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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Fourth Session

Rome, 18-20 April 2005

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR THE

POST-TSUNAMI LIVELIHOODS SUPPORT AND PARTNERSHIP PROGRAMME

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE TSUNAMI-AFFECTED AREAS	iv
LOAN SUMMARY	v
PROGRAMME BRIEF	vi
PART I – BACKGROUND AND CONTEXT	1
A. Impact of the Tsunami	1
B. IFAD’s Response	2
C. Dry Zone Livelihood Support and Partnership Programme	3
PART II – THE PROGRAMME	4
A. Programme Area and Target Group	4
B. Objectives and Scope	4
C. Components	5
D. Costs and Financing	5
E. Procurement, Disbursement, Accounts and Audits	6
F. Organization and Management	7
G. Economic Justification	7
H. Risks	8
I. Environmental Impact	8
PART III – LEGAL INSTRUMENTS AND AUTHORITY	8
PART IV – RECOMMENDATION	8
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	9
APPENDIXES	
I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN SRI LANKA	2
III. RESPONSIBILITIES, METHODOLOGY OF THE URBAN DEVELOPMENT AUTHORITY IN REHABILITATION AND RECONSTRUCTION OF TSUNAMI-AFFECTED AREAS	3

CURRENCY EQUIVALENTS

Currency unit	=	Sri Lankan rupee (LKR)
USD 1.00	=	LKR 99.85
LKR 100	=	USD 1.0015

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre	=	0.405 ha
1 hectare (ha)	=	2.47 acres

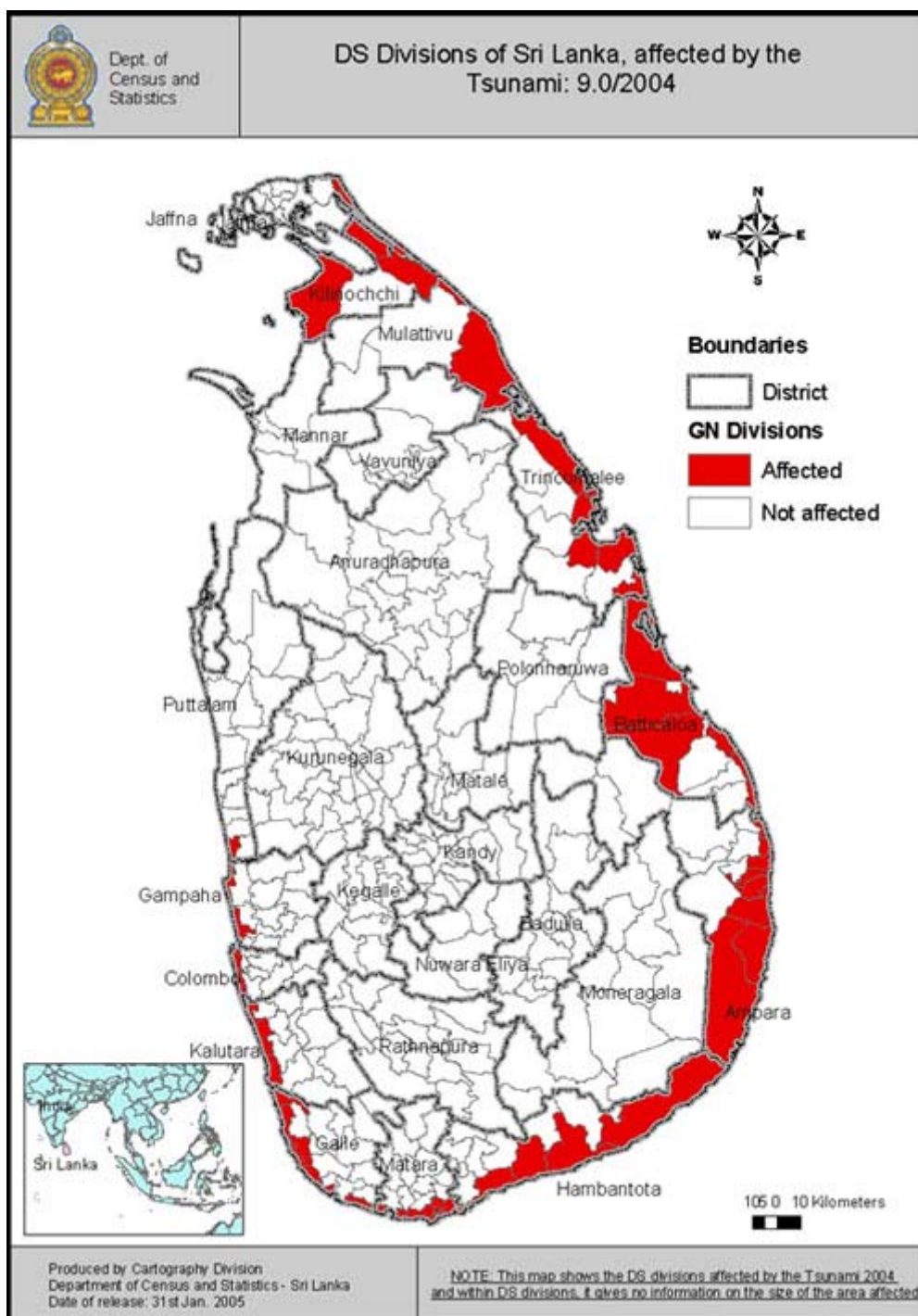
ABBREVIATIONS AND ACRONYMS

DZ-LiSPP	Dry Zone Livelihood Support and Partnership Programme
PT-CRReMP	Post-Tsunami Coastal Rehabilitation and Resource Management Programme
PT-LiSPP	Post-Tsunami Livelihoods Support and Partnership Programme
UDA	Urban Development Authority

