

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC12943

Project Name	Water Supply and Sanitation Improvement Project (P147827)
Region	SOUTH ASIA
Country	Sri Lanka
Sector(s)	General water, sanitation and flood protection sector (100%)
Theme(s)	Other rural development (75%), City-wide Infrastructure and Service Delivery (25%)
Lending Instrument	Investment Project Financing
Project ID	P147827
Borrower(s)	DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
Implementing Agency	National Water Supply and Drainage Board
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	03-Sep-2014
Date PID Approved/ Disclosed	31-Oct-2014
Estimated Date of Appraisal Completion	30-Jan-2015
Estimated Date of Board Approval	19-May-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

A. Country Context

Sri Lanka, with a population of 20.3 million and annual per capita income reaching US\$ 3,000, is considered a lower middle income country. With the cessation of the three-decade long civil war in 2009, Sri Lanka is poised to accelerate its social and economic development, ensure provision of better quality public goods and services, and develop conflict-affected and other economically lagging districts of the country. The Government's vision, articulated in the document Mahinda Chinthana: Towards a New Sri Lanka, envisages that by 2020 every Sri Lankan family will enjoy decent and healthy living conditions. With economic growth of 7.3 per cent in 2013, Sri Lanka aims for a sustained and inclusive economic growth rate above 6 per cent per annum and per capita GDP of US\$ 4,000/year by 2016.

At the same time Sri Lanka faces several challenges such as: persistent inequalities and pockets of poverty in lagging regions, plight of vulnerable groups including displaced peoples and those working in the Plantation sector, persistent malnutrition across all segments of the population, and emergence of a new form of Chronic Kidney Disease of uncertain etiology (CKDu) with public health implications for the country.

Sectoral and Institutional Context

B. Sectoral and Institutional Context

Sri Lanka has met the MDG goals in terms of access to improved water supply and sanitation (See Table 1 in attached PCN Document). The Household Income and Expenditure Survey (HIES) 2011 presents sector data according to sub-sector (See Table 2 in attached PCN Document). There are three sub-sectors: Urban Sub-sector (primary and secondary cities/towns and communities with population in excess of 6,000); Rural Sub-sector (low density village areas); and Estates Sub-sector (Plantations with small yet high density cluster communities). The quality of service is the lowest in the estate sub sector where over a million people reside in comparison to relatively commendable figures for the region in the rest of the sectors.

Lack of access to improved water supply and sanitation has multi-sectoral impacts. Causes of persistent malnutrition include poor hygiene habits, lack of access to clean water as well as affordability of food. Progress in reaching the MDG goals for malnutrition and child mortality is therefore linked to progress in improving water supply and sanitation in the country. At the same time, and to reinforce the importance of water and sanitation in development, it has been reported by WHO that both malnutrition and inadequate water supply and sanitation are linked to poverty.

Sector Institutions. The planning and management of the WSS sector lies with a number of ministries at the national level as indicated below:

Ministry of Finance and Planning (MoFP) - Formulate overall economic/fiscal development policies and strategies. Allocates funds through the MWSD and directly to provinces for WSS service delivery.

Ministry of Water Supply and Drainage (MWSD)- Formulate policies, laws, regulations and legislations on drinking water and sanitation. Coordinate among sector partners, monitor fund utilization and negotiate for financing. Approve implementation of major and minor development projects and program.

Ministry of Provincial Councils & Local Government (MyPC&LG) -Provide supportive services for Provincial and Local Government sectors. Implement policies, plans and programs in respect of provincial councils and local governments. Provide or on-lend grant/loans to local authorities for public utility works.

Ministry of Health and Nutrition (MoH) -Protect public health through surveillance of health based on water quality measures; Prevent outbreak of diseases due to poor sanitation.

Ministry of Economic Development-Has been involved in implementing social development programmes including rural water supply schemes.

In terms of service delivery the National Water Supply and Drainage Board (NWSDB) under the purview the MWSD is the lead agency providing pipe-borne water for the urban population supplemented by the municipal and local authorities servicing a limited number of secondary cities and towns. Most urban sanitation is on-site but NWSDB provides piped sewerage to the outskirts of Colombo (the Municipal Council is responsible in the core city area) and is responsible for

designing and constructing the sanitation system for the city of Kandy.

