



1. Project Data

Project ID
P147827

Project Name
LK Water and Sanitation Improvement Proj

Country
Sri Lanka

Practice Area(Lead)
Water

L/C/TF Number(s)
IBRD-92550,IDA-56850

Closing Date (Original)
31-Dec-2020

Total Project Cost (USD)
204,162,182.79

Bank Approval Date
24-Jun-2015

Closing Date (Actual)
30-Jun-2025

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	205,000,000.00	0.00
Revised Commitment	194,719,378.00	0.00
Actual	204,162,182.79	0.00

Prepared by
Burcin Pamuksuz

Reviewed by
Fernando Manibog

ICR Review Coordinator
Avjeet Singh

Group
IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the International Development Association (IDA) Financing Agreement (p.4) dated November 6, 2015, and the Project Appraisal Document (PAD, p.5) the project development objective (PDO) was “to increase access to piped water services and improved sanitation in selected districts; and to strengthen the capacity of associated institutions”.



The PAD identified following seven priority districts in four provinces: Mullaitivu and Kilinochchi districts in Northern Province, Nuwara Eliya district in Central Province, Badulla and Monoregala districts in Uva Province, and Kegalle and Ratnapura districts in Sabaragamuwa Province.

In May 2021, the project received an Additional Financing (AF) with restructuring which revised the PDO as “to increase access to piped water services and improved sanitation in selected Districts; and to strengthen the capacity of associated institutions, and in case of an Eligible Crisis or Emergency, respond promptly and effectively to it” while a new component (Contingency Emergency Response Component-CERC) was added. Since CERC was not activated, the change in the PDO did not trigger a split assessment of the project outcome.

For assessing the project’s performance, the PDO is parsed as follows:

Objective 1: To increase access to piped water services in selected districts

Objective 2: To increase access to improved sanitation in selected districts

Objective 3: To strengthen the capacity of associated institutions

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

19-May-2021

c. Will a split evaluation be undertaken?

No

d. Components

Water Supply and Sanitation Improvement Project (WASSIP) originally consisted of four components:

1. Water Supply and Sanitation Infrastructure (Estimated Cost at Appraisal: US\$160.24 million (includes IDA funds of US\$145.22 million and US\$15.02 million of counterpart funding); Revised IDA funds at the second restructuring: US\$148.29 million; Revised IDA funds at the third restructuring: US\$147.35 million); Revised Cost with the AF: US\$205.6 million (total of IDA, IBRD and counterpart funding); Actual Cost at Closing: US\$181.62 million total of IDA and IBRD funds). This component was to finance infrastructure investments to support expansion of piped water services in urban, rural and estate areas in selected districts and institutional sanitation in the rural areas. The following activities were to be implemented: (i) rehabilitation or expansion of piped water services; (ii) construction of septage and/or wastewater treatment plants; and (iii) provision of grants for the construction of latrines. In addition, the project was to carry out hygiene education and awareness building programs. In the rural and estate subsectors selection of water supply schemes was to be based on a participatory and demand responsive approach.



2. Institutional Capacity Strengthening (Estimated Cost at Appraisal: US\$6.43 million (all IDA funds); Revised cost at the second restructuring: US\$4.43 million; Revised cost at the third restructuring: US\$4.0 million; Revised Cost with the AF: US\$5.10 million; Actual cost at Closing: US\$5.42 million). This component was to finance the institutional design and capacity strengthening of the Department of National Community Water Supply (DNCWS); the design and implementation of a Monitoring and Evaluation (M&E) system for Community Based Organizations (CBOs), including a baseline survey of all existing CBOs and Water User Associations; the establishment of a program to formally register CBOs with the DNCWS; and targeted capacity-building support for CBOs, the Rural Water Services Division of the National Water Supply and Drainage Board (NWSDB), the Plantation Human Development Trust (PHDT), plantation companies, and the Estate Workers' Housing Cooperative Society.

3. Sectoral Technical Assistance (Estimated Cost at Appraisal: US\$6.06 million (all IDA funds); Revised cost at the second restructuring: US\$1.90 million; Revised cost at the third restructuring: US\$1.27 million; Revised Cost with the AF: US\$1.39 million; Actual cost at Closing: US\$1.1 million). This component was to support preparation of a Water Supply and Sanitation Sector Program. In addition, a national program to mitigate the aggravating effects of drinking water quality on Chronic Kidney Disease of Unknown Etiology (CKDu) was to be developed.

4. Project Management Support (Estimated Cost at Appraisal: US\$11.20 million (includes IDA funds of US\$7.28 million and US\$3.92 million of counterpart funding); Revised IDA funds at the second restructuring: US\$10.88 million; Revised IDA funds at the third restructuring: US\$12.88 million; Revised Cost with the AF: US\$14.38 million (total of IDA, IBRD and counterpart funding); Actual Cost at Closing: US\$16.02 million (total of IDA and IBRD funds). The Component was to finance the administration and management of project implementation both at the head office of the Ministry of Urban Development, Water Supply and Drainage (MUDWSD) and at the district level.

