



## 1. Project Data

<b>Project ID</b> P163305	<b>Project Name</b> Local Development Support Project		
<b>Country</b> Sri Lanka	<b>Practice Area(Lead)</b> Urban, Resilience and Land		
<b>L/C/TF Number(s)</b> IDA-63710,TF-B4791	<b>Closing Date (Original)</b> 30-Dec-2022	<b>Total Project Cost (USD)</b> 71,683,097.67	
<b>Bank Approval Date</b> 14-Mar-2019	<b>Closing Date (Actual)</b> 30-Nov-2024		
	<b>IBRD/IDA (USD)</b>	<b>Grants (USD)</b>	
Original Commitment	70,000,000.00	24,475,000.00	
Revised Commitment	70,635,533.41	24,377,527.28	
Actual	71,683,097.67	21,887,091.54	
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## 2. Project Objectives and Components

### a. Objectives

The Project Development Objective (PDO) as stated in the original financing agreement and the Project Appraisal Document (PAD, page 10) is:

**" To strengthen local government authorities' (LGAs) capabilities to deliver services to communities in a responsive and accountable manner and to support economic infrastructure development in participating provinces".**



The PDO as stated in the restructuring paper dated February 3, 2021 is:

**" To strengthen LGAs capabilities to deliver services to communities in a responsive and accountable manner, to support economic infrastructure development in participating provinces, and to provide immediate and effective response to an eligible crisis or health emergency".**

For the purpose of this Implementation Completion Results Report (ICRR) review, the PDO is unpacked as follows:

PDO 1. To strengthen LGA's capabilities to deliver services to communities in a responsive and accountable manner.

PDO 2. To support economic infrastructure development in participating provinces.

PDO 3. To provide immediate and effective response to an eligible crisis or health emergency.

**b. Were the project objectives/key associated outcome targets revised during implementation?**

Yes

**Did the Board approve the revised objectives/key associated outcome targets?**

Yes

**Date of Board Approval**

20-Jul-2023

**c. Will a split evaluation be undertaken?**

Yes

**d. Components**

There were five components.

**1. Strengthening Local Government Planning Systems.** The estimated cost at loan approval was US\$1.50 million. The actual cost was US\$0.70 million. Activities in this component planned to update the Local Authority Participatory Development Plans (LAPDP) with community participation.

**2. Improving Local Services and Economic Infrastructure.** The estimated cost at loan approval was US\$86.35 million. The actual cost was US\$47.73 million. Activities in this component planned to finance local service delivery and economic infrastructure by LGAs and provinces. There were two sub-components:

**2.1 Improving local service delivery through Basic Transfers (BTs) and Performance Transfers (PTs) to LGAs.** Activities in this component aimed at financing fiscal transfers for qualifying LGAs through BTs and PTs. (BTs were based on the principle of equalization considering economic lag and poverty rates and aimed at ensuring equitable distribution of fiscal resources across provinces and LGAs. PTs were to be



provided to qualifying LGAs to incentivize them to improve their institutional performance and service delivery outcomes).

**2.2. Economic cluster support at the provincial level.** Activities in this sub-component planned to provide infrastructure for local economic development (roads, minor irrigation, markets, Information Technology (IT) connectivity and rural electricity). This subcomponent was dropped with project restructuring (discussed below).

**3. Institutional Development.** The estimated cost at loan approval was US\$3.93 million. The actual cost was US\$0.71 million. Activities in this component planned to finance institutional development of LGAs.

**4. Project Management.** The estimated cost at appraisal at loan approval was US\$8.83 million. The actual cost was US\$1.99 million. This component planned to finance the costs of project management and audits.

**5. Contingent Emergency Response Component (CERC).** Funds were not allocated for this component at appraisal. The actual cost was US\$17.00 million. This component planned to provide rapid allocation of project funds in case of natural or man-made disasters and crises. This component was triggered with the project restructuring in the wake of the health emergency crises occasioned by the COVID-19 pandemic.

**e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

**Project cost.** According to the ICR (page ii) the estimated cost at appraisal was US\$100.60 million. The actual cost was US\$76.80 million.

