

Document of  
**The World Bank**

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Report No: 138145-LK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$25 MILLION

TO THE

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR A

FRAMEWORK DEVELOPMENT AND INFRASTRUCTURE FINANCING TO SUPPORT PUBLIC-PRIVATE  
PARTNERSHIPS PROJECT

January 30, 2019

Transport Global Practice  
South Asia Region

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**CURRENCY EQUIVALENTS**  
 (Exchange Rate Effective July 31, 2018)  
 Currency Unit = Sri Lankan Rupee (LKR)  
 LKR 159.71 = US\$1

**FISCAL YEAR**  
 January 1 – December 31

**ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank
AFD	<i>Agence Française de Développement</i>
BII	Bureau of Infrastructure Investment
BoD	Board of Directors
CANC	Cabinet-Appointed Negotiating Committee
CBSL	Central Bank of Sri Lanka
CEO	Chief Executive Officer
CMR	Colombo Metropolitan Region
CPF	Country Partnership Framework
CQS	Selection Based on Consultants' Qualifications
DA	Designated Account
EA	Environmental Assessment
EAMF	Environmental Assessment and Management Framework
EMP	Environmental Management Plan
ERD	External Resources Department
FM	Financial Management
GBV	Gender-based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GoSL	Government of Sri Lanka
GRS	Grievance Redress Service
IC	Selection of Individual Consultant
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Program
IPF	Investment Project Financing
IPP	Independent Power Producer
IUFR	Interim Unaudited Financial Report
LTGEP	Long-Term Generation Expansion Plan
M&E	Monitoring and Evaluation

MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MoFMM	Ministry of Finance and Mass Media
NAPPP	National Agency for Public-Private Partnerships
NPD	National Planning Department
NPV	Net Present Value
OBC	Outline Business Case
PC	Project Committee
PCU	Project Coordination Unit
PIC	Public Investment Committee
PIM	Public Investment Management
PMU	Project Management Unit
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PPPF	Programmatic Project Preparation Facility
PPSD	Project Procurement Strategy for Development
PSIDC	Private Sector Infrastructure Development Company Ltd.
PSIDP	Private Sector Infrastructure Development Project
RAP	Resettlement Action Plan
RFP	Request for Proposals
RFQ	Request for Quotations
RPF	Resettlement Policy Framework
SEA	Sexual Exploitation and Abuse
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
STEP	Systematic Tracking of Exchanges in Procurement
USAID	United States Agency for International Development
USP	Unsolicited Proposal
VoC	Vehicle Operating Cost
VoT	Value of Time
VGF	Viability Gap Funding

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**BASIC INFORMATION**

Country(ies)	Project Name	
Sri Lanka	Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project	
Project ID	Financing Instrument	Environmental Assessment Category
P163864	Investment Project Financing	A-Full Assessment

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
21-Feb-2019	28-Feb-2024
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

**Proposed Development Objective(s)**

The Project Development Objective is to support the preparation of Public-Private Partnerships that will enable the Government of Sri Lanka to facilitate private sector financing for the development of its priority infrastructure and services.

**Components**

Component Name	Cost (US\$, millions)
Improving the Enabling Environment	2.50
Preparation of Selected, Prioritized, Proposed PPP Transactions	19.34
Project Management	4.50

**Organizations**

Borrower: Democratic Socialist Republic of Sri Lanka  
 Implementing Agency: Ministry of Finance and Mass Media

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	27.00
<b>Total Financing</b>	27.00
<b>of which IBRD/IDA</b>	25.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	25.00
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**Non-World Bank Group Financing**

Counterpart Funding	2.00
Borrower/Recipient	2.00

**Expected Disbursements (in US\$, Millions)**

WB Fiscal Year	2019	2020	2021	2022	2023	2024
<b>Annual</b>	0.29	2.94	5.00	6.23	6.59	3.95
<b>Cumulative</b>	0.29	3.23	8.23	14.46	21.05	25.00

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Transport

**Contributing Practice Areas**

Climate Change, Finance, Competitiveness and Innovation, Macroeconomics, Trade and Investment, Infrastructure, PPP's & Guarantees

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Gender Tag**

**Does the project plan to undertake any of the following?**

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

**Risk Category**

**Rating**

1. Political and Governance

● High

2. Macroeconomic

● Moderate

3. Sector Strategies and Policies

● Moderate

4. Technical Design of Project or Program

● Moderate

5. Institutional Capacity for Implementation and Sustainability

● Substantial

6. Fiduciary

● Substantial

7. Environment and Social

● Substantial

8. Stakeholders

● Moderate

9. Other

10. Overall

● Substantial

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36	✓	
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

**Legal Covenants**

Sections and Description

The Borrower shall maintain, or cause to be maintained, the Board of Directors with terms of reference, composition and resources satisfactory to capably, inter alia, provide overall direction and strategic guidance to NAPPP and carry out monitoring and evaluation of the Project (LA, Schedule 2, Section I.A.1).

Sections and Description

The Borrower has established and shall maintain, or cause to be maintained, NAPPP with terms of reference, composition and resources satisfactory to the Bank to, inter alia, provide support to other government’s agencies for the identification, preparation, evaluation, negotiations and award of their Proposed PPP Transactions supported under the Project.(LA, Schedule 2, Section I.A.2(a))

Sections and Description

The Borrower shall assign staff from the Borrower's Ministry of Finance and Mass Media and/or recruit, or cause to be recruited, consultants as needed, in adequate number and each with terms of reference, qualifications and experience also acceptable to the Bank, including without limitation a Procurement Specialist, a Financial Management Specialist, an Environmental Specialist and a Social Specialist and shall, in particular, no later than one (1) month after the Effective Date, assign staff or recruit consultants meeting such requirements for monitoring and evaluation, reporting, and ensuring compliance with environmental and social safeguards requirement (LA, Schedule 2, Section I.A.2(c)(i),(ii) and (iii)).

Sections and Description

The Borrower shall ensure that the Project shall be implemented in accordance with the guidelines, procedures, timetables and other specifications set forth in the Safeguard Documents. (LA, Schedule 2, Section I.B.3).

Sections and Description

The Borrower shall ensure, or cause NAPPP to ensure, that all terms of reference for any technical assistance or studies carried out under the Project are consistent with, and pay due attention to, the Bank Policies, as well as the Borrower's own laws relating to the environment and social aspects relevant to the Project. (LA, Schedule 2, Section I.B.1).

Sections and Description

Prior to the inclusion of a potential PPP transaction for preparation under Part B of the Project, the Borrower shall carry out the screening process described in the Safeguard Documents for potential social and environmental impact to identify/define: the Bank Policies triggered by such potential PPP project; its environmental category under Bank Policies; the safeguard instruments to be prepared during preparation of engineering designs; as well as the consultation and disclosure requirements. (LA, Schedule 2, Section I.B.2).

Sections and Description

The Borrower shall ensure that each Proposed PPP Transaction included in Sub-Part B.1 of the Project is designed, and each Proposed PPP Transaction included in Sub-Part B.2 of the Project is designed, procured and negotiated, in each case in a manner which is consistent with and pays due attention to the requirements of the Bank Policies, including the requirement that any contracts for civil works under any Proposed PPP Transaction include codes of conduct in form and substance acceptable to the Bank, detailing measures on environment, health and safety and preventing and responding to HIV/AIDS, gender-based violence, and violence against children. (LA, Schedule 2, Section I.B.4).

Sections and Description

Except as the Bank shall otherwise agree in writing and subject to compliance with applicable consultation and public disclosure requirements of the Bank, the Borrower shall not abrogate, amend, repeal, suspend or waive any provisions of any of the Safeguard Documents, nor permit any entity participating in the implementation of the

Project to do so. (LA, Schedule 2, Section I.B.5).

**Sections and Description**

Without limitation upon its other reporting obligations under this Agreement, the Borrower shall cause NAPPP to regularly collect, compile and submit to the Bank, on a semi-annual basis and promptly in a separate report whenever the circumstances warrant, reportson the status of compliance with the Safeguard Documents, giving details of: (a) measures taken in furtherance of the Safeguard Documents; (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Safeguard Documents; and (c) remedial measures taken or required to be taken to address such conditions. (LA, Schedule 2, Section I.B.6).