The majority (about 85%) of the rural population sources its water supplies from point sources although there are a growing number of piped schemes to meet demand for higher levels of service and to address particular water quality/quantity problems. The piped rural water supply (RWS) schemes are almost exclusively managed by the Community Based Organizations (CBOs) or Water User Associations (WUAs). Rural Sanitation is normally a pit latrine with septic tanks constructed in more densely populated areas. The National Community Water Trust (NCWT) helps support the communities operating the rural water supply schemes alongside the Pradisha Sabhas and in some cases the NWSDB.

The typical arrangement for water supply to the estates sector is by small gravity piped supplies to serve up to 125 families supplemented by dug wells, wells with hand pumps, and rainwater harvesting. Sanitation is on-site latrines but there are many reported instances of water source pollution due to unsanitary latrines used by the plantation communities. Schemes are typically managed by the Plantation Companies with support from the Plantation and Human Development Trust (PHDT). Funds to develop water and sanitation facilities are mostly provided by the PHDT supplemented by the Plantation Companies.

Sector Policy and Strategy. Major sub-sector policies in water supply and sanitation are presented in Table 4 below and are a reasonable framework within which the sector operates.

National Water Policy- Water Resources Council/Water Resources Secretariat. Approved in 2000. Priority for drinking water over other uses. All water resources development to include all aspects of water

National Policy for Rural Water Supply & Sanitation Sector- Ministry of Urban Development, Construction & Public Utilities. Approved in 2001. Adopted by World Bank supported Community WS&S project (CWSSP)

National Policy for Rural Sanitation-Ministry of Urban Development & Water Supply. Approved 2006. Adopted by CWSSP

National Drinking Water Policy- Ministry of Water Supply and Drainage. Approved in 2010

National Sanitation Policy. Ministry of Water Supply and Drainage. Draft submitted for Cabinet approval in 2012

The Government's vision, as articulated in the Mahinda Chinthana (MC), sets targets for the water sector to provide access to safe drinking water for all citizens over the medium term with a particular emphasis on increasing the quality of service (increasing the proportion of people served through piped water and sewerage systems). The MC also outlines nine policy directions for the sector covering issues of financing sustainability, mobilizing alternative sources of investment funds, enhancing institutional performance and engaging with the private sector.

Emerging Issues. The key issues facing the water and sanitation sector are as follows;

- a) Sustainability of rural water supply schemes reflects inadequate attention to post-construction activities. The sub sector needs to develop institutional arrangements to support the CBOs both technically and administratively. Governments at central and Provincial level recognize this need and various attempts are being made to improve the situation. Lack of good quality data and systemic monitoring and evaluation (M&E) on the sub-sector exacerbates the situation.
- b) In the estates sub sector the most appropriate institutional model is still unclear. Earlier Bank

supported projects have attempted to use community based models in the estates sector but with limited success. Given the low quantity and quality of water supply and sanitation (WSS) services in the estates this is a critical shortcoming.

c) In the urban sector the NWSDB has a good track record of delivering quality service but it struggles financially and needs to review its institutional arrangements to ensure it is oriented to meet the ever growing and conflicting demands made on it.

d) Across all sub-sectors the sustainability of water resources is becoming a major challenge - both with respect to quantity and quality of raw water and the need for environmental protection of water sources. Urbanization, increasing levels of source pollution, watershed/source degradation, increasing seasonal variations in the river flows, salinity intrusion, and CKDu are all putting pressure on water quality while a lack of mechanisms for water allocation impacts availability.

Relationship to CAS

The proposed project is aligned with the Country Partnership Strategy (CPS) FY2013-FY2016. The project will increase equitable delivery of water supply and sanitation services in urban, rural and estate areas. It thus supports one of the CPS's three Focus Areas - Improving living standards and social inclusion through: (i) Increasing quality of services; (ii) Reducing the prevalence of malnutrition; and (iii) Expanding social inclusion and equitable access.

The proposed project will support development in the lagging regions and the estates sector where access to WSS is lower and poverty level is higher than national average. Thus it will also support the World Bank Group Corporate Goals on poverty reduction (reduce the percentage of people living on less than \$1.25 a day to 3 percent by 2030) and shared prosperity (foster income growth for the bottom 40 percent of the population in every country).

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The development objectives of the project will be to increase access to sustainable piped water services and sanitation, and to improve hygiene behavior, in selected Districts in the country.

Key Results (From PCN)

Achievement of the PDO will be monitored using the following indicators:

- a) Number of people provided with access to "Improved Water Sources".
- b) Number of people provided with access to "Improved Sanitation".
- c) Number of people trained in improved hygiene behavior or sanitation practices.