**Project financing.** The project was financed by an International Development Association (IDA) Credit of US\$70.00 million. The amount disbursed was US\$49.79 million. US\$20.00 million of the Credit was cancelled at government request (discussed below). According to the ICR (page ii), Joint co-financing of US\$24.47 million was estimated at appraisal from the European Commission (EC) Trust Fund (TF). US\$21.87 million of the EC grant was disbursed.

**Borrower contribution.** Borrower contribution of US\$7.00 million was planned at appraisal. According to the ICR (annex 3, page 31), the Government of Sri Lanka contributed US\$2.56 million during implementation.

**Dates.** The project was approved on March 14, 2019, became effective on June 30, 2019 and the IDA credit was scheduled to close on December 30, 2022. The EU Trust Fund was scheduled to close on February 28, 2023. The project closed about two years behind schedule on November 30, 2024.

**Changes.** There were nine project restructurings, with two level 1 restructurings involving significant changes and seven level 2 restructuring involving extensions of the closing date.

These changes were made **with the first level 1 restructuring on February 3, 2021**, when US\$5.10 million of IDA credit was disbursed.

- The CERC component was activated to support COVID - 19 pandemic recovery efforts at government request. The restructuring reallocated US\$17.00 million from the project to an CERC



pool managed under a separate project. The PDO was changed to add CERC activities and new indicators were added to the Results Framework.

The closing date of the IDA Credit was extended by seven months from December 30, 2022 to July 31, 2023, through **the second restructuring on December 22, 2022**.

The closing date for the EU TF was extended by four months **through the third restructuring on March 1, 2023**.

The closing date for the EU TF was extended to align it with the closing date for the IDA credit **through the fourth restructuring on April 5, 2023**.

The main changes made **through the second level 1 restructuring on July 20, 2023**, when US\$43.18 million of the IDA credit was disbursed.

- The closing date of IDA credit was extended by 14 months from July 31, 2023, to September 30, 2024 and of the EU TF by two months from July 31, 2023 to September 30, 2023, for completing the activities that had been delayed due to factors such as the COVID-19 pandemic and the macro-fiscal crisis.
- The scope was modified and activities associated with economic clusters (component 2.3) was dropped, as the government deemed it to be no longer relevant. The end target for basic transfers was reduced from five to four.

The closing date for the EU TF was extended from September 30, 2023, to September 30, 2024, **through the fifth restructuring on October 17, 2023**.

The main changes made **through the sixth restructuring on April 10, 2024**, are as follows:

- US\$20.00 of the IDA credit was cancelled at government request in view of the changing government priorities.

**Through the seventh restructuring on August 27, 2024**, the closing date for the IDA credit and EU TF was extended by two months from September 30, 2024, to November 30, 2024.

**Split rating.** The project scope was reduced through the fourth restructuring. Therefore, this review utilizes the split rating methodology to determine the outcome rating.

### 3. Relevance of Objectives

#### Rationale

**Country context.** Economic growth in the years before appraisal in Sri Lanka, following the ending of the thirty years of civil war in 2000, contributed to reducing poverty from 15.3% in 2006 to 4.1% in 2016. However, there were pockets of poverty. The project areas were in four provinces - the Northern, Eastern,



Uva and North Central Provinces, which accounted for a third of Sri Lanka's poor. These provinces faced challenges such as weak community institutions, gender inequality and lingering effects of civil wars.

**Government strategy.** The Government was pursuing a decentralization agenda since 1987 by devolving powers to provinces. The Government amended the constitution to place the LGAs under provincial jurisdiction. However, inefficiencies and overlapping responsibilities undermined LGA operations. The LGAs faced constraints with limited fiscal transfers and own-source revenues, which inhibited their ability to respond to community needs.

**Current government strategy.** The PDO is strongly aligned with the Government's current priorities towards North and Eastern Provinces of Sri Lanka. The newly elected government reemphasized a vision of inclusive growth in its February 2025 budget.

**World Bank (WB) strategy at appraisal.** The PDO was well-aligned with the Country Partnership Framework (CPF) for 2017 - 2020. Objective 2.3 of the CPF specifically highlighted *the need for improving living standards in lagging areas of Sri Lanka*.

**Current WB strategy.** The PDO is aligned with the current CPF for 2024 - 2027. The CPF articulated the need for strengthening inclusive platforms for consensus building and capacity building. The CPF's objective four identified the need for improving access to resilient infrastructure services and economic opportunities in local areas.