**Sections and Description**

No later than one (1) month after the Effective Date, the Borrower shall, or cause NAPPP to, prepare and adopt the Project Operations Manual, and ensure that it will be at all time at adoption and during Project implementation in form and substance acceptable to the Bank, and ensure that the Project is carried out in accordance with the Project Operations Manual. (LA, Schedule 2, Section I.D.1 and I. D.3(a)).

**Sections and Description**

The Borrower shall maintain and operate throughout the period of Project implementation, a grievance redress mechanism for the handling of any stakeholder complaints arising out of the implementation of the Project activities. (LA, Schedule 2, Section I.B.7).

**Sections and Description**

Without limitation to the provisions of Section 5.03 of the General Conditions, the Borrower shall provide an amount of not less than the equivalent of two million Dollars (\$2,000,000) as counterpart funds for the Project (“Counterpart Funds”). (LA, Schedule 2, Section I.C.1).

**Sections and Description**

Each year, the Borrower shall prepare, or cause to be prepared, a draft annual work plan and budget ( with evidence of (i) the prioritization of the proposed PPP transactions to be included in the Project and (ii) the preparation of the safeguard documents for the activities included in such draft) and furnish it to the Bank no later than October 15th of each year, for the Bank’s agreement, prior to its finalization by the Borrower, except for the first year of implementation of the Project when the deadline for transmission of the draft annual work plan and budget to the Bank is one month after the Effective Date. (LA, Schedule 2, Section I.E.2).

**Sections and Description**

The Borrower shall, not later than thirty (30) months after the Effective Date, or such other date as may be agreed with the Bank, carry out jointly with the Bank, a midterm review of the Project, on the basis of a report submitted by the Borrower to the Bank no later than one month before the mid-term review (LA, Schedule 2, Section II.2(a) and 2(b)).

**Conditions**

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SRI LANKA  
 FRAMEWORK DEVELOPMENT AND INFRASTRUCTURE FINANCING TO SUPPORT PUBLIC-PRIVATE  
 PARTNERSHIPS PROJECT

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## I. STRATEGIC CONTEXT

### A. Country Context

1. **Overview.** Sri Lanka is a lower-middle-income country with a per capita gross domestic product (GDP) of US\$4,065 in 2017.<sup>1</sup> The economy grew at an average 5.8 percent during 2010–2017 following the end of the 30-year civil war in 2009, enjoying the benefits of a peace dividend and policy thrust toward reconstruction and growth. In 2017, it recorded a 3.1 percent GDP growth<sup>2</sup> and is expected to reach 4.4 percent growth in 2018.<sup>3</sup> It ranks relatively high (73) on the United Nations Human Development Index compared to other developing economies and 110 on the World Bank Group’s Doing Business Indicator in 2017 (up from 113 in 2015).

2. **Challenging fiscal landscape.** Sri Lanka is faced with large fiscal deficits and high public debt. In 2015, the country recorded a fiscal deficit of 7.6 percent of GDP and a Central Government debt level of 77.7 percent of GDP.<sup>4</sup> The corrective fiscal measures adopted following the International Monetary Fund (IMF) program in 2016 saw the fiscal deficit reduced to 5.5 percent of GDP in 2017.<sup>5</sup> However, the Central Government debt remained high at 77.6 percent of GDP by end-2017<sup>6</sup> while the debt portfolio indicated significant risks including refinancing risks of maturing Eurobonds from 2019 and a relatively high share of foreign currency-denominated debt.

3. **Vision 2025.** The Government that came to power in 2015 envisions promoting a globally competitive, export-led economy with an emphasis on inclusion. It has indicated keenness to undertake reforms in the areas of public finance, competitiveness, governance, and education sectors. In 2017, the Government of Sri Lanka (GoSL) presented Vision 2025, a policy document encompassing structural reforms to address key economic challenges. Vision 2025, among other things, recognizes economic limitations faced by the country due to the constrained fiscal space and the importance of promoting private sector participation in strengthening economic growth.

### B. Sectoral and Institutional Context

4. **Growing infrastructure needs.** In Sri Lanka, infrastructure has been a significant driver of economic growth in recent years with key infrastructure sectors being transport, energy, and water supply and sanitation. Several studies have identified a number of constraints in these specific sectors which require large capital investments. Investments in the transport sector have thus far concentrated on the rehabilitation of the road network and the development of expressways with less effort on the development of bus or rail networks, which has led to a deterioration of public transport. The Western Region Master Plan developed by the Ministry of Megapolis and Western Development envisions about US\$11 billion in transport-related investments up to 2020 in the Western Region alone. The country is currently facing shortages in power generation and addressing these constraints requires at least US\$2.73

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<sup>1</sup> Annual Report 2017 - Central Bank of Sri Lanka.

<sup>2</sup> Annual Report 2017 - Central Bank of Sri Lanka.

<sup>3</sup> World Bank staff estimates.

<sup>4</sup> Annual Report 2017 - Central Bank of Sri Lanka.

<sup>5</sup> Annual Report 2017 - Central Bank of Sri Lanka.

<sup>6</sup> Annual Report 2017 - Central Bank of Sri Lanka.

billion worth of capital investment up to 2020, US\$5.46 billion up to 2026, and US\$10.53 billion up to 2037.<sup>7</sup> Lack of capital due to poor cost recovery and high investment required for water resource development are key constraints facing the water and sanitation sector. The World Bank in 2014 estimated the investment needs of water supply and sanitation infrastructure at US\$429 million per year until 2020<sup>8</sup> (see Annex 1 for more details).

5. While the Colombo Metropolitan Region (CMR) has seen an increase in infrastructure investments over the years, the country still has a lot to do in addressing economic and social infrastructure needs beyond the CMR. According to GoSL estimates, around US\$27.4 billion in public funding (about LKR 4,335 billion) is required to address the infrastructure needs for 2017–2020<sup>9</sup> (of which about US\$5 billion are off-budget funding requirements).

6. **Current infrastructure financing.** Infrastructure financing in the country has so far been dominated by public funding, often supported by loans from international financial institutions (IFIs) and countries such as China and Japan which have typically lent to the GoSL/state-owned enterprises (SOEs). In addition, some of the infrastructure projects were also financed by SOEs by borrowing locally with the support of a sovereign guarantee. Private sector financing in infrastructure is often only sought in cases where a project is unable to secure public funding irrespective of whether or not the project is actually suitable for private sector investment.

7. **Fiscal constraints necessitate the need to attract more private investments.** With high public debt levels, continuing to rely on public debt financing to provide infrastructure is unlikely to be a sustainable approach for the GoSL. Therefore, moving forward, public-private partnerships (PPPs), although complex and time consuming, are seen as one of the solutions that may provide value for money for projects that are well prepared and structured, where suitable.

8. **Sri Lanka's past successful experience in PPPs.** Sri Lanka has the potential to benefit immensely from a PPP program in addressing its infrastructure requirements given its past successful track record where private participation in infrastructure over 1995–2005 totaled US\$2.1 billion across the transport, telecom, and energy sectors. Several of these projects procured over a decade ago have already completed successful implementation without any renegotiation.

9. **Analytical work underpinning the design of the PPP program.** The GoSL approached the World Bank in 2016, seeking assistance in developing a robust PPP program in Sri Lanka. The World Bank carried out a PPP Diagnostic (September 2016) and the results of this diagnostic together with recent experiences and several ongoing assessments of the World Bank such as the Infrastructure Sector Assessment Programs (InfraSAPs) for transport and energy, the Public Investment Management Assessment carried out in coordination with the IMF, and the project prioritization exercise carried out for the water sector have informed the design of the project. Furthermore, results of the assessments carried out by the consultants assisting the preparation of the enabling environment for PPPs under the Public-Private Infrastructure Advisory Facility (PPIAF) have also contributed to the project design.

