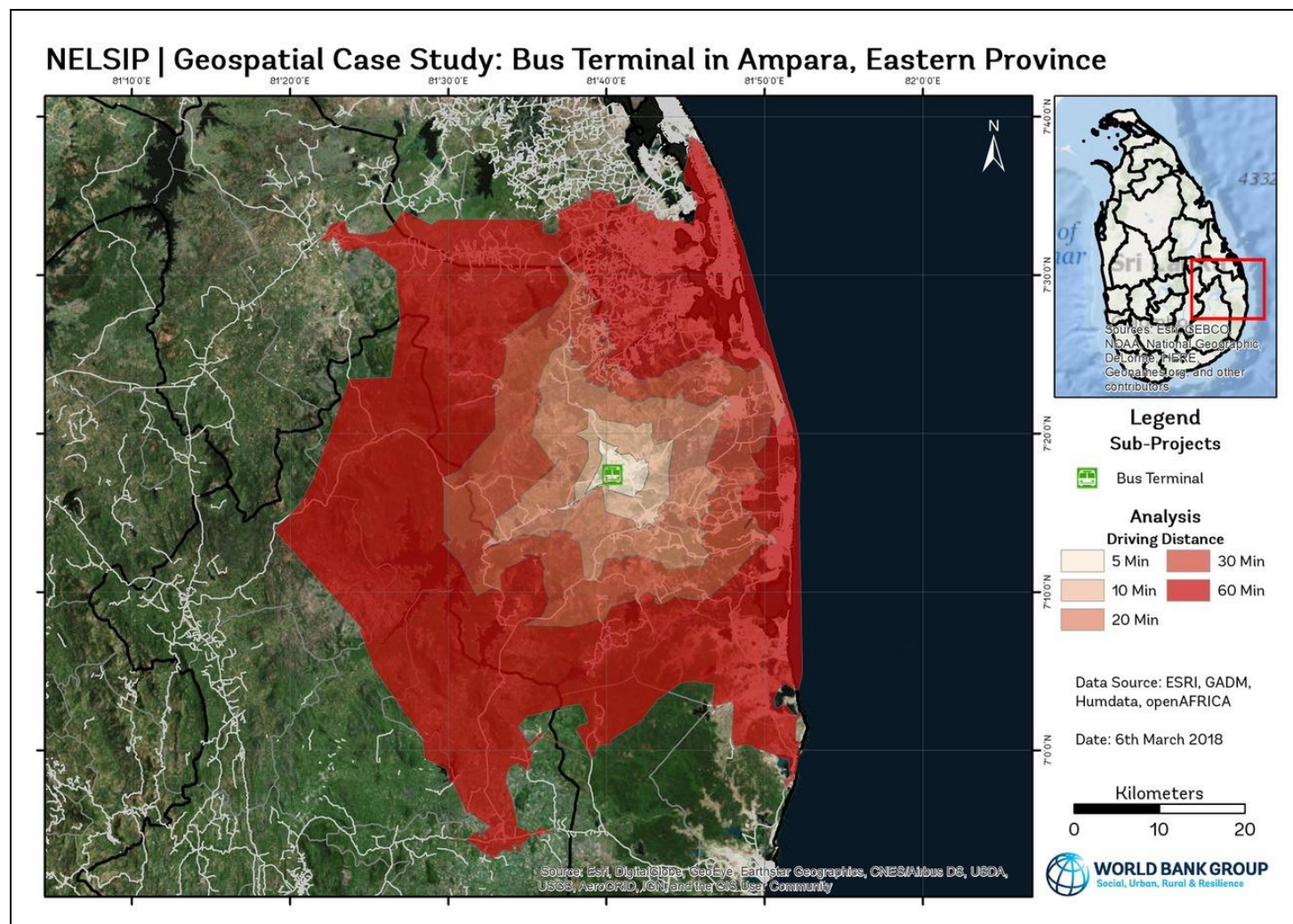
		Service Area within Walking Distance				
	Type	5min	10min	20min	30min	60min
<b>Ampara Bus Terminal (Walking)</b>	Bus Stand	635	2,161	6,219	13,385	25,360

		Service Area within Driving Distance				
	Type	5min	10min	20min	30min	60min
<b>Ampara Bus Terminal (Driving)</b>	Bus Stand	24,916	38,198	114,024	293,546	661,267



**Figure 7.12: Geospatial Case Study – Bus Terminal, Ampara, EP.** The red area shows the service area, depending on the walking distance in minutes. The darker the red, the higher the walking distance.