Revised components:

Restructuring No.2: The restructuring increased the amount of the sanitation grants for construction of household latrines from LKR 35,000 to LKR 50,000 due to increased construction costs as a result of increased inflation and exchange rate fluctuations. Implementation for vulnerable beneficiaries and indigenous communities was revised so that the project was to construct toilets, rather than the beneficiaries constructing the toilets themselves. Also, the revision added construction of sanitation facilities in schools and government institutions. Regarding Component 3, the activities for CKDu (and the relevant IRI removed from the results framework) were removed from the project scope to avoid duplication since the Government of Sri Lanka (GoSL) was already conducting activities. The restructuring added new sector development activities, including the design of a potential revolving fund to support CBOs and the development of a geodatabase for rural water supply and sanitation systems.

Restructuring No.3: The provision of technical assistance for the design of a potential revolving fund to support CBOs was dropped from Component 3 due to a change in government priorities. The restructuring also reduced the scope of preparation activities for urban sanitation. The savings were reallocated to Component 4 to adjust for the project management costs associated with the project extension. In addition, implementation modality for supporting access to basic sanitation was revised again and project began to fully subsidize toilets for differently-abled beneficiaries, women-headed households and indigenous communities.



The AF and the associated restructuring: With the increased project cost, the restructuring included implementation of additional 25 rural water supply schemes, 11 estate water supply projects and two new urban water supply systems and expansion of 6 urban water systems. The scope of the sanitation program was further revised to (i) construct a twin pit latrine as a minimum service level; and (ii) construct septic tanks and soakage pits in areas with high water tables and close to water bodies. The latrines under the project were to replace the unlined unimproved sanitation facilities that the households had without the project, thereby preventing the contamination of groundwater. The amount of grant for rural areas increased to LKR 60,000 from LKR 50,000, and where septic tanks were to be required, the grant was to be LKR 80,000. Three additional septage treatment plants were to be financed under Component 1. Four new activities were added to Component 3: i) feasibility studies for water supply source augmentation; ii) setting up of an inter-agency coordination mechanism for management of water resources for water supply; and iii) development of institutional mechanisms to professionalize CBOs; and (iv) establishment of federations and knowledge sharing mechanisms. Lastly, in accordance with the revision of the PDO, a fifth component (Contingent Emergency Response Component -CERC) was added for provision of immediate response to an Eligible Crisis or Emergency, as needed. As a result of above-mentioned changes in the components, the costs were adjusted and project funds were reallocated among components.

Please see Section 2.e. below for other details of the restructurings.

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

Project cost: The project cost was originally estimated at US\$183.90 million (including borrower contribution and IDA credit of US\$165 million). The project cost increased to US\$226.64 million with the AF (IBRD loan in the amount of US\$40 million and US\$2.74 million of borrower contribution) granted in May 2021. By closing, the actual cost was US\$212.24 million. All funds under IDA credit were fully disbursed. The undisbursed IBRD funds were cancelled at project closing. There was no outstanding amount at project closing.

Financing: The IDA credit amount estimated at appraisal was SDR117.4 million (US\$165 million equivalent). The project received an AF (International Bank for Restructuring and Development -IBRD Loan) worth of US\$40 million and the total World Bank financing reached US\$205 million. The IDA credit was fully disbursed with no balance remaining. The IBRD loan of US\$40 million disbursed US\$ 39,997,657. The difference of US\$ 2,342 was cancelled at project closing.

Borrower contribution: Counterpart contribution at appraisal was estimated at US\$18.9 million (including US\$5 million from the Borrower-Democratic Socialist Republic of Sri Lanka and US\$13.9 million from local communities). Actual counterpart contribution was made by the Borrower in the amount of US\$8.07 million.

Dates: The project was approved on June 24, 2015, and became effective on December 7, 2015. The mid-term review was conducted in May 2018. The project's original closing date (December 31, 2020) was extended by 54 months (including 21 months of implementation period for AF). The first extension was by 15 months at the third restructuring ending on March 31, 2022. The AF extended the implementation to December 31, 2023 by another 21 months. Finally, the third extension was approved for 18 months, from December 31, 2023, to June 30, 2025, to allow for the full completion of AF activities. The project closed on June 30, 2025 with a total implementation period of 10 years.



Restructurings: The project had four restructurings and one AF with restructuring.

Restructuring No. 1 (June 26, 2018- Level 2): This restructuring was initiated following the Mid-Term Review (MTR) conducted in May 2018 which had indicated that the targets in the results framework was unlikely to be achieved by project closing. This was due to project cost overruns in water supply systems because of (i) higher than estimated bid prices; (ii) additional taxes; (iii) selection of a greater number of sub-projects where provision of water supply was more challenging and expensive than is typical for rural areas in the country. Also there had been a lower than estimated demand for sanitation in the project at the current level of subsidy provided. In this context, targets for all PDO indicators except “People provided with access to Improved Water Sources (Rural +Estates)”, and “percentage of female beneficiaries” were reduced. A target was identified for the PDO indicator “number of fully functioning CBOs” which had not been quantified at appraisal. The intermediate results indicators (IRIs) and the costs of components remained unchanged. Targets for sex-disaggregated PDO and output indicators were identified.

Restructuring No. 2 (April 9, 2019- Level 2): In line with the implementation adjustments and scope changes mentioned in Section 2.d. Revised Components and three new IRIs were included in the results framework. These were: People provided with access to improved sanitation outside water supply service areas, schools provided with improved sanitation, sanitation units for differently abled beneficiaries and indigenous communities. Also, in line with revisions in the scope, the restructuring increased the costs of components 1 and 4 while decreasing the costs for components 2 and 3 (See section 2.d. Components).