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<sup>7</sup> World Bank staff estimates based on the Long-Term Generation Expansion Plan (LTGEP) 2018–2037 of the GoSL.

<sup>8</sup> Water and Sanitation Study Dissemination (2014) - World Bank.

<sup>9</sup> Public Investment Program 2017–2020 - GoSL.

10. **Several constraints identified in these assessments impinge on a successful PPP program.** In the recent past, several transactions that could have been developed as PPPs have been financed through public finance with some of them being pursued as unsolicited proposals (USPs) failing to extract value for money. The use of USPs has been exacerbated by limited capacity in the GoSL to prepare and procure PPPs. The initiatives by the GoSL to invite the private sector without appropriate due diligence or transaction structuring have resulted in abortive project processing adding to the frustration of the GoSL that is keen to show results. The absence of a transparent policy framework and inconsistent application of its strategies has resulted in decreased investor confidence. Furthermore, Sri Lanka is also suffering from limited availability of domestic finance that can sustain a large PPP program (see details in Annex 1).

11. **The GoSL so far has shown strong and continued commitment to the PPP agenda by establishing the PPP Unit.** In 2017, a PPP Unit was established by the GoSL based on the recommendations made in the World Bank's PPP Diagnostic. Subsequently, the PPP Unit was reconstituted as the National Agency for Public-Private Partnerships (NAPPP). The NAPPP was temporarily established as a department under the Ministry of Finance and Mass Media (MoFMM) in January 2018 with the expectation that it will be established as a separate legal entity through an Act of Parliament or an alternative legal mechanism to ensure sustainability within the institutional structure. Furthermore, a Board of Directors (BoD) has been constituted which will have oversight over the NAPPP and its processes. The BoD will provide guidance to the NAPPP on policy-related issues, communications, and overall monitoring and evaluation (M&E) of the PPP program. The GoSL currently has investment projects of approximately US\$3 billion<sup>10</sup> to be developed through PPPs.

12. **Assistance provided to the PPP program through the PPIAF.** At the request of the GoSL, the World Bank obtained a US\$700,000 grant from the PPIAF, a multi-donor technical assistance facility financed by multilateral and bilateral donors and managed by the World Bank. The World Bank has used these resources to finance the provision of recommendations and carrying out of capacity-building activities on the PPP legal and regulatory framework including on PPP-related guidelines, the organizational structure of the NAPPP, its staffing and knowledge building and management, and the development of tools for the prioritization of possible PPP transactions and for the assessment of their level of readiness, such as Outline Business Cases (OBCs). The specific activities financed by the grant are discussed in more detail in Annex 5.

### **C. Higher Level Objectives to which the Project Contributes**

13. **A well-designed PPP program would help the GoSL accelerate economic growth and achieve its development objectives in a number of ways:** it would (a) help establish an environment more conducive to private investment; (b) supplement the GoSL's limited capacity to address growing infrastructure needs in the country; (c) provide a platform to engage the private sector in economic activities and benefit from the operational efficiencies resulting, for instance, from the use of technology and innovation; (d) help the GoSL better manage its fiscal obligations; and (e) encourage other foreign direct investment into the country.

14. **The project also directly supports several objectives outlined in the Country Partnership Framework (CPF) for FY17–20 discussed by the Board on June 28, 2016 (Report No. 104606-LK).** The CPF

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<sup>10</sup> Estimated by the NAPPP based on the availability of information and excludes projects in the Port City that still requires clarity.

acknowledges the need to bring in more private sector investment in infrastructure, given the rising fiscal constraints in the country, and identifies PPPs as one of the most suitable delivery options (Objective 1.3 - Pillar 1). The development of a well-designed PPP program could help improve public finance management by reducing the need for direct public financing of investment (Objective 1.1 - Pillar 1), as well as strengthening the management of those fiscal risks related to the use of PPPs. By creating opportunities for private sector involvement in the infrastructure sector, the project supports the improvement of the enabling environment for private investment and trade (Objective 1.2 - Pillar 1). Finally, improved access to infrastructure and increased employment opportunities would contribute to the World Bank's corporate goals of ending extreme poverty and promoting shared prosperity.

15. **Maximizing finance for development (MFD).** Given that the project will be supporting the GoSL to strengthen the enabling environment for PPPs and undertake feasibility studies on those transactions that have the potential to be PPPs, it has a high potential to address a number of constraints to enable sustainable private sector solutions for development projects within three years of the project's closing date.<sup>11</sup> As such, this project will be MFD enabling. In addition to the project itself, InfraSAPs in the transport and energy sectors are currently being carried out jointly by the World Bank and the International Finance Corporation (IFC) to operationalize the World Bank's commitment to MFD by leveraging the private sector and optimizing the use of scarce public resources. These InfraSAPs are assessing the constraints for mobilizing long-term finance in these sectors, with the objective of providing a road map of proposed solutions and recommendations whereby the GoSL could establish a realistic way forward in achieving its objectives within these two sectors by more efficiently mobilizing commercial finance. It is intended that the analysis and recommendations arising from these two InfraSAPs will further inform and support the activities that will be carried out under the project and help identify alternative sources of finance including through PPPs. Therefore, this project, combined with the other PPP-related work that the World Bank Group is currently undertaking in Sri Lanka, is expected to open opportunities for private sector investors, possibly but not necessarily with additional support from IFC and/or MIGA where needed.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

16. The Project Development Objective (PDO) is to support the preparation of Public-Private Partnerships that will enable the Government of Sri Lanka to facilitate private sector financing for the development of its priority infrastructure and services.

### B. Project Beneficiaries

17. The project is expected to benefit the GoSL by increasing private sector participation in infrastructure development which is currently constrained due to fiscal limitations. The improvement in the enabling environment should help minimize the costs of inefficiency borne by the GoSL and improve the structuring and implementation of PPPs. While PPPs would also help the GoSL reduce its reliance on public debt-financed infrastructure, the GoSL needs to also be aware of the fiscal risks that could arise out

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<sup>11</sup>

<https://worldbankgroup.sharepoint.com/sites/MFD/Document/Technical%20Guidance/Clarification%20on%20MFD%20Enabling%20Projects.pdf>

of PPPs. The various line ministries and agencies involved in infrastructure development will also benefit from the improvement of the regulatory environment and institutional processes as well as the improvement in capacity to identify, procure, and execute PPPs more efficiently and deliver on their mandate. The public is likely to gain increased access to more efficiently managed and better-executed infrastructure, owing to the use of technology and innovation. Finally, the project will also benefit the private sector, by (a) strengthening procurement processes, (b) improving the reliability of the legal framework, (c) coordinating all PPP-related activities under a single institution, and (d) increasing opportunities for long-term investment in better structured projects.

### C. PDO-Level Results Indicators

18. The PDO will be measured through the following key indicators:
- (a) Feasibility studies or project designs completed for at least five (5) PPP transactions with the assistance of the project<sup>12</sup>
  - (b) Transaction advisory services provided for at least four (4) PPP transactions with the assistance of the project
  - (c) Commercial closure of at least three (3) PPP transactions with the assistance of the project

## III. PROJECT DESCRIPTION

19. **The project will contribute to the transformation of government systems and enhance the government capacity for planning and evaluation of PPPs which is expected to increase investor confidence.** The main thrust of the project will be to prepare feasibility studies and provide transaction advisory services to improve the structuring of selected PPP transactions, throughout the preparation of the tender documents and, in some cases, the negotiation of the contractual arrangements with the selected bidder, through award and up to the financial closure. The project components are discussed briefly in the next section and in detail in Annex 1.

### A. Project Components

#### Component A: Improving the Enabling Environment (US\$2.5 million from IBRD)

##### *A.1: Establishing the Institutional Environment for Sustainability of PPPs*

20. This subcomponent aims to carry out the following activities to improve and strengthen the borrower's enabling environment for PPPs:

- (a) Strengthening and institutionalizing the NAPPP

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<sup>12</sup> Feasibility studies will also include environmental, social, and gender analysis.