GOVERNMENT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**Fiscal Year**

1 January – 31 December

MAP OF THE TSUNAMI-AFFECTED AREAS



Source: Department of Census and Statistics, Sri Lanka.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**POST-TSUNAMI LIVELIHOODS SUPPORT AND PARTNERSHIP PROGRAMME****LOAN SUMMARY**

INITIATING INSTITUTION:	IFAD
BORROWER:	Democratic Socialist Republic of Sri Lanka
EXECUTING AGENCIES:	Ministry of Agriculture, Livestock, Land and Irrigation and Ministry of Fisheries, Aquatic Resources and Christian Affairs
TOTAL PROGRAMME COST:	USD 4.70 million
AMOUNT OF IFAD LOAN:	SDR 1.56 million (equivalent to approximately USD 2.35 million) ^a
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
CONTRIBUTION OF BORROWER:	Taxes and duties
CONTRIBUTION OF BENEFICIARIES:	Labour in kind
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	International Development Association/ United Nations Office for Project Services

^a A further amount, equivalent to USD 2.35 million, will be mobilized or covered from the loan allocations under the Programme of Work and Budget of IFAD for 2006.

PROGRAMME BRIEF

Programme description. The programme focuses on the rapid recovery of assets and essential infrastructure destroyed by the 26 December 2004 tsunami, including housing, housing amenities, settlement infrastructure, social infrastructure and fishery roads, community infrastructure and the removal of debris. Using a flexible community-based approach, it will – in coordination with other funding sources – support the recovery and rehabilitation of physical and financial assets of affected groups and communities. The target group includes rural poor women and men in tsunami-affected communities, with targeting being achieved through the type and size of support provided.

Programme benefits. Women and men in tsunami-affected areas will recover their assets and re-establish a good foundation for their usual economic activities, while diversifying these activities into new and profitable income-generating activities. Communities will be strengthened, will sustainably manage coastal resources, and will have been provided with essential social and economic infrastructure. The participation of women in social and economic activities will have improved.

Programme risks. Competition for limited implementation capacity and initial delays in rehabilitation funding that may be followed by funding gluts.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
FOR THE
POST-TSUNAMI LIVELIHOODS SUPPORT AND PARTNERSHIP PROGRAMME**

I submit the following report and recommendation on a proposed loan to the Democratic Socialist Republic of Sri Lanka for SDR 1.56 million (equivalent to approximately USD 2.35 million)¹ on highly concessional terms to help finance the Post-Tsunami Livelihoods Support and Partnership Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the International Development Association (IDA) as IFAD's cooperating institution for as long as its structures and implementation arrangements are under the Dry Zone Livelihood Support and Partnership Programme (DZ-LiSPP). However, once the Post-Tsunami Coastal Rehabilitation and Resource Management Programme becomes effective, the programme will be implemented under that programme's implementation arrangements, at which point the cooperating institution functions will be transferred from IDA to the United Nations Office for Project Services (UNOPS).

PART I – BACKGROUND AND CONTEXT

A. Impact of the Tsunami

1. The tsunami that swept across the Indian Ocean on 26 December 2004 and caused giant waves travelling at about 500 km/hr to hit the coastlines of 15 countries² along the ocean generated untold, widespread devastation. Sri Lanka is among the countries that bore the brunt of the devastation. According to the most recent estimates, the tsunami led to the deaths of about 31 000 persons; about 6 300 persons are still missing; and 15 000 were injured. Some 443 000 persons were displaced, of whom 217 000 are in relief camps, while the remainder are living with relatives and friends. Fishing communities reported approximately 7 600 deaths, 5 700 persons missing and 90 650 displaced persons. An estimated 7 000 women were widowed and must face the impact of the tsunami as heads of households in particularly difficult circumstances. The physical damage includes 110 000 houses, of which 70 000 were completely destroyed, as were 150 000 vehicles. Coastal infrastructure, including roads, fishing ports, ice plants, tourist sites and telecommunications, was severely affected. An estimated 22 940 fishing vessels of all categories, or 81% of the national fleet, were lost or damaged.

2. The Central Bank of Sri Lanka initially estimated the macroeconomic impact at the equivalent of a 1% reduction in GDP growth, down from the 6% expected. By mid-February, taking into account the indicated donor commitments, it revised that growth estimate upwards to 5.5%. A joint donors' needs assessment estimates that about USD 1.5 billion is required for recovery and reconstruction. For the fisheries sector, total requirements have been estimated at USD 118 million, of which 23% is in the north, 30% in the eastern districts, 44% in the south and 3% in other parts of the country.

¹ A further amount, equivalent to USD 2.35 million, will be mobilized or covered from the loan allocations under the Programme of Work and Budget of IFAD for 2006.

² Including Bangladesh, India, Indonesia, Kenya, Malaysia, Maldives, Mauritius, Myanmar, Seychelles, Somalia, Sri Lanka, the United Republic of Tanzania, Thailand, Yemen and the Island of Reunion (an overseas department of France).