Restructuring No. 3 (December 21, 2020- Level 2) This restructuring extended the implementation period of the project from December 31, 2020 to March 31, 2022 to enable completion of activities. The restructuring allocated the savings from Components 1, 2 and 3 to Component 4 to adjust for project management costs associated with the project extension. Re-classification of water supply systems from rural to urban led to an adjustment in targets for relevant PDO indicators and IRIs. The restructuring reduced the targets for estate areas due to time required for community engagement and mobilization. On the other hand, the target for rehabilitation works increased due to greater demand from existing CBOs to improve service quality and extend connections. Increased water quality monitoring though the project also revealed schemes that were not compliant with drinking water standards and these were added to the rehabilitation program. As a result of a lower-than-expected demand for individual household toilets, targets for sanitation program were reduced.

Additional Financing and Restructuring (May 19, 2021-Level 1): The AF and fourth restructuring expanded the geographic scope, retained the same project components but added included a CERC (with zero-dollar allocation). Scale-up activities followed the original project design, while smaller adjustments were made to enhance project delivery. None of the changes impacted the Project’s theory of change. In addition, restructuring included the following changes: (i) extension of the loan closing date by 21 months from March 31, 2022 to December 31, 2023; (ii) increase in financing to all components; (iii) adjustment of one indicator to meet corporate requirements (climate co-benefits from households gaining access to safe disposal of fecal sludge in urban areas contributing to reductions in GHG emissions-Number) and the addition of one IRI to address the identified gender gap (new CBOs established under additional financing with at least one woman in a leadership position).

Restructuring No. 5 (August 21, 2023- Level 2): This restructuring extended implementation period of the IBRD loan from December 31, 2023 to June 30, 2025 to allow for full completion of all remaining activities



contributing to the PDO. End target dates in the results framework were aligned with the new closing date. Neither the targets for PDO indicators nor for IRIs changed.

Justification for not implementing a split assessment: Although the second and third restructurings decreased the targets for some of the PDO indicators, the AF and the associated restructuring increased all PDO targets beyond the original values. This ICR Review does not implement a split assessment of the project outcome since by closing, the project exceeded all original and increased PDO targets. Therefore, even if a split assessment were implemented, it would not have an impact on the overall outcome rating.

3. Relevance of Objectives

Rationale

Country context and strategy: Although Sri Lanka has achieved Target 7 of the Millennium Development Goals (MDG) to reduce by half the proportion of people without sustainable access to improved drinking water source and an improved sanitation, there has been some significant variations across the country. In Sri Lanka, there are three sub-sectors: Urban Sub-sector (primary and secondary cities/towns and communities with populations above 6,000); Rural Sub-sector (low density village areas); and Estates Sub-sector (Plantations with small yet high density cluster communities). Across all sub-sectors the sustainability of water resources has been a major challenge, both with respect to quantity and quality of water. The GoSL's vision for the water sector has been to provide access to safe drinking water for all citizens with a particular emphasis on increasing the quality of service. More specifically, GoSL's Vistas of Prosperity and Splendor policy framework and the NWSDB's Corporate Plan, aimed to expand access to improved water supply services to 80 percent of the population by 2025. The government also envisaged a sector with improved institutional performance as well as focus on community involvement in water supply. In this context, the PDO was well aligned with the strategies and priorities of the country since the project aimed to increase access to water services and strengthen the capacity of associated institutions.

The World Bank strategy: At project closing, the PDO remained aligned with the World Bank Group's Country Partnership Framework (CPF) of Sri Lanka for the period of FY24–FY27. The PDO was aligned with the CPF's Objective 5: Maintain and Strengthen Natural and Human Capital for Resilience and Livelihoods under High-Level Outcome 2: Protected and Enhanced Human Capital and Natural Capital. Through expanding access to piped water and improved sanitation in underserved districts, the project contributed to human capital development. In addition, the PDO was also aligned with the Objective 3: Strengthen the Investment Climate and the Resilience and Efficiency of the Financial Sector under High-Level Outcome 1: Economic Stabilization and Private Sector Job Creation. The PDO aimed to strengthen water utilities and to improve urban and rural water infrastructure, contributing to improved investment climate and job creation through construction and maintenance activities. Lastly, since the project targeted regions and the estates sector where access to water supply sanitation (WSS) services has been lower and poverty level higher compared to the national average, it supported the World Bank Group Corporate Goals on poverty reduction and shared prosperity.

Previous sector experience: The World Bank supported Sri Lanka with two consecutive Community WSS Projects, between 1992-2010 (1st CWSSP- Credit 2442-CE, 2nd CWSSP-Grant H0350-CE) which supported rural schemes and latrines. Two non-lending technical assistance studies, one on the estates sub-sector, highlighting the low quality of services in the estates and the challenges of organizing



communities for water and sanitation services and the second on challenges of mobilizing funds and increasing the financial sustainability of the NWSDB. The project design was built on above projects but the PDO also had an emphasis on strengthening capacities in the water sector particularly ensuring long term support to CBOs. In addition, WASSIP was to support investments across all subsectors (urban, rural, estates).