III. Preliminary Description

Concept Description

A. Concept

The project supports the Government's Mahinda Chinthana vision to expand piped water supply to 60% of the population by 2020. In doing so it builds on the experience of two earlier World Bank financed rural water supply and sanitation projects, and on two recently completed NLTA studies which, together, support a more integrated approach to water and sanitation service delivery in the country.

The World Bank supported Sri Lanka with two consecutive Community RWSS Projects during 1992-2010. The 1st CWSSP for US\$ 24.3 million was closed on December 1998 with satisfactory

rating. The 2nd CWSSP for US\$ 39.8 million was closed on December 2010, with moderately satisfactory rating on the account that only about 55 percent of the revised connections target was achieved – although the project was fully disbursed at closing. Under the two projects, over 1.4 million people were provided access to safe water through construction of rural schemes, and close to 120,000 latrines were constructed. The lessons learned from these two projects as well as those implemented by the Asian Development Bank (ADB) are:

- Continuous technical and management backstopping support to the CBOs during the project period and the post-construction period is instrumental in long term sustainability of the CBO managed schemes.
- Communities require close support from Partner Organizations until their CBO reaches a minimum degree of maturity to handle O&M of the schemes post construction.
- Diligent investigations of groundwater sources, particularly in the dry zone, should be conducted to ensure quality and yield of the water sources throughout the year. Clustering subprojects around surface water sources should be considered.
- Asset ownership and legal status of the CBOs need to be defined and enforced to strengthen the CBOs' legal standing thus enabling them to confidently address tariff revision and collections issues.

The NLTA study on the Estates sub-sector highlighted the low quality of services in the estates and the challenges of organizing communities to take responsibility for water and sanitation services. The study also identified the more complex institutional arrangements in the estates where the PHDT, plantation companies and the Estate Workers Housing Cooperative Societies (EWHCS) have to work together to deliver sustainable services.

The second NLTA study, which assessed the delivery of the MC water sector goals, identified challenges of mobilizing funds, increasing the financial sustainability of the NWSDB, and the likely blurring of traditional divides between rural and urban as the rural areas develop and service delivery methods converge towards piped systems expected in a middle income country. Issues of water resources were identified as possible constraints going forwards. As a consequence the study proposed that the sector be developed in a more integrated manner with Province-wide planning and development covering urban, rural and estates sectors, whilst allowing different methods of service delivery in each of them.

The project design builds on the above, incorporating key lessons learnt. It will cover all sub-sectors – urban, small towns, rural and estates. The basic building block for project engagement will be the District – in line with the organizational structure of the project counterpart (NWSDB) and administrative structure in the country. Within selected Districts the project will support investments across all sub-sectors, implemented by NWSDB, but with service delivery arrangements appropriate for the sub-sector. The PHDT and estate companies will support service delivery in the estates, the CBOs and NCWT in the rural areas, and the NWSDB in the towns/ urban areas.

The selection of the participating Districts is crucial. The project will cover up to seven high priority Districts for infrastructure investments depending on the District profile, needs and demand as well as the Government priorities in the District. The high priority Districts have been selected in consultation with National Planning Department (NPD), MWSD and the NWSDB based on three criteria: (i) % of people with access to unimproved/unsafe water; (ii) % of households with access to non-piped water source; and (iii) Districts in the dry zones. (Annex 4 presents the details on selection process). Poverty - measured by the poverty head count - has a strong correlation with

access level and is therefore implicitly captured in the District selection process. Additional prioritization assessments, specifically including the Poverty Head Count Index (the percentage of population below the poverty line), did not materially change the priority Districts. The seven priority Districts in four Provinces are:

- Mulathivu and Kilinochchi Districts in Northern Province
- Nuwara Eliya District in Central Province
- Badulla and Monoregala Districts in Uva Province
- Kegalle and Ratnapura Districts in Sabaragamuwa Province

It should be noted that Central Province is home to some 54% of the estate population in the country. This is important given that the estate poverty headcount index at 11.4 is more than double that in urban areas (5.3) and 20% higher than in rural areas (9.4) according to the 2012 statistics.

Within the priority Districts the sub-projects will be selected based on considerations of equity (as between Districts and sub-sectors) and on revealed demand (for rural and estates sub sectors).