3. The tsunami waves struck two thirds of the coastline of Sri Lanka (more than 1 000 km) and penetrated inland up to 500 m in many places, leaving behind few intact structures. Thirteen³ districts along the coast, of a total of 25 districts in the country, have been affected. The worst devastation occurred in the poor areas in the south and the conflict-affected north and east. The south-western coastal areas, which are the main tourist destinations, account for roughly 40% of the affected people. The conflict zone in the northern and eastern part of the country comprises six of the 13 districts affected. Two of these – Batticaloa and Ampara – were the hardest hit by the tsunami, comprising 43% of the persons affected. These areas – particularly the areas in the north held by the Liberation Tigers of Tamil Eelam – are considered more food insecure and show malnutrition rates higher than in the rest of the country.

B. IFAD's Response

4. IFAD and the Government of Sri Lanka reviewed jointly, between 2 and 23 February 2005, possible IFAD assistance to help in the medium-term post-tsunami recovery and rehabilitation. Given the urgency of the matter, the actions outlined below were recommended for critical follow-up action.

- (a) Prepare rapidly a USD 4.7 million Post-Tsunami Livelihoods Support and Partnership Programme (PT-LiSPP) to supplement the resources of the Dry Zone Livelihood Support and Partnership Programme (DZ-LiSPP)⁴ approved in September 2004. The new funds under PT-LiSPP will be made available quickly through the organizational and management structures of DZ-LiSPP and used for the recovery of infrastructure destroyed by the tsunami in six of the 13 districts affected.
- (b) Advance the design and approval of a resource management programme in the coastal zones that will target the most isolated societies living in a fragile ecology under serious threat from outside, which was proposed in the Sri Lanka country strategic opportunities paper⁵ (approved by the Executive Board in April 2003) and the preparation of which was previously scheduled to begin around 2006/07.
- (c) Provide an IFAD financing package for a coastal zones resource management programme in the amount of USD 31.5 million, composed of a highly concessional loan of USD 30 million and a grant of USD 1.5 million. The programme would be known as the Post-Tsunami Coastal Rehabilitation and Resource Management Programme (PT-CRRReMP).

5. A USD 28.4 million financing package for the Post-Tsunami Coastal Rehabilitation and Resource Management Programme is presented separately for Executive Board⁶ approval. To allow slightly more time for that programme to start operations, the present President's report recommends approval of the proposed PT-LiSPP loan to facilitate the immediate provision of assistance to the victims of the 26 December 2004 tsunami. As indicated earlier these funds can be made available once DZ-LiSPP becomes effective, expected by May 2005.

³ Three in the east (Batticaloa, Ampara and Trincomalee), three in the north (Mullativu, Kilinochchi and Jaffna), three in the south (Hambantota, Matara and Galle), three in the west (Kalutara, Colombo and Gampala) and one in the north-west (Putallam).

⁴ See document EB 2004/82/R.15/Rev.1.

⁵ See document EB 2003/78/R.23/Rev.1.

⁶ See document EB 2005/84/R.20.

C. Dry Zone Livelihood Support and Partnership Programme

Status of Implementation

6. DZ-LiSPP was the first of the three IFAD programmes to be developed under the Sri Lanka country strategic opportunities paper approved in April 2003. It was formulated in May 2003 and appraised in December 2003-January 2004. Subsequent parliamentary elections and changes in Government in April 2004 led to modifications in the institutional framework, and a post-appraisal mission in May 2004 adjusted the programme management structure to the new situation. During negotiations, the World Bank was appointed as the cooperating institution, and the programme was approved by the September 2004 session of the Executive Board. The financing agreement was signed on 15 December 2004. The programme has already been ratified by parliament, and the legal opinion submitted. The key remaining condition for effectiveness of the financing agreement relates to the appointment of programme management staff, which is foreseen for early April 2005.

Programme Summary

7. **Description.** DZ-LiSPP will be implemented in four districts in the dry zone: Anuradhapura, Kurunegala, Monaragala and Badulla – all of which are contiguous to the districts affected by the tsunami.⁷ The programme's goal is to bring about a sustainable increase in incomes and improvement in living conditions among poor women and men in about 80 000 households in the dry zone. Its objectives include: (a) rainfed upland-farm productivity improved and increased; (b) irrigated crop production increased through the rehabilitation and operation of the necessary infrastructure; (c) marketing opportunities and linkages expanded and value added in agricultural production in rainfed and irrigated areas; (d) sources of income for the poor, especially women, diversified through expanded microfinance services; and (e) priority community infrastructure realized and used effectively. The programme is structured around six components, namely: (a) rainfed upland agricultural development; (b) marketing and enterprise development; (c) irrigation rehabilitation; (d) microfinance and income-generating activities; (e) priority community infrastructure development; and (f) programme management.

8. **Programme management.** The programme will finance the establishment of district management units in each of the four districts at the level of the district secretaries. The units will be headed by the district programme manager and include an agronomist, a rural engineer, an economist, a chief accountant, a monitoring officer and necessary support staff. The units will be fully equipped. To monitor programme implementation by the contract parties, district-secretary-division monitoring units will be established. To coordinate and facilitate programme implementation in the districts, a programme coordination unit will be established at the national level. The unit will include a programme coordinator, an accountant, a monitoring officer and support staff, and will be charged with managing the implementation of the rapid PT-LiSPP.