The project benefited from the experience gained from the implementation of previous World-Bank financed projects and technical studies in the country. The PDO was relatively more ambitious compared to previous projects as it targeted strengthening capacities and involving local communities as well as providing support across all sub-sectors. The PDO was well aligned with the priorities of the GoSL as it supported the government's policy framework aiming to expand access to water supply services. The PDO was also aligned with the Bank's strategies.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To increase access to piped water services in selected districts

Rationale

Theory of change: The project inputs were to be used to finance the project activities consisting of the following: construction and rehabilitation of piped water supply schemes covering water treatment plants, distribution and transmission networks and household connections in urban, rural and estate subsectors. These activities were expected to lead to outputs of operational new water systems, rehabilitated and/or upgraded existing systems, and newly installed or rehabilitated household connections. It was expected that these outputs would result in intermediate outcomes of increased access of beneficiaries in urban, rural and estates and increased water service quality. As outcome, these achievements would contribute to improved human capital and sustainability of the environment. The critical assumption was that the connection fees and the tariffs would be affordable enough for the beneficiaries to demand connections to the piped water scheme and improved water services.

The objective was clear. The casual links among activities, outputs and intermediate outcomes were direct and achieved results would be attributable to the activities implemented. The theory of change was mostly reflected in the results framework.

Outputs:

- The project constructed 60,124 new piped household water connections (four people per household) in urban areas while exceeding the target of 57,850. In rural areas the project constructed 53,603 new



piped household water connections (four people per household) and in estates constructed 7,486 connections (five people per household), while almost achieving the targets of 57,400 (rural) and 8,050 (estates). The ICR reports that initially the demand for new piped household water connections was low due to connection fees. To address this issue and to accelerate connections NWSDB introduced a targeted program in project areas, offering subsidies of up to 75 percent of the connection fee, as well as installment-based payment options in other cases. However, this was implemented only towards the end of the program.

- The project rehabilitated 64,563 piped household water connections of existing customers to improve quantity and/or quality of their water supply services while exceeding the target of 48,500. Despite a sizable in-kind contribution (20 percent, given as labor) required from the community for rehabilitation of connections, the demand for this type of activity was strong due to heightened concerns over water quality and the need for advanced treatment. In this context, the project rehabilitated 346 rural water schemes.

Outcomes:

- The project had 1,018,027 direct beneficiaries, slightly below the target of 1,144,500. The target was almost achieved (90%). This number includes the number of people in urban, rural and estate areas provided with access to improved water sources, households gaining access to safe disposal of fecal sludge in urban areas and people provided with access to improved sanitation outside water supply areas. 52% of the direct beneficiaries were women, exceeding the target of 50%.
- Through financing of 28 urban water schemes, the project provided 240,496 people in urban areas with access to improved water sources while achieving the target of 240,260 people. Of the beneficiaries in urban areas, 125,058 of them were women, exceeding the target of 120,130.
- In rural and estate areas a total of 510,094 people were provided with access to improved water sources exceeding the target of 455,200. In those areas, 265,249 women had access to improved water sources exceeding the target of 227,600. To achieve this, the project constructed 124 new rural water schemes. All rural water schemes included water treatment, water testing, and piped networks to households, including meters for all households. In tea estate communities, the project constructed 24 gravity-based water schemes, complete with treatment and household connections.

Other outcomes reported in the ICR not included in the RF hence without targets:

- The impact in the Northern Sri Lanka particularly in Mullaitivu and Kilinochchi (country's two poorest districts where more than 10 percent of the country's poor population resides) was significant. The access rates rose from 3 percent to 24 percent in Mullaitivu and from 2 percent to 30 percent in Kilinochchi due to interventions under the project.

Overall, the project was successful in providing increased number of beneficiaries with improved piped water services through construction of 176 new water schemes in rural, urban in estate areas and rehabilitation of 346 rural schemes and establishing connections. Addressing the affordability issue with respect to connection costs at earlier stages of implementation could have positively impacted the results on number of connections in rural and estate areas and the total number of direct project beneficiaries.

Rating



Substantial

OBJECTIVE 2

Objective

To increase access to improved sanitation in selected districts

Rationale

Theory of change: The project inputs were to be used to finance the project activities consisting of the following: construction and operationalization of septage treatment plants (STPs), construction of public toilet facilities and provision of incentive grants to households for construction of latrines and conducting hygiene education and awareness raising programs for communities. In addition, activity of provision of trainings to communities for taking over the operation and maintenance (O&M) of the systems was foreseen. These activities were expected to lead to outputs of operational septage treatment facilities, operational public toilette facilities in schools, hospitals and tourism areas, constructed household toilettes and hygiene education and increased awareness on hygiene. It was expected that these outputs would result in intermediate outcomes of increased sanitation in households and public institutions in selected districts and improved hygiene behavior and awareness. As outcomes, these achievements would contribute to improved human capital and sustainability of the environment. The critical assumptions were that the communities successfully implement O&M operations and have enough resources to sustain the developed systems.

The objective was clear. The casual links between activities, outputs and intermediate outcomes were direct and achieved results would be attributable to the activities implemented. The theory of change was mostly reflected in the results framework.