**Previous Bank experience.** The WB had previously financed the North East Local Service Improvement Project. This project, which supported the LGAs in the Northern, Eastern and North Central Provinces, besides supporting investments in roads, introduced new concepts such as participatory planning processes called local area participatory development plans (LAPDPS), capital and performance-based grants, provincial level project appraisal teams, community-level social audit committees and grievance-redress mechanisms.

**Project scope.** This project sought to build on the previously funded Bank project. The project aimed to further strengthen local government systems and support the local level planning processes to provide public services. The project aimed to scale interventions spatially (to cover all 134 LGAs in the four provinces).

**Relevance of objective.** The PDO is relevant in the country context, to the government strategy and the current Bank strategy. However, the project was overly ambitious, given the Bank's prior experience in the provinces. The project sought to increase the scope of its precursor operation, through extending operations from two to four provinces and bringing ambitious features in low-capacity local governments, such as regular basic and performance transfers and elaborate performance evaluations. The level of ambition was high given WB's prior knowledge and familiarity with the local government's limited capacities for safeguards and fiduciary management. The relevance of PDO is rated as substantial.

## Rating

Substantial



## 4. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

PDO 1. To strengthen LGA's capabilities to deliver services to communities in a responsive and accountable manner.

#### Rationale

**Theory of Change.** The project activities aimed to: One, ensure a predictable and timely fiscal transfer system for local governments to implement subprojects for improving service delivery; and two, ensure that the local governments use the fiscal transfers in an accountable manner that reflects the need of the communities.

The outputs of activities such as establishing georeferenced smart monitoring and evaluation system (M&E) system in the Ministry of Provincial Councils and local Government (MPCLG) and LGAs, operationalizing the performance transfer system, updating the Local Authority Participatory Development Plans (LAPDPs) with village and ward level consultations, training ward representatives and capacity building of provincial staff, were likely to help in strengthening the local governments abilities to deliver services that reflect the desire of communities. The causal links between the inputs, outputs and intended outcomes were logical and the outcomes were monitorable. The theory of change explicitly assumes the following: One, the local governments have the capacity for implementing the planned activities; and two, the communities are willing to participate in the planning and implementation processes.

#### Outputs.

- The georeferenced smart M&E system was established in the Ministry of Provincial Councils and Local Government (MPCLG) and LGAs as targeted.
- All the LGAs implemented citizen engagement and social accountability tools and conducted information campaigns as targeted. The Performance transfer system was operationalized as targeted.
- There was a 25% increase in ward level consultation meetings on the LAPDP chaired by women ward councilors, exceeding the target of 20%.
- 134 Local Authority Participatory Development Plans (LAPDPs) were updated, exceeding the target of 77.
- 134 LGAs prepared annual financial statements within three months after close of the financial year, increasing from the baseline of 101 and meeting the target of 134.
- 2,204 elected ward representatives were trained under the project, exceeding the target of 1,500). Of these, 603 representatives were women, exceeding the target of 560.
- The Social Audit Committees were regularized, with at least 30% women as chairpersons to ensure committee engagement with LGAs as targeted.

#### Outcomes.



The outputs were expected to have these outcomes; One, increase in the number of basic fiscal transfers that were disbursed to eligible LGAs on a timely basis; Two, percentage of LGAs with improved performance scores in delivering services; Three, the percentage of LGAs implementing participatory planning processes at the ward and LGA levels; and four, the percentage of planned LGA spending aligned with community needs and priorities as indicated in the Local Authority Participatory Development Plans (LAPDPs).

- Four basic transfers were disbursed on a timely basis to LGAs, as per the revised target and short of the original target of five.
- According to the assessment by independent auditors, 79% of the LGAs increased their overall performance scores in delivering services, exceeding the target of 35%. The ICR noted that over 75% of LGAs achieved "excellent" performance rating on indicators. The assessment developed with the Asia Foundation showed that the LGA's service delivery scores in health, citizen services and local economic development increased. The two indicators on accountability were exceeded.
- 100% of LGAs implemented the participatory processes at the ward and LGA levels, exceeding the target of 67%.
- 56.66% of planned LGA spending was aligned with community needs and priorities indicated in the LAPDPs, exceeding the 50% target.

Efficacy of this PDO is rated as Substantial before project restructuring, based on the extent to which the targets were achieved.