9. **Organization and management.** The programme will be implemented under the overall responsibility of the Ministry of Agriculture, Livestock, Land and Irrigation, the secretary of which will co-chair the policy and oversight board that will also include representatives of: (a) the Ministry of Provincial Councils and Local Government; (b) the three ministries in charge of *Udarata* (up-country), *Rajarata* (king's country) and *Uva-Wellassa* development; (c) the three provincial councils concerned, namely, North-Central, North-Western and Uva; and (d) the Chamber of Commerce. The board will ensure that the programme is implemented in line with government policies and the financing agreements of donors, and will coordinate with other projects. It will analyse and decide on all policy and implementation issues relating to the programme. A programme coordination unit, in particular the programme coordinator, will act as the secretariat of the board. The board will appoint all the key staff of the programme, namely, the four district managers and the programme coordinator.

⁷ See the map.

Provincial programme boards in the three provinces concerned and district programme management units in the four districts involved will be responsible for the day-to-day management of implementation. Implementing agencies will be contracted to carry out programme activities.

PART II – THE PROGRAMME

A. Programme Area and Target Group

10. The area of intervention of the proposed activities under both PT-LiSPP and PT-CRRreMP will include the tsunami-affected areas in the district secretary divisions with a maritime border in the seven districts of Kalutara, Galle, Matara, Hambantota, Ampara, Batticaloa and Trincomalee. During the February 2005 consultations with the Government, it transpired that the remaining five affected districts outside Colombo (namely, Gampala, Puttalam, Mullativu, Kilinochchi and Jaffna) will be covered fully by other donor support.

11. The proposed programme areas are those parts of the seven tsunami-affected districts that were generally dominated by poor squatter households and fishing villages engaged in minor economic activity. Fishing communities have been particularly devastated; two thirds of those who lost their incomes were from this group; the second largest group, around 53 000 people, consists of retail traders, followed by around 45 000 people each in agriculture and manufacturing. Almost all of these – roughly 450 000 persons – now depend mainly on welfare services and charity.

12. The programme will target rural poor women and men in the tsunami-affected areas. Self-targeting will be achieved through selection according to type of support (size of housing, amenities, types of construction, etc.). Community investments will benefit all households. Special efforts will be made to reach poor artisanal fishers and fishing communities. The programme will target tsunami-affected households that meet a monthly income criterion of LKR 2 500, are officially permitted to build or repair their houses and are confirmed residents of the area. The Government has already put in place a system for conducting a housing damage and social verification survey, which is to be jointly carried out by a team consisting of a village representative, a technical government officer and a locally selected NGO. The programme will use this survey in the selection of beneficiaries. In all cases, financial assistance will be provided on the basis of progress achieved by beneficiaries. Each district will target the allocated housing units on a rolling plan format.

B. Objectives and Scope

13. The programme's goal is the sustainable recovery of the assets of women and men directly or indirectly affected by the tsunami and to help them re-establish the foundation of their usual economic activities while diversifying into other and new profitable income-generating activities. The immediate objectives of the different activities will include ensuring that: (a) tsunami-affected families are provided with essential social and economic infrastructure, particularly housing; (b) tsunami-affected communities are strengthened and are sustainably managing coastal resources; and (c) the participation of women in social and economic activities is improved.

14. Planning and the financial management of programme resources will be decentralized to the district level and the level of the *grama nilhadari* division (the smallest administrative unit, covering five to seven villages) and fully coordinated with other donor and government activities. Participatory community approaches will be applied. Flexibility to adjust to a rapidly changing socio-economic environment, natural calamities and other available funding sources will be essential.

C. Components

15. PT-LiSPP has only one major component, but that consists of several activities. In order to expedite the availability of IFAD's financial assistance for the victims of the tsunami, resources will be provided for **priority infrastructure development** using the same design and implementation modalities for the **priority community infrastructure development component of DZ-LiSPP**. The incremental funding will be used to finance the immediate recovery of essential infrastructure, including housing, settlement infrastructure, social infrastructure and fisheries roads, as described below.

16. **Housing.** In close coordination with other donor funding, the programme will support the Government's housing rehabilitation programme, both through cash grants and through resettlement schemes of the Urban Development Authority (UDA). It will also support the installation of solar panels and rainwater harvesting devices on roofs and the construction of improved kitchens to increase fuel efficiency and reduce the risk of smoke-induced bronchitis among women and girls. It will likewise support the installation of piped water and the use of household latrines in as many new dwellings as possible.

17. **Settlement infrastructure.** The programme will assist in solid-waste management and in the removal and proper disposal of rubble. It will support the construction of water supply schemes in rural and fishing areas and the recovery of access roads and drainage systems for settlement areas.

18. **Social infrastructure, fisheries, roads and other infrastructure.** Social infrastructure, such as community centres, day-care facilities, local clinics and Ayurvedic centres, will be rehabilitated. Rural and fisheries roads will also be repaired.

19. The programme will be implemented over a three-year period. It will initially be implemented through the existing structures set up under the DZ-LiSPP. However, once the IFAD-funded PT-CRReMP becomes effective, the structures and implementing arrangements set up under that programme will be used to implement the programme.