Outputs:

- Through the construction of nine STPs, 31,500 households gained access to safe disposal of fecal sludge in urban areas contributing to reductions in GHG emissions. The achievement was significantly below (only 39 percent) the target of 80,500 households. The ICR explains this under achievement by local authorities' prioritizing water supply interventions over STPs, due to stronger household demand for piped water over septage treatment facilities, particularly in the context of increasingly frequent droughts experienced in the country. In addition, in some instances the proposed STP sites faced community opposition due to concerns about unpleasant odors and environmental impact which negatively impacted implementation of this type of activity. In addition, sustainability of these plants is in question.
- The project supported access of 54,556 people (27,278 women) to improved sanitation in rural areas while partially achieving the target of 64,000 people. The target of 32,000 women was not achieved as well. In the estates, the project provided 9,135 people (4,568 women) with access to improved sanitation, not achieving the targets of 12,080 people in total and 6,040 women.
- The project facilitated access of 141,437 people to improved sanitation outside water supply service areas, exceeding the target of 127,000. This is a differentiated indicator to avoid double-counting in PDO1 (direct beneficiaries); these beneficiaries received sanitation but not water supply interventions under the project (Project team response to IEG's questions, March 26, 2026).
- The project supported construction of over 617 sanitation facilities for beneficiaries with disabilities and indigenous communities. The target of 660 facilities was almost achieved (93 percent).



- Through the project activities, 53 schools were equipped with gender-disaggregated toilet facilities while almost achieving the target of 54 schools, several of which were supported by independent water supply systems.
- The project facilitated training of 215,326 people (125,950 women) to improve hygiene behavior/sanitation exceeding the targets of 203,800 (total) and 101,900 (women). This does not include people who have been educated and/or informed through public information or mass publication campaigns. In estates, 69,604 people (43,640 women) received training on hygiene behavior/sanitation exceeding the targets of 45,660 (total) and 22,800 (women). The project ensured that from each household, minimum two heads of household were trained.

Outcomes:

- A total of 205,128 people had access to "improved sanitation facilities" while exceeding the target of 203,100, as a result of project activities implemented across the full sanitation value chain, including providing incentive grants to eligible households for latrine construction; supplying tankers for fecal waste collection; constructing public sanitation facilities in schools, healthcare institutions, and tourist locations; establishing STPs; and delivering sanitation and hygiene education and awareness programs. In rural and estate areas, 106,666 women were provided with improved sanitation facilities. The target of 101,550 was exceeded.

Overall, the project was successful in completing and delivering investments while increasing the access of over two hundred thousand people to improved sanitation. On the other hand, the sustainability of STP investments is at risk. As reported by the ICR (p.7) some plants faced O&M challenges after being handed over to local authorities, who often lacked the necessary technical and administrative capacity. Local authorities faced challenges in allocating revenues generated from the STPs for planned maintenance. As a result, because revenues were pooled in general accounts, funds were not made available for proactive maintenance. Based on this assessment the efficacy of this objective is rated Substantial with moderate shortcomings, notably the weak results of the STP activities.

Rating
Substantial

OBJECTIVE 3

Objective

To strengthen the capacity of associated institutions

Rationale

Theory of change: The project inputs were to be used to finance the project activities consisting of the following: preparation of WSS sector investment program, designing and implementing a management information system (MIS) for collecting data from CBOs, provision of training and equipment for CBOs, NWSDB, PHDT, DNCWS and EWHCS. These activities were expected to result in the intermediate outcomes of implementation of CBO registration program, and establishment of MIS system which would enable sector



monitoring and the strengthened capacities of its institutions. The objective was clear. The casual links among activities, outputs and intermediate outcomes were direct and achieved results would be attributable to the activities implemented. The theory of change was mostly reflected in the results framework.

Outputs:

- By project closing, DNCWS visited and evaluated 1,437 CBOs while exceeding the target of 1,405.
- Within the 121 new CBOs established with the support of the project, all had at least one woman in a leadership position (target:100%). Target was achieved. The project supported 5,991 other water service providers while achieving the full target.
- 100% of grievances registered related to project delivery were redressed exceeding the target of 95%.
- The project supported preparation of a comprehensive sector program. The program, approved by the Ministry, contributed to strengthening sector-wide strategic investment planning. Target was achieved. The program enhanced the government's capacity for evidence-based investment prioritization and informed the preparation of the NWSDB Corporate Plan (2021–2024).

Outcomes:

- Target for designing DNCWS organizational structure and having it approved by the Ministry was not achieved. The recommendations made under the project's sector development plan to clarify mandates across institutions, including NWSDB and DNCWS, were not fully implemented.
- With the support of the project, a publicly accessible MIS was designed and operated by DNCWS. This system, by granting performance grades for each CBO, has become a comprehensive sector monitoring platform and an effective decision-support tool. The MIS aggregates data from over 1,500 CBOs across project districts and tracks key service delivery performance indicators, including water quality, catchment risks, operation and maintenance, asset management, financial management, and organizational performance. The target was achieved.
- The project supported the establishment of 121 CBOs and strengthened their institutional, financial, and operational capacities. The PDO indicator refers to the CBOs that were established or supported under the project. By the end of the project, 62 CBOs formed under the project were still in operation. However, as explained by the project team, this figure is to change when the scale and the number of beneficiaries increase, and the management of the scheme is transferred to a different authority (Meeting with the project team, March 26, 2026). There were additional CBOs supported under the AF (any rural new project would have a CBO to maintain and operate the scheme). All CBOs supported through the project were formally registered as legal entities, enabling them to own property, enter contracts, and enforce tariff collection. The registration process also served to clarify the respective roles and responsibilities between CBOs and DNCWS and enabled DNCWS to implement a regular performance monitoring. The project supported the development of long-term sustainability plans and offered hands-on assistance during the initial O&M phase, helping CBOs build operational skills and maintain service standards. The project also enhanced water quality monitoring capabilities, enabling some CBOs to generate additional income, while fostering broader community development initiatives. The project conducted an assessment across five districts—Nuwara Eliya, Kegalle, Monaragala, and Ratnapura—to evaluate CBO performance. In terms of collection ratios and non-revenue water percentages, the project supported CBO schemes were performing better compared to national averages.