**Figure 7.13: Geospatial Case Study – Bus Terminal in Ampara, EP.** The red area shows the service area, depending on the motorized driving distance in minutes. The darker the red, the higher the driving distance.



### Recommendation for future projects

The geolocation of the sub-projects and the spatial analysis was completed at project completion with little baseline data. Therefore, the spatial analysis was limited to population calculations and service area estimations. With respect to the potential of spatial analysis, there is much more potential if the spatial data and analysis plays a role from the beginning.

For instance, if the location of social services such as schools or hospitals would have been collected during the project phase, the spatial analysis could have provided more meaningful and implementation-based results. A very important example is the Ampara bus terminal and its major upgrade. If data on destinations, travel patterns and impact on the local economy had been collected before and after the implementation, a geospatial analysis could reveal if the travel patterns of the users have changed or if the service area of the terminal has increased due to a higher convenience. That would have not just been a result for this ICR, but also an important analysis for the planning of the sub-project.

However, the provided case studies show the value and potential of spatial analysis for infrastructure projects and particularly the monitoring and evaluation of these projects. If spatial analysis is incorporated into project design, including pre- and post-implementation assessment and data gathering, it can play a crucial role in assessing the benefits of infrastructure projects.

Future projects should be designed in a way that a comprehensive geospatial analysis is possible, additional data is collected and geodata such as roads, climate or economic data is attached to the project database.





## ANNEX 7. BACKGROUND AND SUPPLEMENTARY STUDIES

**Effectiveness of Community Center in Local Development. May 2017.** The report presents the results of an assessment of the effectiveness of community centers, including social auditing and the potential for undertaking a role in maintenance of the assets created by NELSIP.

**Gender Integration Assessment Report. August 2017.** The Assessment was conducted at the time of Project closing. It evaluated the initiatives introduced under NELSIP and their impact by studying a sample of 33 LAs in 12 districts across the 5 Provinces.

**Local Government Finance Study. May 2016.** The study identified how the overall system of local government finances should be improved.

**Public Satisfaction Survey on Local Authority Services in Northern and Eastern Provinces. August 2017.** A citizen report card to measure citizen satisfaction with LA services in the Northern and Eastern Provinces.

**Rapid Social Survey. June 2016.** This assessment provided inputs to develop a system to monitor and ensure social safeguards compliance. The survey aimed to provide an overall independent assessment of addressing social safeguard issues in proposed sub-projects.

**Social Impact Assessment Study of the “Pura Neguma” Interdivisional Small Development Initiative for the North and East. July 2014.** The Study provided an overall assessment of social impacts of the project interventions in term of social development, institutional capacity building and service delivery and identified lessons in order to improve strategies and effectiveness in local service delivery.

**Strategic Social Assessment of the Conflict Affected Northern and Eastern Provinces. August 2017.** The Strategic Social Assessment looked to inform programmatic engagement in these two provinces. The assessment was made up of six background studies: on (i) the provincial economies and economic structures of the North and East; (ii) labor force dynamics; (iii) demographic changes and impacts on vulnerability; (iv) psychosocial assessment of the needs of the local population; (v) community and social institutions; and (vi) livelihoods.



## ANNEX 8. LESSONS LEARNED

**GoSL produced a comprehensive multi-lingual Lessons Learned document in August 2017 as the project closed. The key lessons from each section are reflected here.**

1. **Participatory Planning.** LAPDP is an effective instrument for citizens to participate in strategic local development planning and understand perspectives of political leaders and technical and administrative officers. Transparency and accountability of these leaders and officers is enhanced through events/workshops organized at the village, cluster and divisional levels. Local ownership is fostered through LAPDP.