D. Costs and Financing

20. The funds to be provided through an IFAD loan under the PT-LiSPP proposed in the present document will amount to approximately USD 4.70 million⁸ and used to finance the most urgent infrastructure listed under the priority infrastructure development component, including: (a) the construction of some 300 houses outside the settlement schemes through public-private partnerships (including NGOs); this will cost around USD 750 000; (b) homeowner-driven housing reconstruction, which will cost a total of USD 1.7 million; (c) repair of damaged houses by their owners, estimated at around USD 450 000; (d) provision of all the housing amenities identified, costing USD 960 000; (e) all the identified settlement infrastructure, costing USD 237 500; and (f) other needed infrastructure, such as community centres, nursery and day-care centres, village markets (*pola*), etc., costing USD 600 000. Priority will be given to tsunami widows, fisher households and other needy members of coastal communities. The Government will contribute all the taxes and duties related to the investments.

21. An amount of USD 3.0 million needed for the resettlement schemes under the proposed priority infrastructure development component will be provided under the second post-tsunami IFAD intervention, namely, PT-CRReMP, which is being processed in parallel with PT-LiSPP but is expected to start six months or so later.

⁸ USD 2.35 million will be provided from the Programme of Work and Budget of IFAD for 2005. The balance will be mobilized or covered from the loan allocations under the Programme of Work and Budget of IFAD for 2006.

**SUMMARY COST ESTIMATES OF THE PRIORITY INFRASTRUCTURE DEVELOPMENT COMPONENT
(USD million)**

	Year 1	Year 2	Total
Houses	2.240	0.660	2.900
Houses outside resettlement schemes	0.575	0.175	0.750
New houses built by homeowners	1.325	0.375	1.700
Repair of damaged houses by homeowners	0.340	0.110	0.450
Housing amenities	0.720	0.240	0.960
Alternative energy sources	0.396	0.132	0.528
Rainwater harvesting	0.180	0.060	0.240
Improved stoves/kitchens	0.036	0.012	0.048
Household water and sanitary facilities	0.108	0.036	0.144
Settlement Infrastructure	0.1187	0.1187	0.237
Rubble removal in settlements	0.0125	0.0125	0.0250
Community drinking-water facilities	0.0562	0.0562	0.1125
Settlement roads and drainage systems	0.0500	0.0500	0.100
Other infrastructure	0.300	0.300	0.600
Community infrastructure	0.250	0.250	0.500
Debris/rubble removal from the countryside	0.050	0.050	0.100
Total	3.379	1.319	4.698

E. Procurement, Disbursement, Accounts and Audits

22. **Procurement.** All civil works will be procured in accordance with IFAD's procurement guidelines. General procurement responsibility will rest with the programme coordination unit of DZ-LiSPP under the guidance of its policy and oversight board, which will be further strengthened for the duration of PT-LiSPP by adding five new members, namely, a representative of: (a) the UDA; (b) the National Housing Development Authority; (c) the Ministry of Fisheries, Aquatic Resources and Christian Affairs; and (d) one each from the eastern and southern provincial councils.

23. NGOs and other public and private agencies will be contracted by the programme coordination unit/DZ-LiSPP to construct housing and provide housing amenities, but direct contracts with individual homeowner beneficiaries may also be entered into, as appropriate. The UDA and the National Housing Development Authority will be subcontracted to carry out or oversee housing construction, but other parties may also be engaged, as appropriate. NGOs or private-sector parties will be selected to participate in implementation on the basis of local competitive procedures. The proposed activities to be carried out within the construction of settlement infrastructure, settlement roads, rural and fisheries roads, drinking water facilities, drainage structures and rubble removal will be implemented directly by the concerned *pradeshiya sabhas* (community and local authorities), sometimes with the help of their provincial councils. NGOs and private contractors with relevant expertise will be recruited to assist the *pradeshiya sabhas* in these initiatives.

24. All contracts for civil works will be awarded following local competitive bidding. Prior approval by the cooperating institution will be required for all contracts valued in excess of USD 100 000 (or the equivalent).

25. **Disbursement.** The proposed flow of funds reflects the urgency required to assist the tsunami victims efficiently and effectively using the institutional set-up of DZ-LiSPP that IFAD is already helping to put in place. Funds are managed at the district level by each of the selected implementing agencies. A special account in United States dollars will be established at the Central Bank. The authorized representative of the Government charged with signing withdrawal applications for IFAD

funds will also be in charge of managing this special account. The initial deposit from IFAD into the special account will correspond to the projected six-month disbursements during programme year 1. Direct payments to suppliers may be requested from IFAD for all contracts exceeding USD 10 000. Eligible expenditures made by the Government following the date of Executive Board approval will be reimbursed up to a maximum of USD 1.67 million for the social and economic infrastructure foreseen.

26. **Accounts and audits.** The accounts of the programme and those of the implementing agencies will be audited annually by the Auditor-General's Office, in line with government procedures acceptable to IFAD. Certified audit reports will be transmitted to IFAD not later than six months after the end of the fiscal year. The auditor will provide a specific opinion on the mechanism of funding for the implementing agencies, the use made of programme resources, and accountability of partners and financial reporting by them.

F. Organization and Management

27. The programme will be implemented under the overall responsibility of two relevant ministries, namely: (a) the Ministry of Agriculture, Livestock, Land and Irrigation; and (b) the Ministry of Fisheries, Aquatic Resources and Christian Affairs. The secretaries of the two ministries will co-chair the strengthened policy and oversight board of DZ-LiSPP, which will also include representatives of: (a) the Ministry of Provincial Councils and Local Government; (b) the three ministries in charge of *Udarata* (up-country), *Rajarata* (king's country) and *Uva-Wellassa* development; (c) the five provincial councils concerned, namely, Eastern, North-Central, North-Western, Southern and Uva; (d) the Chamber of Commerce; (e) the UDA; and (f) the National Housing Development Authority. The strengthened board will review policies and implementation issues affecting the programme. It will function in exactly the same manner as described for DZ-LiSPP.