The efficacy of this objective is assessed as Substantial with moderate shortcomings related to the failure to design the DNCWS organizational structure and to fully implement the clarification of mandates across institutions. With the upgrading and operationalization of the MIS, a rural M&E system was established, enabling DNCWs to monitor schemes operated by CBO. The water schemes managed by project established and supported CBOs performed better compared to other local authority managed schemes.

Rating
Substantial

OVERALL EFFICACY

Rationale

Overall, the project's efficacy in achieving its objective is rated substantial. The project achieved increased access for over one million people to new or improved piped water services and to improved sanitation. Project interventions increased monitoring and decision-making and planning capacities of the relevant institutions.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic and financial analysis:

Ex-ante: At appraisal an economic analysis was conducted to compare costs and benefits of the project. The number of beneficiaries was estimated to be 530,000 people (132,500 households). The project's capital cost was US\$118.7 million which included the costs of providing piped water supply schemes, construction of toilets (both Bank subsidy and beneficiary contributions), community mobilization, and project administration. The project was estimated to generate benefits of time savings, avoided health care costs, avoided sick days, and decreased coping costs (water storage and partial treatment). The economic analysis resulted in an Economic Internal Rate of Return (EIRR) of 21.8 percent and a Net Present Value (NPV) of US\$117 million with 10 percent discount rate. It was assumed that the number of persons per household was 4 and the life of capital assets created for urban and rural areas were to be 30 and 15 years respectively. At appraisal, a financial analysis was conducted for a representative sample of six water supply schemes for urban areas. The analysis assumed a project life of 25 years, and cost of capital at 7 percent. The result of the analysis for six subprojects as a package was found to be financially viable with positive NPVs and a Financial Internal Rate of Return (FIRR) of 10.9% with a discount rate of 7 percent.

Ex-post: The economic analysis at completion used the same methodology while using updated project costs (US\$227 million) and project beneficiaries (750,000 water supply beneficiaries and 205,000 sanitation



beneficiaries) but used the same discount rate and number of persons per household assumptions. The EIRR at completion showed similar rate (22.7 percent) and a higher NPV of US\$421 million. The results were aligned with expectations at appraisal, while the overall magnitude of benefits reflected in the scale of investment and absolute net gains was significantly higher. This increase was driven by the project’s expanded scale and coverage under the AF, which nearly doubled the number of beneficiaries. The financial analysis at closing covered eight water supply projects. The projects were found to be financially viable with FIRR of 17.52 percent and an NPV at a discount rate of 7 percent of LKR 1,477 million.

Operational and administrative efficiency: The project’s duration was extended three times, for a total of 54 months, which included a 21-month implementation period for AF. The extensions were mainly as a result of pressing conditions imposed by external factors. The implementation period of WASSIP lived through major external shocks to Sri Lanka, including the Easter Sunday attacks, a macro-fiscal crisis, and the COVID-19 pandemic. Prolonged lockdowns, curfews, and security restrictions led to delays in implementing civil works and community-driven activities. Procurement processes were impacted by supply chain disruptions and limited contractor availability. The sharp depreciation of the Sri Lankan rupee, coupled with inflation and fuel shortages, resulted in substantial price escalations for construction inputs and transport costs, which increased project costs. All these external factors necessitated that the project revise its implementation timelines, adjust targets, and extend the closing date. Despite these challenges the project achieved a 98 percent disbursement of the total project funds.

Efficiency Rating

Substantial

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	✓	21.80	0 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	22.70	0 <input type="checkbox"/> Not Applicable

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

6. Outcome

The project objectives were aligned with the priorities of GoSL and with the World Bank’s strategy for Sri Lanka, and the relevance of objectives is rated as High. Overall, the project’s efficacy in achieving the project objective is rated substantial. The project achieved increased access for over one million people to new or improved piped water services and to improved sanitation while contributing to increased capacities in monitoring, decision making, and planning. The economic analyses conducted at appraisal and project closing confirm the economic viability of the project. There were no major operational and administrative inefficiencies and



encountered issues were mostly addressed during project implementation, which led to an efficiency rating of Substantial. Overall, the outcome of the project is therefore rated Satisfactory.

a. **Outcome Rating**
Satisfactory

7. Risk to Development Outcome

Institutional ownership risk: This risk is substantial. The project contributed to strengthening the capacity of DNCWS to perform its mandated functions by supporting the development of its organizational structure and institutional framework. However, recommendations made under the project's sector development plan to clarify its mandates across institutions, were not fully implemented, which impedes DNCWS to implement its overall sector authority and functions fully. Also, although the MIS system developed with the support of the project enables DNCWS to implement regular performance monitoring and more evidence-based sector planning and oversight, the ICR (p. 15) reports that DNCWS may still have limited commitment and capacity to maintain and operationalize the systems, particularly the MIS. Therefore, these systems face the risk of becoming obsolete without continued institutional ownership, technical upkeep, and adequate staffing.