1. Description

Component 1 – Water Supply and Sanitation Infrastructure (\$132m indicative)

This component would finance infrastructure investments to support expansion of piped water services, in urban and rural areas in the high priority districts. Within the urban sub-sector the focus will be on towns given that the Government has a number of projects already planned for the larger urban centers. Some rehabilitation of existing systems would be included.

In Central Province investment will focus on piped water supplies in estates and adjoining rural villages. From experience of earlier pilots in the estate sector some of the key issues to be considered include: (i) Capacity of the estate workers to manage the schemes, and alternatives in the event of low capacity/interest; (ii) Roles of the different parties in O&M – the Board, the plantation owners, the community, the PHDT and the Estate Workers Housing Cooperative Society (EWHCS).

Sanitation improvements would be included in all sub-sectors using appropriate models in line with current government policy. In towns this will likely include the provision of district level septage treatment plants and bowsers, in rural areas this will likely be pit latrines, and in the estates sub-sector community toilets.

Component 2 - Technical Assistance for Sector Capacity Building and Sustainability (\$10m indicative).

The project will support a range of technical assistance for capacity building and to improve long term sustainability of investments made by the Government. These will include:

National Program to develop a strategy to mitigate the aggravating effects of drinking water quality on CKDu - The root cause of CKDu remains unclear but water supplies which are hard or fluoride contaminated appear to exacerbate the disease. The TA would include: (i) preparation of a Water Quality Mapping to map out the ground water quality assessments at the district levels nation-wide, which will help to identify possible risk areas in relation to the spread of CKDu in the Island; and (ii) preparation of a National Strategy to respond to CKDu threat; which include developing a risk rating system (based on the water quality mapping) and assessing different technical and cost

effective approaches (e.g. Rain harvesting, bowers, RO).

Improving Sustainability of Rural and Estate Water Supply - This TA would address three key elements:

- o Sustainability of rural water schemes to ensure that CBO managed schemes are kept functional for their full economic life through a range of initiatives including: (a) administrative backstopping to CBOs; (b) technical backstopping; and (c) a system to help the CBOs solve problems on their own.
- o Monitoring and Evaluation (M&E). Survey of CBOs/WUAs functionality, and preparation of a data base and M&E system for same-time monitoring and reporting of CBOs functionality.
- o Sustainability of estate sector schemes. Designing an approach to ensure long term sustainability in the estate schemes through appropriate financing and institutional arrangements.

Capacity Building for the NWSDB - The Board is now 35 years old and there is a need to confirm whether the current structure is still relevant given changes in the sector. The latter include increasing pressures to decentralize, to provide opportunities to staff, and to create a more entrepreneurial and incentivized management/staff. Financial analyses will be undertaken to assess the long term financial performance of the Board, institutional and regulatory aspects of the sector, and identification of options to improve as needed.

TA Support to the Department of Community Water Supply - The newly established Department of Community Water Supply can play a key role in the sustainability of RWS, and the project will provide support to enhance the capacity of this Department and help with formulating an institutional framework and operational strategy to help sustain the RWSS investments.

Preparation of a Water Supply and Sanitation Sector Program – The project will provide financial and technical assistance for the preparation of a program to improve water supply and sanitation across the island. This will allow GOSL to address the gaps and strategically invest in the sector through a programmatic approach which can be financed by local or foreign funds.

Component 3 - Project Management Support. (\$8m indicative)

This component will finance administration and management during implementation.

Component 4 - Contingency Emergency Response (US\$ 0 million).

In case of an adverse natural event that causes a major disaster, the government may request the Bank to re-allocate project funds to this component in support of emergency response and reconstruction.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	

Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12			x
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	150.00	Total Bank Financing:	143.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			143.00
Local Communities			7.00
Total			150.00

VI. Contact point

World Bank

Contact: Shideh Hadian
 Title: Senior Infrastructure Economist
 Tel: 458-2666
 Email: shadian@worldbank.org

Borrower/Client/Recipient

Name: DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
 Contact: Mr. Ajith Abeysekera
 Title: Addl. Director General, External Resources Department MOFP
 Tel: 94-11-2484698
 Email: ajith@erd.gov.lk

Implementing Agencies

Name: National Water Supply and Drainage Board
 Contact: B W R. Balasuriya
 Title: General Manager, Water Board
 Tel: 94-11-2635990
 Email: gm@waterboard.lk

VII. For more information contact:

The InfoShop

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The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>

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