- (b) Establishing institutional arrangements for the provision of long-term infrastructure financing for PPPs and funding of the preparation of proposed PPP transactions, with a focus on addressing identified weaknesses in the infrastructure finance sphere
- (c) Establishing mechanisms to channel public funding to improve financial viability of PPPs (viability gap funding [VGF])
- (d) Developing principles for the assessment of direct and contingent liabilities arising from PPPs
- (e) Establishing and strengthening other key institutions that would contribute to the successful implementation of the borrower's PPP program (such as the establishment of PPP nodes in line agencies) and establishment or strengthening of institutions critical in enhancing the enabling environment (such as a procurement appeal committee and an arbitration mechanism)

#### *A.2: PPP Capacity Building*

21. This subcomponent aims to carry out capacity building and training activities relevant to PPPs and the implementation of the borrower's PPP program, targeting the following audience:

- (a) The NAPPP's staff and consultants
- (b) The borrower's government agencies, including its MoFMM, its Attorney General Department, and its National Planning Department (NPD); agencies currently involved in the preparation or implementation of PPP transactions; decision-making bodies (particularly the negotiating committees appointed by the borrower's cabinet for the negotiation of each proposed PPP transaction); and the borrower's other government staff at central and provincial levels
- (c) Local private sector and banking industry

#### *A.3: Communication and Stakeholder Engagement for PPP*

22. This subcomponent aims to carry out the following activities to strengthen the engagement of stakeholders and citizens to support the borrower's PPP program:

- (a) Developing and implementing the NAPPP's communication strategy
- (b) Organizing roundtable discussions and consultations with representatives of the private sector and other stakeholders

### **Component B: Preparation of Selected, Prioritized, Proposed PPP Transactions (US\$19.34 million from IBRD)**

#### *B.1: Feasibility Studies*

23. This subcomponent aims to carry out feasibility studies for selected prioritized proposed PPP transactions, covering due diligence of all aspects of the proposed PPP transaction, including

- (a) Its technical, legal, economic, and financial feasibility (technical scoping, concept design, and economic and financial analysis including value for money analysis);
- (b) Other assessments as relevant to such proposed PPP transactions (such as gender analysis, traffic surveys, and willingness-to-pay surveys; mechanisms for citizen engagement, grievance redress, and management of labor influx; and environment and social assessments (although they will be carried out independently of the feasibility study); and
- (c) The provision of technical assistance to agencies where policy or strategic decisions are needed before initiating PPPs, including with respect to potential new areas for PPPs, such as financial services, logistics, shipping, aviation and tourism.

*B.2: Project Structuring and Transaction Advisory Services*

24. This subcomponent aims to provide policy, transaction, legal, and financial advisory support for the structuring of one or more selected prioritized proposed PPP transactions (whose technical feasibility has already been confirmed through acceptable feasibility studies), preparation of the procurement documentation, and negotiations of the contractual arrangement with the selected bidder, up to financial closure, including

- (d) Market sounding, design of risk allocation matrix, financial modelling, and preparation of the project documents (concession and other agreements) for the proposed PPP transaction;
- (e) Provision of professional and experienced skills to support negotiations with the selected bidder and financiers to, among others, increase value for money, up to financial close; and
- (f) Provision of technical advice related to fiscal impact of the proposed PPP transactions and for the assessment of the borrower's direct and contingent liabilities related to such transaction and, where necessary, structuring of risk mitigation instruments to improve bankability.

**Component C: Project Management (US\$2.5 million from IBRD and US\$2.0 million from counterpart funding)**

25. This subcomponent aims to provide operational support to the NAPP for the management of the borrower's PPP program, such as equipment, goods, and services, for its day-to-day operation in general, including project coordination, management, reporting, and M&E.

## B. Project Cost and Financing

Project Components	Project Cost	IBRD Financing (US\$, millions)	Counterpart Funding <sup>13</sup> (US\$, millions)
A. Improving the Enabling Environment	2.50	2.50	0.00
B. Preparation of Selected, Prioritized, Proposed PPP Transactions	19.34	19.34	0.00
C. Project Management	4.50	2.50	2.00
<b>Total Component Costs</b>	<b>26.34</b>	<b>24.34</b>	<b>2.00</b>
Programmatic Project Preparation Facility Advance Reimbursement <sup>14</sup>	0.60	0.60	0.00
<b>Total Project Costs</b>	<b>26.94</b>	<b>24.94</b>	<b>2.00</b>
Front-End Fees <sup>15</sup>	0.06	0.06	0.00
<b>Total Financing Required</b>	<b>27.00</b>	<b>25.00</b>	<b>2.00</b>

## C. Lessons Learned and Reflected in the Project Design

26. The key lessons learned through the GoSL's recent attempts at preparation and implementation of PPPs as well as experience from the previous PPP era complemented with the World Bank's own experiences and constraints faced in similar projects in Ghana and Kenya, have been reflected in the project design.

27. **Absence of an adequate enabling environment for PPPs.** It has been identified that a robust legal, regulatory and institutional framework is critical in attracting private sector participation in infrastructure development. As the GoSL has already started to carry out activities to strengthen the enabling environment, the proposed project has allocated resources to further develop a robust enabling environment for PPPs.

28. **Reluctance to carry out adequate due diligence before execution of transactions.** In the recent past, several PPP transactions have been initiated without adequate due diligence, which has resulted in the procurement process being aborted. This is mainly due to limited skills and understanding in the preparation of PPP transactions as well as political expediency that has tended to favor shortcuts in project preparation to provide quick results. The proposed project is designed to provide substantial support in carrying out feasibility studies, as well as structuring of transactions that would attract the private sector. It also provides substantial capacity building to help better prepare and implement PPP transactions.

29. **Multiple agencies with overlapping functions.** The PPP Diagnostic identified the issue of different line ministries and agencies pursuing PPPs independently due to the lack of clear assignment of

<sup>13</sup> The US\$2 million of counterpart funding will cover salary costs of the NAPPP on a parallel basis.

<sup>14</sup> The portion of programmatic preparation advance no. P4910 granted by the World Bank to the borrower pursuant to the letter agreement signed on behalf of the World Bank on January 26, 2018 and on behalf of the borrower on January 30, 2018.

<sup>15</sup> The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

responsibilities among the institutions involved in PPPs. The establishment of the NAPPP and the formalization of its position within the PPP procurement guidelines as the sole institution responsible for coordinating PPP-related activities is expected to help overcome this issue. In addition, the experiences of PPP Units from other countries (South Africa and Philippines, in particular) have been considered in the establishment and the structuring of the NAPPP.

30. **Limited institutional capacity.** There is currently very limited capacity throughout the GoSL to develop PPPs. Therefore, the project has been structured to include technical assistance to develop the NAPPP's own capacity as well as the capacity of various line agencies with respect to structuring and procuring of PPPs. Once the NAPPP's capacity has been built up, it is expected that it will be able to provide the relevant capacity support to other ministries and line agencies.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

31. **The implementing agency of the project will be the MoFMM.** To carry out the implementation, a division (that is, the NAPPP) has been established within the MoFMM. Once the NAPPP is restructured and constituted as a legal entity separate from the MoFMM and the World Bank has confirmed that it is acceptable to the World Bank for implementing the project, it will assume the role of the implementing agency for the project independent of the MoFMM. The NAPPP is currently being managed by the BoD and a chairman who is also the acting Chief Executive Officer (CEO). The BoD that has been appointed by the MoFMM will have oversight over the NAPPP and its processes and provide policy-level guidance and monitor the transactions assisted by the NAPPP.

32. **The NAPPP was established through a decision of the Cabinet of Ministers with the appointment of the current personnel in January 2018<sup>16</sup>.** It is currently staffed with 11 professionals with financial and legal skills recruited from the private sector on a contract basis. It is envisaged that the required specialists for environment and social safeguards, M&E, financial management (FM), and procurement will be recruited and/or be seconded from the MoFMM as necessary so that the NAPPP will have a healthy mix of public and private sector skills and experience. Being a newly established institution, the NAPPP does not have any previous experience in executing World Bank-financed projects and, as such, will need to be closely guided by the World Bank team so that the NAPPP adheres to the requirements and policies of the World Bank with regards to safeguards, procurement, and FM during the implementation of the project.