Other stakeholder ownership risk: This risk is moderate. The project institutionalized a six-month handover and consolidation process between the project and CBOs to ensure a smooth transition to CBO-led operation of rural water supply schemes, by building operational competencies and reinforcing adherence to established service standards. All participating CBOs received training in water quality surveillance and testing. As a result, several CBOs have begun offering water quality testing services within their surrounding areas, creating an additional revenue stream that strengthens their financial sustainability. On the other hand, insufficient technical backstopping from DNCWS could also undermine the CBOs' ability to sustain service delivery standards achieved under the project. Therefore, DNCWS's continued commitment to strengthening its regulatory role, ensuring the functionality of the MIS, and providing structured technical and managerial support to CBOs will be critical to sustain the institutional and operational gains achieved under the project.

Financial risk: This risk is substantial. By offering a subsidy of LKR 50,000 and covering 70 to 85 percent of household toilet construction costs, the project delivered improved sanitation to over 205,000 vulnerable people. Also, NWSDB's sanitation program subsidized connection costs targeting last-mile rural and estate communities. To achieve its goals of provision of safe drinking water to all citizens and improved access to sanitation services, the GoSL will need to implement subsidy programs tailored to the local economic conditions and household capacities. Sustaining increased access will require financial sources to be allocated to these programs from government's own sources and when insufficient, from donor funded projects. In addition, O&M of STPs and consequently their sustainability is at risk, due to challenges for local authorities to allocate necessary financial resources for these types of activities.

8. Assessment of Bank Performance



a. Quality-at-Entry

The project was strategically relevant to the priorities and policies of the government of GoSL since the PDO aimed to contribute to the country's vision to provide access to safe drinking water for all citizens. The PDO was also in line with the Bank's strategies. The design of the project was informed by lessons from earlier rural WSS operations in Sri Lanka. However, the affordability risk associated with piped water connections and also construction of household latrines was underestimated at appraisal. Support provided for connection fees and construction of latrines had to be adjusted during the implementation, which led to underachievement in rural and estate sectors. The project's implementation arrangements were adequate. The MUDWSD was to be the executing agency for the project. The DNCWS was to support the implementation of service delivery in rural areas whereas the PHDT was to be engaged in the implementation of service delivery in estates. The Project Management Unit (PMU) within the NWSDB was to be the core implementing agency with technical expertise and prior experience with World Bank projects. Poverty, gender and social development aspects had an emphasis in WASSIP. The project explicitly prioritized vulnerable and underserved groups in the Northern and Eastern Provinces and targeted indigenous communities and estate communities. It also aimed to foster social inclusion through involving female-headed households and persons with disabilities. The risk assessment conducted at appraisal resulted in an overall risk rating of Substantial. The key risks that were assessed as substantial were political and governance, sector policies and strategies, institutional capacity for implementation and sustainability and fiduciary. To mitigate these risks, several measures were embedded in the project design, implemented before the start of and during the implementation of the project. Some of the measures included conducting fiduciary assessment, provision of support and training to procurement and FM staff, establishing formalized coordination mechanism between PMU and line agencies, provision of institutional support to NWSDB and DNCWS. The monitoring and evaluation (M&E) was to be implemented through the project's results framework. The project monitoring was to be further strengthened by the development of MIS. This was to help regular sector monitoring of the investments made for the rural water and CBO managed schemes.

On balance, the strong quality of project design and preparation leads to a quality-at-entry rating of Satisfactory.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

The project was implemented under challenging conditions including COVID-19 outbreak in early 2020 followed by financial crisis in 2022 which led to delays in implementation. The Bank conducted 20 implementation support missions as documented in the aide memoires, project letters and implementation status and results reports (ISRs). The ISRs were consistently detailed and candid, identifying issues and improvement strategies and actions. The ICR noted that while field presence was initially limited and disrupted by the COVID-19 pandemic, in the final two years of implementation, supervision and in-country engagement intensified. This significantly contributed to improvement of the pace of implementation and delivery of results. Implementation also benefited from the task team leader's location in Nepal as this allowed regular missions for technical and implementation support. The task team has proactively identified implementation challenges and took action to address them through project restructurings and



implementing several relief measures to overcome severe impacts of challenging conditions (see Section 10.b for relief measures).

On balance, the proactive and in-depth Bank support for implementation leads to a quality of supervision rating of Satisfactory.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The causal chains from key activities to outputs were direct and valid. The project objective was clearly specified. The ICR confirms that all relevant project funds were used exclusively for piped services (which provided an improved water source for beneficiaries). The indicators were mostly measurable and specific but the PDO indicator “fully functioning CBOs” was focused on underperforming schemes but not formulated to capture impact of the project on institutional strengthening of newly established CBOs as well. With respect to targets for sanitation activities, although cost estimates were informed by prior project experience, actual construction costs were significantly higher than anticipated. This was as a result of high inflation rate in the country, and different typologies of the sanitation facilities (Meeting with the project team, March 26, 2026). Project monitoring was to be achieved by updating the existing MIS of the NWSDB used in other donor-financed projects. The Results Framework Indicators were to be routinely monitored and measured under the coordination of the PMU.

b. M&E Implementation

The ICR (p. 13) reports that the project effectively fulfilled the M&E requirements set out in the Financing Agreement, including the timely and consistent submission of semiannual progress reports and the successful completion of the MTR. The PMU systematically collected and consolidated data against the results framework, ensuring that performance against the indicators were regularly updated to reflect implementation progress. The data collected through the M&E system was overall in good quality and reliable (Meeting with the project team, March 26, 2026). The issue with cost estimations was addressed and the project, through its first restructuring to set more realistic targets (ICR, p. 13).

c. M&E Utilization

The findings were effectively communicated to the project stakeholders at the government level and World Bank. The M&E findings resulted in four restructurings of the project and the processing of an additional financing to expand the project scope to include sanitation of schools and other public facilities



and financing of sanitation units for vulnerable population. The project team appropriately used the M&E data to assess the achievements of the project and used it as a tool for evidence-based decision-making throughout the project implementation.