28. **Reporting** will occur on a quarterly basis. Each implementing agency will submit quarterly reports to the programme coordination unit that will cover technical and physical progress and include financial statements. Quarterly and annual reports will be prepared by the programme coordinator. Annual reports will be submitted to the strengthened policy and oversight board for approval. Quarterly and annual reports will be submitted to the Government and IFAD within three months after the end of the reporting period.

29. **Monitoring and evaluation.** Since all activities will be contracted out under the programme, the monitoring of contract performance will become an essential management activity. To be able to evaluate contract implementation, the programme will be obliged to collect its own monitoring data. For this purpose, it will rely on the elaborate structures for DZ-LiSPP. Under that programme, a network of monitoring units are being established in the four districts concerned (Anuradhapura, Badulla, Kurunagala and Moneragala). These will be made available for PT-LiSPP.

30. Under both the implementation and monitoring and evaluation activities care will be needed to ensure that programme inputs and outputs accrue to the intended beneficiaries, especially women and children. Intended beneficiaries should have title to the property that is created or rehabilitated for them, and should take over the premises for occupancy after the premises are built or repaired.

G. Economic Justification

31. The programme will benefit an estimated 21 710 people through social and economic infrastructure, including about 2 130 houses built or repaired. The main benefits resulting from the programme will initially include the recovery of assets and the establishment of a good foundation for sustainable household economic activities both in artisanal fisheries and in non-fisheries sectors, including the development of diversified sources of income. It will prepare the ground for the smooth implementation of the second post-tsunami IFAD intervention, namely, PT-CRRMP.

H. Risks

32. The programme will be implemented in an environment in which many donors – including non-traditional ones – will be obliged to make use of existing implementation capacities in the public, private and NGO sectors. Inevitably, a degree of competition for these finite capacities will develop unless a strong and significant coordination mechanism is put in place.

33. In addition, the lead time for mobilization of funds required by different financing sources differs greatly; the pledges received do not appear to be backed up by actual disbursements at present, though they are urgently needed to initiate recovery. There is therefore the risk that the immediate funding needs cannot be met and that, in a later stage, excess funding will develop. Flexible planning of programme activities will reduce this risk considerably.

I. Environmental Impact

34. The programme is expected to have a positive impact on the environment through its contribution to rubble removal and disposal, its use of renewable energy and collection of rainwater resources, and its community-based approach to sustainable coastal-resource management.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

35. A loan agreement between the Democratic Socialist Republic of Sri Lanka and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement will be presented to the Executive Board following negotiations.

36. The Democratic Socialist Republic of Sri Lanka is empowered under its laws to borrow from IFAD.

37. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

38. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Democratic Socialist Republic of Sri Lanka in various currencies in an amount equivalent to one million five hundred and sixty thousand special drawing rights (SDR 1 560 000) to mature on or prior to 15 April 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 22 July 2005)

1. **Cooperating institution.** The Government agrees to appoint the International Development Association (IDA) as the cooperating institution to administer the loan and supervise the programme for as long as its structures and implementation arrangements are under the DZ-LiSPP. However, once the IFAD-funded PT-CRReMP becomes effective, the programme will be implemented under that programme's structures and implementing arrangements, at which point the Government agrees to appoint the United Nations Office of Project Services (UNOPS) as the cooperating institution to administer the loan and supervise the programme.
2. **Programme accounts.** The district programme manager of each programme district will open and thereafter maintain in a commercial bank proposed by the Government and accepted by IFAD, a current account (the "DPMU programme account") denominated in LKR to receive loan and other funding for programme operations with the exception of those handled by the programme coordination unit (PCU). The relevant district programme manager and the chief accountant of the district programme management unit (DPMU) will be authorized as joint signatories to carry out transactions relating to the DPMU programme account. The programme coordinator will open and thereafter maintain in a commercial bank proposed by the Government and accepted by IFAD, a current account (the "PCU programme account") denominated in LKR to receive loan and other funding for programme operations – including implementation of programme activities in the eastern and southern provinces where no DPMU exists – handled by or under the responsibility of the PCU. The programme coordinator and the chief accountant of the PCU will be authorized to carry out transactions relating to the PCU programme account.
3. **Counterpart funds.** During the programme implementation period, the Government will make available to the lead programme agencies counterpart funds from its own resources in accordance with the annual workplans and budgets (AWPBs) and its customary national procedures for development assistance. For this purpose, the Government will take all reasonable steps to obtain budgetary allocations for each fiscal year equal to the counterpart funds called for in the AWPB for the relevant programme year and make such allocations available to the lead programme agencies annually in advance as required to carry out the programme in accordance with the loan agreement.
4. **Insurance of programme personnel.** The Government will insure programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national public service.
5. **Gender focus – implementation.** The Government will ensure that implementation modalities are gender-sensitive and that women beneficiaries are equally and fully represented in all programme activities and receive appropriate benefit from the programme.
6. **Gender focus – programme staffing and management.** Equal participation of women will be sought in the policy and oversight board and the provincial programme boards. In the recruitment of programme staff, all things being equal, preference will be given to women candidates.
7. **Monitoring.** The elaborate monitoring structures under the IFAD-funded DZ-LiSPP will be expanded to cover the programme's needs. To be able to evaluate programme implementation properly, the programme will establish its own monitoring system by or before 12 months after the programme's effective date. The Government will ensure that the indicators to be monitored by the programme are specified in each service provider agreement, and that they include, as far as feasible, data on the impact of the activities of each contracted service provider.