33. **The NAPPP will support the various ministries and line agencies in project identification, preparation, evaluation, and negotiation and award.** The NAPPP will provide (a) financial and legal advice in the PPP transactions and (b) act as the convener of the PPP preparation and procurement process. The NAPPP will also act as the interface between the GoSL and the private sector, coordinating all PPP transactions-related requirements. The authority and the process for the NAPPP to carry out these functions will be provided through the GoSL's procurement guidelines for PPPs. It will carry out these functions with the support of consultants as well as through its own staff. In engaging consultants to help implement the project, the NAPPP will be required to follow the World Bank Procurement Regulations. These consultants will be engaged to support the staff of the NAPPP in carrying out activities financed

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<sup>16</sup> The NAPPP has been established by Cabinet Decision dated July 11, 2017

under this project, including preparation of feasibility studies, transaction structuring, and contract negotiations. However, in the procurement of the actual concessionaire for the delivery of the PPP transaction, the NAPPP will follow the GoSL's procurement guidelines for PPPs. An Operations Manual will be prepared to streamline the processes to be followed in the implementation of the project. See Annex 2 for details.

## **B. Results Monitoring and Evaluation**

34. The overall monitoring of the project will be carried out by the NAPPP's BoD who will review the progress of the NAPPP periodically. The progress reviews of the BoD will be held quarterly with the participation of the NPD, External Resources Department (ERD), Department of Project Management and Monitoring, ministries and line agencies of the PPP transactions under preparation, and the World Bank. A Quarterly Project Monitoring Report will be compiled and shared by the NAPPP providing key information such as the status of the transactions, key issues and disbursement, as well as compliance with the legal covenants included or referred to in the Loan Agreement with the World Bank. This report will be used to assess progress toward the achievement of the PDO and intermediate indicators of the project. A midterm review will be scheduled within 30 months of the effectiveness date of the project. The specific PPP transactions supported by the project during the preparation stage will be monitored separately (and without World Bank involvement) by the Cabinet-Appointed Negotiating Committee (CANC) in line with the PPP Procurement Guidelines. During the implementation of a transaction, the monitoring will be carried out by a Steering Committee established for each transaction by the line ministry.

## **C. Sustainability**

35. If the project is successfully implemented, the GoSL should have a solid foundation which will be a catalyst to improve infrastructure investments. Capacity building planned across several levels of the GoSL to create awareness of PPPs, as well as a greater understanding of the project cycle and the procurement process will help avoid excessive delays in implementing the program. The broad stakeholder consultations to be carried out on the transaction pipeline, as well as on the procurement guidelines will be critical to ensure the sustainability of the program. Furthermore, effective communication in reaching out to the private sector and the media will further galvanize the program's sustainability by increasing confidence in the market and obtaining buy-in from key stakeholders. Most importantly, the performance of the NAPPP in demonstrating its ability to close at least three transactions will not only enhance its own credibility and positioning with respect to other GoSL institutions but will also help to raise the profile of PPPs within Sri Lanka as a whole. The entire project scope and the implementation arrangements being put in place have been designed to support the NAPPP in achieving this objective.

## **D. Role of Partners**

36. **The World Bank has continued the work of United States Agency for International Development (USAID) upon the cessation of its program that supported PPPs to ensure that a seamless and comprehensive program is delivered.** The development partners active in this sphere include USAID, Asian Development Bank (ADB), and *Agence Française de Développement* (AFD), with several of these agencies providing assistance for specific transactions. Furthermore, coordination with other key stakeholders such as the Ceylon Chamber of Commerce has provided the opportunity to broaden the PPP program and solicit wider buy-in.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

37. **Using the Systematic Operations Risk Rating Tool (SORT), the overall risk is rated Substantial.** This rating has been determined based on the current uncertain political environment and political commitment to PPPs, together with the complexities around the institutional environment and current issues around procurement of PPPs. The risk has been further increased by the project being implemented through a newly established division within the MoFMM (NAPPP) whose capacity is still being built up. As such the fiduciary and safeguards risks are increased. The key risks potentially affecting the successful implementation of the project are highlighted below.

38. **Political and governance.** This risk is regarded as being High given the current political economy in Sri Lanka that is affected by a coalition government without a clear champion to lead the PPP program. It is further increased by stalled processes of transactions that are currently being pursued as PPPs; if the transactions supported through this project are implemented in a similar manner, that can pose a reputational risk to the World Bank. In response, the project has been designed to consider the possibility of the Government withdrawing its commitment to good governance and PPPs and the possibility of administrative changes that could affect the continuity of the project and the PPP program. The World Bank believes that strengthening the enabling framework together with effective communication of the benefits of PPPs and capacity building will help to partially mitigate this political risk, although it is clearly understood that this risk cannot be fully mitigated given the complexity of the political environment of the country which is facing both a presidential and general election in less than two years.

39. **Institutional capacity for implementation and sustainability.** This risk is rated Substantial due to the fact that the implementation of the project is being carried out by the NAPPP which is a newly established institution that does not yet have clearly laid out processes and organizational structures in place. This is likely to have an impact on the implementation of the World Bank's fiduciary and safeguards requirements. Secondment of staff from the MoFMM (particularly for procurement and FM) and the preparation of an Operations Manual are expected to partially reduce this risk. The risk will be further mitigated by the World Bank's close monitoring of the borrower's compliance with its contractual obligations to the World Bank (included or referred to in the Loan Agreement) and activities to build the NAPPP's capacity with respect to understanding and implementing World Bank procedures. Furthermore, the retention of NAPPP staff is currently difficult as the GoSL is unable to provide compensation commensurate with their skills and experience. Instead, salaries are required to be in line with GoSL salary structures. This risk is being mitigated by recruiting staff under consulting contracts. The long-term objective of the NAPPP, which will be explored under Component A of the project, is to have an independent source of revenue, which will allow it to recruit its own staff.

40. **Fiduciary risk.** This risk has been assessed as Substantial, due to the NAPPP not having previous experience in implementing a World Bank-financed project and this risk is being mitigated by having dedicated procurement and FM staff and developing the necessary capacity to carry out their respective functions.

41. **Environmental and social risk.** This risk is rated Substantial although the interventions envisaged under the project will not directly involve physical activities causing environmental and social impacts associated with implementation. However, the feasibility studies, environmental assessments (EAs), social

assessments, and preparation of bid documents will need to take such impacts into consideration. The Environmental Assessment and Management Framework (EAMF) and the Resettlement Policy Framework (RPF) prepared under the project provide guidance on identification of risks and impacts and development of mitigation measures as part of the environmental and social safeguards management. Another risk in this aspect arises due to the capacity of the newly established NAPPP to evaluate and understand the safeguards requirements and risks such as gender-based violence (GBV), labor influx, child labor, and so on and how they will be addressed in the documentation including feasibility studies and concession agreements. This risk has been partially mitigated by preparing comprehensive social and environmental safeguards frameworks, and recruitment of a full-time safeguards specialist within the NAPPP, who will be trained on World Bank policies and procedures with guidance on several areas of safeguards.

## VI. APPRAISAL SUMMARY

### A. Economic Analysis

42. **As Component A relates to strengthening the enabling environment through the development of a robust institutional framework and providing capacity building, a quantitative economic analysis will not be an appropriate tool to assess the impact.** The potential benefits could, among others, include improved institutional capacities, more efficient use of scarce resources, multiplier effects arising from the crowding-in of commercial finance into PPPs, and improved risk management practices within PPP transactions. As these are more long-term and qualitative in nature, a qualitative analysis will be carried out to assess their impact. Component B relates to feasibility, transaction, and structuring support. Therefore, the economic analysis framework that will be followed for the transactions selected under this component is outlined in the following paragraphs.