LAPDP can be further improved through inclusion of diverse groups, marginalized groups, and more institutions to enhance voicing and participation and for greater equity in decision taking on the one hand and through instituting feedback to the village level from the cluster/GN level and LA level where the identified village priorities are reviewed and decisions are taken regarding inclusion in LAPDP. LAPDP could be evolved into a divisional level development plan which includes but is not limited to the mandate of LA. Towards this end, the original village development plan may be retained and elaborated. Political will is critically important for the success of LAPDP.

2. **Participatory Monitoring Mechanisms: Social Auditing.** Social Auditing adds value to the BO as a conduit to attract community participation in ensuring quality of LA services and increase LA transparency and accountability and public confidence. The SACs made positive changes in rural development governance in a post-conflict context where it is a challenge to build public confidence in local government and in a social context where politicians are generally accused of corruption and lacking the long-term vision and skills to lead. The positive impacts of SAC are such that the committee members and the LAs should be prepared to sustain this mechanism beyond the project period to ensure adoption of the skills and experiences gained in social auditing for all future projects. The CBO Constitution should be amended to enable SC functioning as an autonomous unit.

3. **Financial Management, Procurement and Contract Administration.** Where NELSIP introduced the project financial management system and asked LAs to follow it, the target seemed like a dream that could never be fulfilled. However, after the staffs were trained in procurement and contract administration and assigned responsible work opportunities with hand holding support, they were beginning to feel responsible and were beginning to feel dignified. Most of them worked with some kind of authority and commitment, and kept files, minutes, records etc. in a very orderly manner and have developed professionalism in their work. The elected members of the LAs found that their position and social esteem strengthened, and that demonstrated commitment to the work together with office staff takes the institution and the personal image of leaders to great heights.

4. **Grievance Redress Mechanism (GRM).** People's participation could be obtained to ensure LA good governance practices provided there are transparent, impartial and efficient mechanisms in place with easy access to air their grievances and have them resolved. Then the people are made aware of their rights on environmental, social and ethical good practices which are supposed to be followed by



the LAs.

5. **Project Design, Implementation, and Institutional Arrangements.** A well thought out project design and novel approach, coupled with implementation mechanisms organized by co-opting the existing institutions and coordinating mechanisms with relevant modifications is capable of achieving the aims and objectives of the project in addition to reaching higher goals of furthering decentralization and good governance even in a complex-ridden post-conflict context.

6. **Communication.** While the project was conceived and implemented to improve local service delivery and governance system assuring accountability, transparency and citizen engagement, it was clear that the first challenges was to bring credibility to the system and convincing people. Experience showed that an effective communication strategy involving many and varied tools and techniques are essential for realization of the goals, objectives and outcomes, including for familiarization with project procedures and guidelines. The beneficiaries and project officers responded to the opportunities provided by the project with creativity and in varied ways for communication. Still, convention and person-to-person and direct communication appeared to be the most familiar and commonly pursued method. The first challenge was to bring credibility to the system in a convincing manner.

7. **Sustainability.** NELSIP improved institutional frameworks and capacities, human resources and skills enabling significant development in effective management of resources and citizen engagement. This experience shows that sustainability requires transfer of good practices and lessons learned not only from donors and national and provincial ministries but also horizontally from each other at the local level. In the particular socio-political context of the country special efforts are needed to facilitate the LAs in difficult areas. NELSIP confirmed that local service delivery improvement can be sustained with demonstrated commitment and support from the national and provincial levels that occurs when the initiative is also “owned by the authorities above the local level.

It would be a challenge for the citizen groups to continue being engaged in LA affairs as volunteers in the absence of major projects such a NELSIP that provided conditions and incentives for community participation and oversight. It is worthwhile exploring how these processes can be continued with and the citizens motivated to remain engaged.

Public-private partnership – an excellent area for sustainability and citizen engagement – remains an area worthwhile exploring.



ANNEX 9. PROJECT GEOGRAPHIC AREA