### Rating

Substantial

## OBJECTIVE 1 REVISION 1

### Revised Objective

The PDO was unchanged. However, the target for one important outcome was revised downwards with the fourth project restructuring.

### Revised Rationale

All the outputs and outcomes discussed above were relevant to this objective, with one exception.

- Four basic transfers were disbursed on a timely basis to LGAs as per the revised target.

Efficacy of this PDO is rated as Substantial, given the extent to which the revised target was achieved.

### Revised Rating

Substantial

## OBJECTIVE 2

### Objective



PDO 2. To support economic infrastructure development in participating provinces.

### Rationale

**Theory of Change.** The activities aimed to improve the infrastructure of the participating provinces. The outputs of activities financed through BTs, PTs and economic cluster for infrastructure investments, were likely to help in enhancing service delivery in the participating provinces. The outcomes were likely to aid in the long-term development outcome of improving the living standards of people in the provinces. The causal links between the inputs, outputs and intended outcomes were logical and the outcomes were monitorable. The theory of change explicitly assumes the following: One, the provinces have resources for supporting the infrastructure investments; and two, the external factors such as political stability and the decentralization agenda of the government remain favorable during implementation.

### Outputs.

Capital grants of over US\$52.00 million were disbursed to LGAs as targeted. This resulted in 2,769 infrastructure subprojects in 1,971 locations.

- **Infrastructure for basic service delivery.** 70 kilometers (km) of local roads were constructed; Eight km of local drains were installed: Over 7,300 households in unserved areas benefitted from water supply schemes and 100 small-scale local solid waste management investments.
- **Infrastructure for social welfare.** 30 daycare facilities and preschools and 34 health centers were rehabilitated. 70 public parks were constructed; 132 subprojects provided support to libraries.
- **Infrastructure for economic recovery.** Around 200 public parks were created. There were no targets for these activities.
- The activities associated with economic cluster of investments were dropped with the project restructuring.

### Outcomes.

The outputs described above were expected to have two intended outcomes: One, "number of beneficiaries benefitting from project investments". Two, "number of female beneficiaries benefitting from project investments" and three, number of economic infrastructure subprojects benefitting multiple LGAs which met the selection criteria".

- 1,056,700 beneficiaries benefitted from project interventions, exceeding the target of 1,000,000. 604,453 of the beneficiaries were females, exceeding the target of 500,000. A beneficiary survey of 23,897 beneficiaries, noted that 67.4% of the beneficiaries were highly satisfied with the project interventions. The ICR notes that a geospatial analysis conducted to assess the ex-post economic impact of these interventions on local economic activity found a positive and significant coefficient on local economic activity.
- The outcome associated with the number of economic infrastructure subprojects benefitting multiple LGAs was not realized as this activity was dropped during the project restructuring.

Efficacy of this PDO is rated as modest, in view of the dropped activity.



## Rating

Modest

### **OBJECTIVE 2 REVISION 1**

#### **Revised Objective**

The PDO was unchanged. However, the scope was modified with one dropped activity.

#### **Revised Rationale**

The outputs and outcomes discussed above were relevant.

Efficacy of this PDO is rated Substantial after project restructuring.

#### **Revised Rating**

Substantial

### **OBJECTIVE 3**

#### **Objective**

PDO 3. To provide immediate and effective response to an eligible crisis or health emergency.

#### **Rationale**

**Theory of Change.** Activities in this component aimed at providing allocation of funds following an eligible crisis or health emergency. Activation of the CERC component would likely help in responding rapidly to an eligible crisis or health emergency.

#### **Outputs.**

- The CERC pool activities were initiated in May 2021 and concluded by March 2023.
- 265,274 direct project beneficiaries were reached with seeds, planting materials, compensation, equipment, works and services for COVID-19 recovery, exceeding the target of 100,000.
- Tele-education broadcasts were available in all the nine provinces as targeted.
- 49 institutions benefitted from improved digital tools for secure and resilient continuity of operations, short of the target of 80.

#### **Outcomes.**

- The ICR (para 41) notes that the CERC pool was implemented in a satisfactory manner and in line with the Emergency action plan.

Efficacy of this PDO is rated as substantial.

## Rating



Substantial

### **OBJECTIVE 3 REVISION 1**

#### **Revised Objective**

The PDO was unchanged.