43. **Economic analysis framework.** The framework outlines the methodology which will guide the economic analysis of transactions in each of the three sectors that will likely have PPP transactions—transport, water supply and sanitation, and energy (for details see Annex 4). In all cases, a cost-benefit analysis will be carried out based on a ‘with-’ and ‘without’ project impact assessment methodology. The net present value (NPV) of the transactions will also be calculated in all instances where a cost-benefit analysis is applied, and appropriate sensitivity testing of the results will be performed.

- (a) **Transport.** The analysis will account for at least three types of benefits: (a) time savings benefits (value of time [VoT]), (b) reduction in vehicle operating costs (VoC), and (c) greenhouse gas (GHG) emissions benefits. In addition, depending on the situation, the analysis may include other types of benefits (for example, fewer accidents). Measurement of benefits for passenger and freight will be considered separately.
- (b) **Water supply and sanitation.** The benefits accounted for under this analysis will, among others, include increased availability and quality of drinking water, improved reliability of water sources, health benefits (reduced health costs) due to use of safe drinking water and improved sanitation facilities, congestion savings due to improved rainwater drainage, GHG emission benefits, and avoided disruption in economic activities and damages to infrastructure caused by floods due to improved wastewater management.
- (c) **Energy.** The benefits accounted for in this analysis will, among others, include increased energy supply to meet increased demand, cost and time savings due to increased reliability

and efficiency of energy supply, reduction of energy costs by substitution of energy sources (for example, shifting to renewal energy sources), and GHG emission benefits.

## **B. Technical**

44. **The technical design of the project has benefited from various pieces of due diligence work previously carried out including the PPP Diagnostic Note, support provided under the PPIAF grant, safeguards support provided by the team, and various mission findings.** The design of the project has been informed by the assessments carried out under the PPIAF-funded activities for the establishment of the institutional framework for PPPs, drafting of the PPP policy, development of procurement guidelines for PPPs, assessment of long-term financing of PPPs, development of the screening criteria, and the PPP pipeline. It has been further strengthened by experience with similar World Bank projects in other parts of the world.

## **C. Financial Management**

45. **An FM assessment of the NAPPP has been carried out and a focal point for the project on behalf of the NAPPP has been appointed.** The proposed FM arrangements are in accordance with the fiduciary requirements of the World Bank Operational Policies for Investment Project Financing (OP 10.00). The NAPPP will be responsible for overall FM under the project. The MoFMM has had a satisfactory track record of managing World Bank-financed operations and there is one ongoing World Bank operation managed by the MoFMM. However, as the NAPPP has only recently been established, it has no prior experience in managing World Bank-financed projects. Due to this, the FM risk is assessed as being Substantial. Disbursements will be report-based using interim unaudited financial reports (IUFs), reflecting six-monthly forecasted expenditures. A Designated Account (DA) would need to be opened at the Central Bank of Sri Lanka (CBSL) for disbursements. The external audit of the project will be carried out by the Auditor General of Sri Lanka.

## **D. Procurement**

46. **The procurements required for successfully implementing the activities identified in the Procurement Plan will be carried out by the NAPPP in accordance with the World Bank's Procurement Regulations for Investment Project Financing (IPF) Borrowers, July 2016, and revised November 2017.** The NAPPP has prepared a Project Procurement Strategy for Development (PPSD) that takes a holistic view of the risk in implementing procurement under the project, including the PPP subcomponents.

47. **The main procurement risks identified by the assessment are (a) inadequate procurement capacities, (b) lack of previous experience in implementing a World Bank-financed project, and (c) coordinating procurement across various components of the project.** To mitigate these risks, the agreed risk management measures include the following: (a) the NAPPP will engage a procurement specialist experienced in World Bank procurement procedures for the entire project implementation period and this specialist will also help to train existing procurement staff, specifically on fraud and corruption flags, and on addressing complaints; (b) the NAPPP will prepare an annual procurement progress report (which will include, among other things, procurement plan updates, action on findings of post reviews and other procurement and contract administration issues) to be shared with the World Bank; and (c) the NAPPP will also implement those corrective actions to be taken to address deficiencies identified by the World Bank reviews.

48. **A procurement specialist (who will have experience in procurement in projects financed by international agencies) in the NAPPP will manage all the procurement under the project and other junior procurement staff.** In addition, all key persons in each of the components of the project and the relevant officers of the MoFMM will receive procurement training facilitated by the World Bank. This training program will include modules to improve skills in procurement and contract administration as well as on the implementation of Systematic Tracking of Exchanges in Procurement (STEP). The MoFMM has prepared the Procurement Plan for activities in the project. The Procurement Plan will be updated in agreement with the World Bank annually or as required, to reflect the actual project implementation needs and improvements in institutional capacity. More details on procurement are provided in Annex 2.

#### **E. Social (including Safeguards)**

49. **The project does not directly involve civil works that could lead to land acquisition and resettlement impacts.** Activities supported under the project are focused on enhancing the institutional, policy, and legal framework for PPPs. However, the pipeline of PPP transactions that will be supported by feasibility studies carried out under this project, may at a later date involve civil works, including construction and rehabilitation activities required for upgrading physical infrastructure and expansion of service delivery. Such PPP transactions may require land acquisition thus triggering adverse impacts such as: physical displacement, loss of assets or access to assets that may lead to loss of income sources or means of livelihood, impacts from labor influx, construction-related impacts that cause inconveniences to the public, and adverse impacts on women and vulnerable groups. Therefore, the World Bank's policy, OP/BP 4.12 - Involuntary Resettlement, has been triggered under the project.

50. **To address social impacts and risks, the project has prepared two instruments: (a) the EAMF<sup>17</sup> and (b) the RPF.<sup>18</sup>** Potential social risks and impacts that do not result from land-taking and are associated with OP/BP 4.01, are included in the EAMF prepared under the project. The RPF is focused primarily on issues concerning the World Bank's OP/BP 4.12 on Involuntary Resettlement and national regulations of the GoSL and provides detailed guidelines for screening, identification, implementation, management, and monitoring of the land acquisition process, addressing impacts of involuntary resettlement based on national requirements and the World Bank's social safeguards policies, and managing risks relating to exclusion, GBV, and improper labor management. The RPF also includes requirements for organizing consultations, obtaining clearances, and information disclosure. The implementation arrangements for due diligence and compliance of safeguards, including measures for building capacity of the NAPPP and PPP partners (for example, government agencies and developers), is provided in Annex 2.

51. **To address potential risks of sexual exploitation and abuse (SEA) from labor influx, the design of the PPP transactions will incorporate the recommendations of the Global Gender-Based Violence Task Force to assess SEA risks and to define mitigation measures.<sup>19</sup>** Transactions will be designed to ensure the identification of SEA risks and development of commensurate mitigation measures, which,

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<sup>17</sup> The EAMF was originally published on May 2, 2018 (both in-country and on the World Bank's external website) and was redisclosed on July 24, 2018 (both in-country and on the World Bank's external website), subsequent to revisions made.

<sup>18</sup> The RPF was originally published on May 2, 2018 (both in-country and on the World Bank's external website) and was redisclosed on July 24, 2018 (both in-country and on the World Bank's external website), subsequent to revisions made.

<sup>19</sup> World Bank. 2017. *Report of the Global Gender-Based Violence Task Force: Working Together to Prevent Sexual Exploitation and Abuse: Recommendations for World Bank Investment Projects.* (<http://documents.worldbank.org/curated/en/482251502095751999/Working-together-to-prevent-sexual-exploitation-and-abuse-recommendations-for-World-Bank-investment-projects>)

depending on the level of risks identified, may include but not be limited to, strengthening contractor obligations to address SEA, enhancing project-level grievance redress mechanisms to integrate protocols related to SEA, and the assurance of sufficient contract supervision capacity for monitoring SEA performance. Development of any SEA mitigation measures and setting up of referral protocols for GBV survivors will be informed by and closely coordinated with the country's National Action Plan to address Sexual and Gender-based Violence (SGBV). The RPF includes requirements for the contractors to submit a plan outlining measures to address GBV and SEA before starting construction.