8. **Progress reports.** (a) Quarterly progress reports will be submitted by each programme party to the relevant DPMU and to the PCU. These reports will address technical and physical progress made during the period and will contain financial statements relating to that quarter's expenditures. In all programme districts, except those located in the eastern and southern provinces, the component DPMU will prepare quarterly district progress reports and submit them to the PCU for overall conciliation for the relevant quarter.

(b) Annual progress reports, based on the quarterly progress reports, will be prepared, processed and consolidated in the same manner as the quarterly progress reports. In addition, the DPMU will submit district annual progress reports to the provincial programme board for approval.

9. **Suspension.** In addition to the events specified in section 12.01 of the General Conditions for Agricultural Development Financing, IFAD:

(a) May suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth therein or any of the following events:

(i) any component authority has taken action for the dissolution of the National Housing Development Authority (NHDA) or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the NHDA, which action, in the reasonable opinion of IFAD, may adversely affect programme implementation;

(ii) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has failed to investigate the matter fully and promptly to the Fund's satisfaction; or thereafter, based on the conclusions of the aforesaid investigation and any other information available to it, IFAD, in consultation with the Government, determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the Fund's satisfaction.

(b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit report required by the loan agreement has not been satisfactorily completed within 12 months after the financial reporting period set forth therein.

10. **Conditions of effectiveness.** The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the loan agreement will have been duly signed, and the signature and performance thereof by the Government will have been duly authorized and ratified by all necessary administrative and governmental action; and

a favourable legal opinion, issued by the attorney general or other legal counsel acceptable to IFAD in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

SRI LANKA

Land area (km² thousand) 2002 1/	64.6	GNI per capita (USD) 2002 1/	850
Total population (million) 2002 1/	18.97	GDP per capita growth (annual %) 2002 1/	2.7
Population density (people per km²) 2002 1/	294	Inflation, consumer prices (annual %) 2002 1/	10
Local currency	Sri Lanka Rupee (LKR)	Exchange rate: USD 1 =	LKR 99.85
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	1.4	GDP (USD million) 2002 1/	16 567
Crude birth rate (per thousand people) 2002 1/	18	Average annual rate of growth of GDP 1/ 1982-1992	3.9
Crude death rate (per thousand people) 2002 1/	6	1992-2002	4.6
Infant mortality rate (per thousand live births) 2002 1/	16	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	74	% agriculture	20
Number of rural poor (million) (approximate)	n/a	% industry	26
Poor as % of total rural population	n/a	% manufacturing	16
Total labour force (million) 2002 1/	8.41	% services	54
Female labour force as % of total 2002 1/	37	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	9
School enrolment, primary (% gross) 2002 1/	110 a/	Household final consumption expenditure, etc. (as % of GDP)	77
Adult illiteracy rate (% age 15 and above) 2002 1/	8	Gross domestic savings (as % of GDP)	14
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	4 699
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	14 a/	Merchandise imports 2002 1/	6 104
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	29 a/	Balance of merchandise trade	-1 405
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	4 a/	before official transfers 2002 1/	-1 577
Physicians (per thousand people) 2002 1/	1 a/	after official transfers 2002 1/	-264
Population using improved water sources (%) 2000 3/	77	Foreign direct investment, net 2002 1/	242
Population with access to essential drugs (%) 1999 3/	95-100	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	94	Overall budget deficit (including grants) (as % of GDP) 2002 1/	-10 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	26 a/
Food imports (% of merchandise imports) 2002 1/	14	Total external debt (USD million) 2002 1/	9 611
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	2 617 a/	Present value of debt (as % of GNI) 2002 1/	47
Food production index (1989-91=100) 2002 1/	116	Total debt service (% of exports of goods and services) 2002 1/	10
Cereal yield (kg per ha) 2002 1/	3 410	Lending interest rate (%) 2002 1/	13
Land Use		Deposit interest rate (%) 2002 1/	9
Arable land as % of land area 2002 1/	14 a/		
Forest area as % of total land area 2002 1/	30 a/		
Irrigated land as % of cropland 2002 1/	31 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ United Nations Development Programme (UNDP), *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN SRI LANKA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Kirindi Oya Irrigation and Settlement Project	AsDB	AsDB	HC	12 Apr 78	03 Jul 78	30 Jun 86	L - I - 1 - SI	USD	12000000	100%
Kirindi Oya Irrigation and Settlement Project	AsDB	AsDB	HC	12 Apr 78	03 Jul 78	30 Jun 86	L - I - 109 - SR	SDR	5500000	64%
Anuradhapura Dry Zone Agriculture Project	AsDB	AsDB	HC	05 Dec 80	29 Jun 81	30 Jun 89	L - I - 58 - SR	SDR	11350000	33%
Coconut Development Project	AsDB	AsDB	HC	17 Dec 81	13 Oct 82	30 Jun 88	L - I - 85 - SR	SDR	7100000	43%
Badulla Rural Development Project	IFAD	World Bank: IBRD	HC	09 Dec 82	18 Jul 83	30 Nov 93	L - I - 111 - SR	SDR	12950000	81%
Kegalle Rural Development Project	IFAD	World Bank: IBRD	HC	05 Dec 85	08 Jul 86	30 Jun 96	L - I - 179 - SR	SDR	7500000	83%
Small Farmers and Landless Credit Project	IFAD	UNOPS	HC	26 Apr 88	28 Mar 89	31 Dec 97	L - I - 219 - SR	SDR	4850000	86%
Second Badulla Integrated Rural Development Project	IFAD	UNOPS	HC	04 Apr 91	12 Aug 92	31 Mar 03	L - I - 283 - SR	SDR	9900000	91%
North-western Province Dry Zone Participatory Development Project	IFAD	AsDB	HC	09 Sep 92	22 Feb 93	30 Jun 01	L - I - 309 - SR	SDR	6150000	74%
North-Central Province Participatory Rural Development Project	IFAD	UNOPS	HC	13 Sep 95	09 Jan 96	30 Jun 04	L - I - 384 - LK	SDR	5450000	99%
Matale Regional Economic Advancement Project	IFAD	UNOPS	HC	03 Dec 98	15 Dec 99	30 Jun 06	L - I - 493 - LK	SDR	8350000	52%
Dry Zone Livelihood Support and Partnership Programme	IFAD	World Bank: IDA	HC	09 Sep 04			L - I - 636 - LK	SDR	15100000	