#### **Revised Rationale**

Outputs and outcomes as discussed above.

#### **Revised Rating**

Substantial

### **OVERALL EFFICACY**

#### **Rationale**

Overall efficacy was rated as substantial before the project restructuring.

#### **Overall Efficacy Rating**

Substantial

### **OVERALL EFFICACY REVISION 1**

#### **Overall Efficacy Revision 1 Rationale**

Overall efficacy is rated as substantial, given the extent to which the revised targets were met.

#### **Overall Efficacy Revision 1 Rating**

Substantial

## **5. Efficiency**

**Economic analysis:** An economic analysis was not conducted at appraisal, as the subprojects to be implemented were to be identified during implementation under a participatory process. At closure, an economic analysis was conducted for six selected major sectors of investments. The estimated Economic Internal Rate of Return (EIRR) were high and well above the social discount rate of 9% (ranging from 49.3% for solid waste



management, followed by 48.0% for water supply, 37.7% for access roads, 30.5% for markets, 24.2% for income generation and 16.7% for solar lights).

**Administrative and implementation efficiency.** The project experienced severe delays from the onset, as no Project Coordinating Staff (PCU) were assigned an year and half after project effectiveness. This caused delays in activities associated with safeguards and fiduciary requirements. Although the legal covenant assigned a due date of one month after project effectiveness, this criterion was not adhered to. The lack of a management information system (MIS) throughout the project cycle undermined project monitoring. About US\$20.00 million of the IDA credit was cancelled. There were time overruns, with the project closing, about two years behind schedule (although this was partly due to adverse external factors such as the physical restrictions in the wake of the COVID-19 pandemic). Despite the time overruns, some safeguards activities were pending when the project closed.

Overall efficiency is rated as Modest, in view of the administrative issues during implementation.

### Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

The relevance of the PDO to the government strategy and the current Bank strategy for Sri Lanka is substantial. Efficiency is rated as modest, in view of the administrative issues during implementation. Overall efficacy is rated as substantial before and after the project restructuring. The results of the split rating for efficacy are summarized below. Overall outcome is rated as moderately satisfactory.

**Table: Application of Split Rating.**

	Before the Restructuring in July 2023	After the Restructuring in July 2023
Relevance	Substantial	
Efficacy		
Objective 1	Substantial	Substantial



Objective 2	Modest	Substantial
Objective 3	Substantial	Substantial
Overall efficacy	Substantial	Substantial
Efficiency	Modest	
Outcome rating	Moderately Satisfactory	Moderately Satisfactory
Outcome rating value	4	4
Amount disbursed (US\$, millions)	48.28	23.88
Disbursement (%)	67	33
Weight value	2.68	1.32
Total weights	4	
Overall outcome rating	Moderately Satisfactory	

**a. Outcome Rating**  
Moderately Satisfactory

**7. Risk to Development Outcome**

**Macroeconomic risk.** There is risk to the sustainability of development outcome due to the macroeconomic reforms and the 2022 economic/financial crisis, which could affect LGA finances.

**Institutional risk.** The 70 recently completed subprojects, which were non-functional at project closing, are functional to date. However, there is risk that the LGAs might not have enough resources for maintaining the physical infrastructure created under the project, given the recent cuts in government transfers to local governments. Also, continuation of LAPDP is at risk, given that the ward councils have been dissolved.

**8. Assessment of Bank Performance**

**a. Quality-at-Entry**

The Bank prepared this project based on the experience from the previously Bank-funded project in Sri Lanka and from the experiences from LGA projects in India and Bangladesh. Lessons incorporated at design included: One, transparency and predictability of fiscal transfers are critical for the decentralization agenda; and two, strengthening social accountability through social audits are crucial to build trust between citizens and the local government. Given the nature of the project, the Bank prepared this project in close collaboration with the provincial governments and beneficiary LGAs and with EU who were funding complementary activities.

The Project Coordination Unit (PCU) established within the Ministry of Internal and Home Affairs and Provincial Government and Local Government (MIHAPGLG), was responsible for implementation at the



central level. At the Provincial and LGA levels, the BTs and PTs were to be implemented by the Provincial Councils and the LGAs. These arrangements proved to be appropriate during implementation.