#### **F. Environment (including Safeguards)**

52. **The project has been categorized as Environmental Category A.** Although many of the transactions in the potential pipeline to be supported by this project are likely to have moderate environmental and social impacts, some of the candidate transactions could have significant adverse environmental impacts that are sensitive, diverse, cumulative, or irreversible. Overall, the potential negative environmental and social impacts due to transaction-related activities are likely to include (a) infrastructure footprint impacts such as physical and economic displacement of people, loss of ecosystems including loss of vegetation cover, loss of flora and fauna, loss of faunal migration paths, and interferences to ecological niches; (b) construction-related impacts such as negative issues due to borrow pits quarry sites, blasting and rock excavation, underground fractures, and incessant traffic including accidents; (c) impacts during operations such as air, water, and land pollution; and (d) impacts on animals, noise and vibration, and health and safety issues of staff and nearby communities. These impacts must be fully identified, and the appropriate mitigating measures clearly defined and costed to be incorporated into the project's overall budget. Based on the above assessment, the following environmental safeguards operational policies have been identified to be applicable for the project: OP 4.01 - Environmental Assessment, OP 4.04 - Natural Habitats, OP 4.11 - Physical Cultural Resources, and OP 4.36 - Forests, and the World Bank Group's Environmental, Health and Safety Guidelines.

53. **The project plans to support the preparation of PPP transactions that would also include preparation of feasibility studies for short-listed transactions.** The project has prepared an EAMF that will guide the screening, preparation of EAs and Environmental Management Plans (EMPs) and/or other safeguards instruments that will be necessary based on the national environmental regulatory requirements, as well as the World Bank's environmental safeguard operational policies. The EAMF, among others, includes the following key areas: environmental impacts due to site selection, technologies, and design; occupational health and safety; applicable general and industry-specific environment, health, and safety guidelines; provisions for community engagement for both grievance redress and the importance of protecting natural habitats, forests, physical cultural resources, and guidelines for developing EMPs. The project will limit its support to the financing of the relevant safeguards studies required by the World Bank guidelines for the PPP transactions for which the project will undertake feasibility studies. For those transactions supported by the project, the environmental safeguards specialists at the NAPPP will submit the report of the screening exercise with its recommendations, terms of references for EAs, and EAs and/or other safeguard instruments for clearance to the World Bank to proceed with the relevant safeguard instruments. The EA process will be led by the relevant implementing agency with the facilitation of the NAPPP. The mitigation measures identified in EAs and compliance requirements will be included in the contract documents as part of technical specifications of the transactions.

54. **As the project focuses on building capacity to manage PPP transactions effectively, it is necessary to ensure that the respective line ministries and agencies gain capacity to carry out their respective design, planning, approval, permitting, monitoring, and implementation with the integration of environmental and social safeguards for the success and sustainability of the PPP program.** During project implementation, capacity-building needs of the line agencies that have identified PPP transactions will be carried out focusing on stakeholder engagement, consultation and partnerships, use of EA legislation, relevant environmental and social management policies and guidelines, application of environmental and social due diligence tools and a capacity-building plan will be developed and implemented.

## G. Gender

55. **Sri Lanka exhibits high gender gaps in labor force participation with only 35 percent of women ages 15 years and above involved in the labor force as compared to 74 percent of men in the same age category.**<sup>20</sup> Women predominate in the expected sectors of health and education while men dominate all the remaining sectors of the economy. Despite their high levels of achievements in tertiary education (about 60 percent of graduates from tertiary education are women), only one-fourth of women manage to break the ‘glass ceiling’ and reach seniority in the public sector.

56. **The public sector is a preferred sector for both women and men because as much as 60 percent of employment in the private sector is concentrated in the informal sector, which is outside the ambit of labor legislation.**<sup>21</sup> It is also notable that women earn between 30 percent and 36 percent less than men do in the private sector, which might be due to lower labor market experience, or workplace discrimination. Interestingly, the gender pay gap is not observed in the public sector, which could act as another incentive for women to seek public sector employment.

57. **While there are no official national statistics available to assess the extent of GBV in Sri Lanka, various surveys<sup>22</sup> indicate high GBV prevalence in the country.** Lack of awareness of legislation, namely the amendments to the Penal Code and the Prevention of Domestic Violence Act, the acceptance of violence by many women, and unequal gender-power relations in families and society all contribute to the high prevalence of GBV. There is lack of adequate support services for female survivors of GBV, such as crisis shelters and legal support and counseling.<sup>23</sup> The project will identify risks of GBV, in particular, SEA and sexual harassment that can emerge with civil works contracts and develop commensurate response measures to manage such risks.

58. **Because the GoSL espouses PPPs as a cornerstone strategy to enable inclusive growth, promoting women’s employment and entrepreneurship emerges as an integral part of the successful implementation of the PPP program. To this end, the project envisages undertaking activities, as follows:**

- (a) **Feasibility studies will include gender analysis along with environmental and social analysis for every PPP transaction supported under the project.** Being a critical phase in ensuring sound gender outcomes in a PPP transaction, feasibility studies will undertake

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<sup>20</sup> <https://data.worldbank.org/topic/gender>.

<sup>21</sup> International Labor Organization. 2016. *Factors Affecting Women’s Labor Force Participating in Sri Lanka*.

<sup>22</sup> UNDP (United Nations Development Programme), UNFPA (United Nations Population Fund), UN Women, and UNV (United Nations Volunteer Programme). 2013. “Why Do Some Men Use Violence against Women and How Can We Prevent It”?

<sup>23</sup> ADB (Asian Development Bank). 2015. *Country Gender Assessment; Sri Lanka, An Update*.

gender analysis, which will support setting gender-related criteria for the evaluation of bids.

- (b) **Capacity building of the NAPPP on gender.** The NAPPP will include a social specialist with strong expertise on gender to ensure that gender is reflected in all stages of a PPP project cycle. The specialist will conduct gender awareness orientation for bidders and the government agencies involved in the PPP process.
- (c) **Training and capacity-building activities will benefit women.** The project will ensure that the training and capacity-building activities for the government staff at central and provincial level will benefit civil servants that are both women and men. Also, the project will provide equal opportunities to train and certify both male and female staff of the NAPPP as well as of other Government agencies with PPP certification. Enhancing the capacity of female civil servants is important considering the above-reported gender gaps in labor force participation.

#### **H. Climate and Disaster Risk Screening and Climate Co-Benefits**

59. **Climate and disaster risk screening.** The project was screened for climate and disaster risk. The list of potential transactions identified in the transport, water, housing and energy sectors are likely to be affected by extremes in precipitation that result in floods, landslides, and drought. During the feasibility studies, detailed analysis will be carried out to assess the impact of floods, landslides and drought on these investments, and appropriate measures will be identified to mitigate the adverse impacts of such events.

60. **Climate co-benefits.** The total estimated climate co-benefits for this project amounts to 21.57 percent of the total project investments and consist of both adaptation and mitigation co-benefits. According to the assessment, the project has more mitigation co-benefits than adaptation co-benefits. The mitigation co-benefits are attributed to green energy and low carbon development. Adaptation co-benefits are mainly attributed to the policy actions, mainstreaming of climate risk management in feasibility studies of identified projects and capacity building activities. Climate sensitive planning of project activities, especially prioritizing of investments for transactions and feasibility studies will ensure achievement of the co-benefits, as well as help increase actual climate co-benefits beyond current estimates.

#### **I. World Bank Grievance Redress**

61. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For

information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



**VII. RESULTS FRAMEWORK AND MONITORING**

**Results Framework**

**COUNTRY: Sri Lanka**

**Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project**

**Project Development Objective(s)**

The Project Development Objective is to support the preparation of Public-Private Partnerships that will enable the Government of Sri Lanka to facilitate private sector financing for the development of its priority infrastructure and services.