Overall, the M&E system as designed, implemented, and utilized was sufficient to assess the achievement of the objectives and test the links in the results chain. Overall, the M&E quality is rated substantial.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

At appraisal, the project's Environmental Assessment Category was identified as "B". A Social Management Framework (SMF) and a comprehensive Environmental Assessment and Management Framework (EAMF) were prepared to provide guidelines for the identification of risks and the establishment of policies and regulatory frameworks for instituting mitigation measures that needed to be adopted to address any adverse environmental and social impacts, including the preparation of site-specific instruments. The project triggered the following policies: Environmental Assessment OP 4.01, Natural Habitats OP/BP 4.04, and Involuntary Resettlement OP/BP 4.12. OP/BP 4.12 was triggered due to the possibility of land requirements. During implementation, public land was utilized in the majority of cases, with only minor land acquisitions required. OP/BP 4.04 was triggered on a precautionary basis. However, there were a few sites that required special wildlife authority permits due to their proximity to protected areas. All infrastructure activities were preceded by the required screening and preparation of safeguard instruments, notably Environmental and Social Impact Assessments (ESIAs) and Resettlement Action Plans (RAPs).

A functional Grievance Redress Mechanism (GRM) was established, with 144 Grievance Redress Committees operating across the seven project districts. A total of 265 grievances were recorded. Most of the cases were related to construction activities and access to water connections. All grievances were resolved by the respective committees or project management units.

b. Fiduciary Compliance

Procurement: The external shocks experienced during the implementation period impacted procurement process through supply chain disruptions, limited contractor availability, and difficulties in importing construction materials. The sharp depreciation of the local currency, inflation and fuel shortages, resulted in substantial price escalations for construction inputs and transport costs, which in turn increased overall project costs and strained available budgets. Under these conditions, the project procured over 300 civil works contracts. Technical assistance from the World Bank and existing well-established capacities of GoSL helped to accelerate procurement processes, which had been slow at the beginning of the project. In addition, the project implemented relief measures to overcome negative impacts of hyperinflation, currency depreciation and material shortages, which included adding Price Adjustment Clauses into contracts, time



extensions, when possible, payment in foreign denominations, facilitation of priority materials imports, and priority fuel quotas.

Financial management (FM): The FM performance of the project was satisfactory during the implementation of the project. Interim unaudited financial reports (IUFs) were submitted on time and found to be satisfactory. External audits received both qualified and unqualified opinions over the implementation period, with no outstanding financial covenants or pending reports at project closure.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

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

12. Lessons

The following lessons are derived from the ICR with some adaptation of language:

- **When managed adaptively to respond to economic challenges and local conditions, demand-driven subsidy programs can be more effective in promoting equitable access to water supply and sanitation.** By offering a subsidy of LKR 50,000 (covering 70 to 85 percent of household toilet construction costs), the project delivered improved sanitation to over 205,000 vulnerable people. However, the program encountered challenges due to Sri Lanka's economic crises, which shifted household priorities away from sanitation investments. This experience underscores the importance of subsidy programs considering local economic conditions and household capacities when designing contributions. Transitioning to a contractor-based delivery approach could enhance reliability in achieving sanitation targets, reinforcing the importance of adaptability in program design.



- **Embedding a clear business plan and a financial model into project design can help to ensure sustainability of STPs.** In the absence of a clear operational and financial model, including projected operating costs, revenue streams (e.g., tipping fees, service charges, reuse products), and asset maintenance plans, local governments face challenges in operating STPs efficiently. In the case of WASSIP, some STPs faced O&M challenges after being handed over to local authorities, who often lacked the necessary technical and administrative capacity. On the other hand, local authorities faced challenges in allocating revenues generated from the STPs for planned maintenance. As a result, because revenues were pooled in general accounts, funds were not made available for proactive maintenance.
- **Integrating water quality infrastructure within local institutional frameworks, can help in strengthening operational capacity, promoting sustainability, and creating opportunities for locally managed service when complemented by capacity building and project-transition strategies.** In WASSIP, the demand for rehabilitating existing schemes was strongest from communities due to heightened concerns over water quality and the need for advanced treatment. Under WASSIP, sixteen dedicated water-quality labs were built and handed over to CBOs, NWSDB, or PHDT, and two mobile labs were financed to support surveillance in remote areas. All participating CBOs received training in water quality surveillance and testing. As a result, several CBOs have begun offering water quality testing services within their surrounding areas, creating an additional revenue stream that strengthens their financial sustainability.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided adequate coverage of project activities and candidly reported on most shortcomings in a concise form. The ICR used the available data to justify most of the assigned ratings consistent with the guidelines. The ICR included an adequate discussion on the achievement of the three elements of the PDO. Lessons in the ICR reflected the project experience and were based on evidence and analysis.

- a. **Quality of ICR Rating**
Substantial