The Bank identified several risks at appraisal including substantial risks with the weak implementation capacities of the local agencies, fiduciary risk and political and governance risks. Even with mitigation measures, overall risk was rated as substantial at appraisal. The arrangements made at appraisal for safeguards and fiduciary compliance were appropriate (discussed in Section Ten).

There were moderately shortcomings at Quality-at-Entry. One, the project was overly optimistic as it introduced many new concepts such as equalization and performance-based fiscal transfers in the concept of low-capacity local governments. The lack of familiarity with the Bank's fiduciary and safeguard standards, repeatedly delayed implementation. Two, there was no ex ante economic analysis at appraisal, although this was because the subprojects were to be identified during implemented under a participatory process. Three, there were shortcomings in M&E design (discussed in section 9).

### **Quality-at-Entry Rating**

Moderately Satisfactory

### **b. Quality of supervision**

The Bank organized 12 implementation support missions over the lifetime of the project and this aided in providing timely guidance . The ICR does not provide details but notes although the task team leaders changed over the course of the project, there were adequate transition arrangements for regular operation of supported activities. The Bank reviewed the safeguard aspects of all construction-related subprojects and discontinued the practice of advancing funds to LGAs, relying instead on payments based on completed works and by introducing remedial measures to restore compliance, including commissioning a 2023 safeguard audit of all completed subprojects. The Bank aided by activating the CERC component at government request in the face of the COVID-19 pandemic.

There were moderate supervision shortcomings: One, environmental and social safeguards issues remained when the project closed; and two, the Bank's monitoring and supervision intensified only after the Mid-Term Review (MTR). The supervision could have intensified earlier (e.g. when the legal covenants was not adhered to) to address implementation delays.

Overall Bank performance is rated as Moderately Satisfactory.

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory



## 9. M&E Design, Implementation, & Utilization

### a. M&E Design

The results framework was clear and most of the outcome indicators (discussed in section four) were specific, measurable, relevant and time bound. The Ministry of Interior, Home Affairs, Provincial Council and Local Government (MIHAPCLG) was overall responsible for monitoring performance, which was to be undertaken at three levels: (i) routine monitoring and reporting of project performance; (ii) monitoring LGA performance through annual audits and independent performance audits; and (iii) monitoring outcomes and results through beneficiary surveys.

There were some M&E shortcomings. Although the PDO focused on local government capacity building to deliver local services, most of the outcome indicators were output-oriented. There were no relevant outcome indicators relating to the extent LGA officers improved their capacities. Further, data could have been collected to triangulate whether community needs were met. The M&E design could have included more steps to ensure that Operation and Maintenance (O&M) were built into provincial and local government systems to incentivize focus on sustainability of outcomes.

### b. M&E Implementation

Although an M&E specialist was to be appointed at the start of the project, there were delays in appointing an M&E specialist at the PCU and a part-time M&E specialist was hired only after the MTR. There were delays in data collection mechanisms, and a Monitoring Information System, which was stipulated in the Project Operations Manual to collect data by LGAs and provinces was not established. This contributed to poor data collection and inconsistencies in reporting. Although some efforts were made to train LGAs on M&E reporting, this proved to be inadequate. One positive feature was that the beneficiary survey was conducted on time.

### c. M&E Utilization

The M&E findings were utilized as inputs for project restructurings. The ICR notes that short-term adaptive management was constrained by delays in data reporting and processing.

Overall M&E is rated as Modest in view of the shortcomings in M&E design and M&E implementation.

### M&E Quality Rating

Modest

## 10. Other Issues

### a. Safeguards

The Project was classified as a Category B (partial assessment) project under the WB safeguard policies. Five safeguard policies were triggered at appraisal: Environmental Assessment (OP/BP 4.01); Natural



Habitats (OP/BP 4.04); Physical Cultural Resources (OP/BP 4.11); Indigenous Peoples (OP/BP 4.10) and Involuntary Resettlement (OP/BP 4.12) (ICR, footnote 18, page 16).

**Environmental Assessment, Natural Habitats, Physical Cultural Resources and Indigenous Peoples.**

An assessment conducted at appraisal concluded that the project was unlikely to have large-scale or irreversible impacts. As the project sites were not known at appraisal, an Environmental and Social Management Framework (ESMF) was prepared and publicly-disclosed at appraisal to address the safeguards mentioned above (PAD, para 51).