**RESPONSIBILITIES AND METHODOLOGY OF THE URBAN DEVELOPMENT AUTHORITY IN
REHABILITATION AND RECONSTRUCTION OF TSUNAMI-AFFECTED AREAS⁹**

Major tasks of UDA

- Enforcement of planning and building regulations for the Conservation Zone
- Facilitating permanent relocation of affected families living on the Conservation Zone
- Facilitating reconstruction of houses in the affected areas
- Reconstruction of affected townships

Enforcement of regulations in the Conservation Zone

- Regulation framed for the 100-m and 200-m Conservation Zone
- Surveying and pegging of the 100-m and 200-m zone in progress
- Enforcement by the Local Authority and the Ministry of Public Security, Law and Order

Planning and approval of guidance for reconstruction

- One-stop-shop established in the UDA
- (UDA has) established 52 project offices in affected AGA Divisions

Land for housing

- UDA has identified lands for relocation of houses
- Clearing and surveying work (in these lands) is in progress

Policy guidelines for housing

- All families in the 100-m and 200-m coastal (Conservation) Zone whose houses have been completely damaged will be provided with safe dwellings outside the Conservation Zone
- Those who are willing to build houses outside the 100-m and 200-m zone on their own lands will receive Rs. 250 000 in financial assistance and, if necessary, concessionary loans by state banks
- Those who are willing to build their own houses outside the 100-m and 200-m zone will be provided with land (four-to-ten patches, depending on availability of land), financial assistance and, if necessary, concessionary loans by state banks
- Minimum size of a house will be 500 ft², which will cost about Rs. 400 000. These houses will be provided with all basic infrastructure, including access roads, water, electricity, sewage, etc.
- All housing will be planned as settlements. Playgrounds, recreation areas, commercial facilities and other basic services will be provided

Types of housing recommended

- Single-storey detached houses on individual land plots
- Single-storey attached houses with individual gardens
- Two-storey attached terraced houses with individual gardens – town houses
- Multistorey (ground + two or three floors) walk-up apartments

⁹ Source: UDA, Ministry of Urban Development and Water Supply.

APPENDIX III

Types of houses recommended	Maximum density per acre	Cost per unit
Single-storey detached houses on individual land plots	4P land lot – 28 units 6P land lot – 18 units 8P land lot – 14 units 10P land lot – 11 units	Rs. 425 000
Single-storey attached houses with individual gardens	28 units	Rs. 400 000
Two-storey attached terraced houses with individual gardens – town houses	37 units	Rs. 450 000
Multistorey walk-up apartments		
- Ground + 2 floors	50 units	Rs. 550 000
- Ground + 3 floors	60 units	Rs. 560 000

Basic parameters of resettlement houses

- Should be planned settlements not exceeding 250 houses
- Minimum size (of house) to be 500 ft²
- Density not to exceed 60 units per acre
- Built-up area not to exceed 65% of total area
- Generic plans to be provided

Technology to be adopted should:

- encourage participatory methods;
- consider speedy construction techniques and cost-effective methods; and
- use local building materials and manpower to the extent possible

General considerations for designing

- Preferably framed structures in order to withstand cyclones/earthquakes/tidal waves
- Separate septic tanks preferred instead of settlement sewage schemes
- Design for rainwater harvesting
- Consider accessibility for disabled people

Methodology: UDA to play a facilitatory role

- Lands for relocation settlements to be identified by UDA
- Settlements to be planned by UDA/National Housing Development Authority with due consideration to the needs of the community
- General guidelines and plans to be provided by UDA/National Housing Development Authority
- Construction work to be monitored by UDA/agencies selected by UDA

Funding

- UDA/National Housing Development Authority will draw up basic settlement plans together with estimates
- Selection of donors by a committee chaired by the President of the Republic, depending on investments

Major Inputs

- Treasury allocated USD 330 million to UDA for rehabilitation and reconstruction activities
- Of this, USD 120 million has been earmarked for rehabilitation and housing reconstruction