The safeguards compliance was rated as Moderately Satisfactory when the project closed (ICR, para 76). However, there were significant shortcomings during implementation. An Environmental and Social Compliance Audit (ESSCA) carried out by the Bank highlighted that 61 out of 92 subprojects were recorded as noncompliant due to follow safeguard processes. 27 subprojects showed significant environmental, social and health safety risks. The compliance improved in the final years of the project. Some safeguard issues (such as the restoration efforts aimed at offsetting habitat loss due to the construction of a multipurpose hall and the Environmental Protection License for solid-waste related subprojects) were pending when the project closed. The ICR does not provide any information on whether there was compliance with the safeguards on Indigenous Peoples.

**Involuntary Resettlement.** An assessment conducted at appraisal concluded that the project activities could require land and involve resettlement, as it could include small-scale community infrastructure investments. As the project activities were not known at appraisal, a Resettlement Policy Framework (RPF) was prepared and publicly-disclosed at appraisal to address these issues.

The ICR provides little information on whether there was land acquisition or resettlement. The ICR however notes that there were 51 grievances in four provinces. All were resolved, except for one grievance for which a court hearing was scheduled when the project closed.

## **b. Fiduciary Compliance**

**Financial Management (FM).** The Bank conducted a FM assessment of the Ministry of Interior Home Affairs Provincial Councils Local Government (MIHAPCLG), Provincial Council Commissioner Local Governments (PC CLGs) and Local Government Authority (LGAs) at appraisal. The assessment concluded that the capacities were deemed to be satisfactory (PAD, para 39).

The FM performance was rated as "satisfactory" when the project closed (ICR, para 80). The project complied with the loan covenants. The Interim Unaudited Financial Reports were for the most part, submitted in a timely fashion and the audits were unqualified.

**Procurement Management.** The Bank conducted a procurement assessment of the PCU at appraisal. The PCU had a Procurement Specialist who had experience with a previously-funded Bank project. The assessment concluded that the procurement arrangements were satisfactory (PAD, para 43).



The procurement performance was rated as "Moderately Unsatisfactory" when the project closed (ICR, para 81). There were procurement delays due to the nonavailability of procurement staff during the initial period. There was, however, no reported case of mis-procurement.

**c. Unintended impacts (Positive or Negative)**

There were unintended negative impacts on environment. An Environmental and Social Safeguard Compliance Audit (ESSCA) highlighted that 61 out of 92 subprojects were recoded as noncompliant due to failures to follow safeguard processes and 27 subprojects showed significant environmental, social, health and safety risks (ESHS) breaches. There was habitat loss due to the construction of a multipurpose hall under the Kinniya Urban Council in Trincomalee that needs to be restored.

**d. Other**

Not applicable.

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

**12. Lessons**

The ICR draws the following main lessons from the experience of implementing this project, with some adaptation of language.

**1. Tailoring project design to local capacity can raise the potential for success in community development projects.** The project design was informed by community development projects in Bangladesh and India. This project was implemented in municipalities with weak implementation capacities in Sri Lanka. Many local government staff were not trained in time to follow the Bank guidelines in fiduciary management. This contributed to delays during implementation.

**2. It is important to build in requirements for operation and management plans in projects following participatory planning processes.** This is especially so in countries where O&M is underfunded at the municipality level.



**3. Partnering with other development partners has the potential for enhancing project impact.**

The collaboration with the European Union, which was financing complementary activities in this project, enabled cost-saving synergies, strategic allocation of funding and complementary activities that supported this project's objectives.

**13. Assessment Recommended?**

No

**14. Comments on Quality of ICR**

The ICR is clear, well-written and for the most part, adheres to the recommended page length. The theory of change articulated in the text clearly shows the casual links between project activities (inputs), outputs and the intended outcomes. The theory of change explicitly states the assumptions underlying the theory of change. The ICR appropriately uses the split rating methodology to determine the rating for outcome. The evidence provided in the text is adequate for assessing project performance. The ICR draws reasonably good lessons from the experience of implementing this project. The information provided in the text on the safeguards especially regarding involuntary resettlement, compliance with the safeguards on indigenous peoples was limited. Overall the ICR quality is rated as Substantial.

**a. Quality of ICR Rating**

Substantial