**Project Development Objective Indicators**

Indicator Name	DLI	Baseline	End Target
<b>PDO results indicators</b>			
Feasibility studies or project designs completed for at least five (5) PPP transactions with the assistance of the project (Number)		0.00	5.00
Transaction advisory services provided for at least four (4) PPP transactions with the assistance of the project (Number)		0.00	4.00
Commercial closure of at least three (3) PPP transactions with the assistance of the project (Number)		0.00	3.00

**Intermediate Results Indicators by Components**



Indicator Name	DLI	Baseline	End Target
<b>Improving the Enabling Environment</b>			
Capacity building workshops that focus on the project cycle, screening and scoring tool, structure of concession agreements (number) (Number)		0.00	4.00
At least 20% of the Government staff who will be PPP certified will be female (Percentage)		0.00	20.00
Stakeholder engagement for the implementation of the Communications strategy (Number)		0.00	3.00
Number of PPP nodes established in participating Line Agencies or Ministries (Number)		0.00	3.00
<b>Preparation of Selected, Prioritized, Proposed PPP Transactions</b>			
Number of Environmental and Social Assessments completed (Number)		0.00	3.00
<b>Project Management</b>			
NAPPP includes a social specialist with gender expertise in the team (Text)		No social specialist with gender expertise in the NAPPP team	One social specialist with strong expertise on gender engaged in the NAPPP team

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Feasibility studies or project designs completed for at least five (5) PPP transactions with the assistance of the project	A Feasibility Study is a pre-requisite to obtain financing from the private sector. All feasibility studies supported under	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP



	the project will also include environmental, social and gender analysis.				
Transaction advisory services provided for at least four (4) PPP transactions with the assistance of the project	The PPP transaction will be structured with appropriate risk allocation producing a concession agreement addressing all technical, financial and legal aspects of the transactions.	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP
Commercial closure of at least three (3) PPP transactions with the assistance of the project	Award of the transaction with commercial closure where the Government has followed its own PPP Procurement guidelines in issuing RFP, selection of the developer and carrying out negotiations.	Quarterly	Quarterly Project Monitoring Report	Consultation with stakeholders and status evaluation by the M&E Specialist	NAPPP

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Capacity building workshops that focus on the project cycle, screening and scoring tool, structure of concession agreements (number)	Workshops to create awareness within the public and private sectors on PPPs that will include project cycle, screening and scoring tool, procurement guidelines,	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP



	structure of concession agreements, managing fiscal and contingent liabilities as well as addressing contractual issues related to specific sectors.				
At least 20% of the Government staff who will be PPP certified will be female	The percentage of female Government staff including staff of NAPPP who will be PPP certified	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP
Stakeholder engagement for the implementation of the Communications strategy	Stakeholder engagement for the implementation of the Communications strategy to be carried through consultations.	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP
Number of PPP nodes established in participating Line Agencies or Ministries	PPP nodes are established within the Line agencies by which the PPP transactions are carried out.	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP
Number of Environmental and Social Assessments completed	The environmental and social assessment is a pre requisite to establish the feasibility of a project that is carried out independently of the feasibility study.	Quarterly	Quarterly Project Monitoring Report	Consultations with stakeholders and status evaluation by the M&E specialist	NAPPP
NAPPP includes a social specialist with gender expertise in the team	A social specialist with strong expertise on gender to be included within the	Quarterly	Quarterly Project Monitoring	Consultations with stakeholders and status evaluation by the M&E	NAPPP



	NAPPP team to create gender awareness within stakeholders and integrate gender issues into PPP transactions		Report	specialist	
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## ANNEX 1: DETAILED PROJECT DESCRIPTION

### COUNTRY: Sri Lanka

#### Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project

#### I. Project Rationale

1. **Sri Lanka has faced several constraints in the past in streamlining its PPP program.** The project design has been informed by these constraints which were identified through the PPP Diagnostic carried out in 2016 as well as the GoSL's recent failed attempts at executing PPPs. The project design has also been influenced by those key constraints facing the GoSL in preparing and implementing a successful PPP program as described below.

- (a) **Over-reliance on USPs.** In recent years, a substantial number of public sector projects have been procured on an unsolicited basis, which is a practice that can have adverse implications with respect to transparency and value for money. The absence of a guiding policy framework for PPPs together with a distinct lack of understanding based on limited institutional capacity to identify, assess, and prepare bankable PPPs have encouraged the use of USPs.
- (b) **Poorly prepared transactions have adversely affected recent PPP procurement.** More recently, the GoSL's attempts at developing key infrastructure projects on a PPP basis have resulted in a mixed response from private developers. The lack of feasibility studies resulting in poorly structured transactions and the ambiguity created by different government agencies attempting to lead the execution of projects amidst political uncertainties, have all resulted in a limited response from the private sector. The market has also seen ambiguity created by the absence of a clear procurement process. These failed attempts at PPPs tend to encourage the use of USPs to meet the delivery time line of a government under pressure to demonstrate results.
- (c) **Multiple agencies with overlapping functions.** The absence of a cohesive framework to govern the institutional mandates, responsibilities, and interagency decision-making processes has created an environment of uncertainty and confusion for investors. The private sector has repeatedly communicated the need for a single agency equipped with the skills and standardized processes for PPPs.
- (d) **Limited availability of debt financing.** There are a number of factors that are currently limiting the availability of domestic finance for infrastructure projects, including (i) lack of long-term debt, (ii) limited overall liquidity in the financing sector, (iii) lack of capacity among local banks to assess and monitor complex project-related risks, (iv) low single-borrower limits given the limited asset base of the local banks, (v) lack of a derivatives market to hedge interest and currency risks, (vi) limited size and development of the local capital markets, and (vii) limited pool of domestic institutional investors. While offshore banks have the ability to lend larger amounts on longer terms than the local banks, the appetite of these offshore banks is typically constrained due to currency and payment risks.



- (e) **Limited institutional capacity for PPPs.** There is currently very little understanding within the public sector of PPPs and little, if any, capacity to prioritize, structure, procure, and manage PPPs. In addition, the PPP-enabling environment requires substantial strengthening to attract private sector investment.
- (f) **Limited ability to manage contingent liabilities.** Although much of the public-sector borrowing is guaranteed by the GoSL, the GoSL's capacity to manage the associated direct and contingent liabilities is very limited. However, the ability to manage liabilities is critical as it is likely that most PPPs will have some form of contingent liability associated with them.

## **II. Programmatic Approach with other World Bank-Supported Activities**

2. **There are several ongoing projects/assessments being financed by the World Bank which directly or indirectly affect the PPP program through their activities.** This project will closely coordinate with these activities to provide seamless support to the PPP program. Summarized below are brief descriptions of some of these activities and how they are aligned with the PPP program.

- (a) **Investment reforms.** A conducive investment environment for private sector participation is critical for the success of the PPP program.
  - (i) **Investment climate reforms.** The World Bank is currently financing activities which support the GoSL to improve the regulatory environment for doing business in Sri Lanka which is measured by the Doing Business Index. Key reforms proposed include a 'One-Stop Shop' for business registration, digitization of cadaster records, and establishing a national single window for trade.
  - (ii) **Investment law reforms.** The objective of this activity carried out by the GoSL is to enhance the predictability and transparency of the legal framework governing investment in Sri Lanka and to signal more policy coherence and stability to investors.
- (b) **Public debt management.** It is extremely important that the fiscal risks that could arise from PPPs are properly addressed, particularly with respect to contingent liabilities. The World Bank together with the IMF is currently providing capacity building and technical support to GoSL in public debt management. The program also includes support to establish a debt management unit which is expected to, among others, carry out contingent liability management which will encompass the risk assessment of guarantees and fiscal risks arising from PPPs.
- (c) **InfraSAPs for urban transport and energy.** An InfraSAP is an analytical exercise meant to inform the GoSL on how to improve infrastructure access and performance. This involves assessing and systematically addressing the context in which urban transport and energy infrastructure is planned, procured, delivered, funded, financed, and governed. The resulting road maps, analyses, and case studies will help inform the development of the country's PPP program.



- (d) **Public Investment Management (PIM).** One of the key actions recommended by the PPP Diagnostic is the establishment of an apex institution that will review all proposed infrastructure investments and assess whether they should be financed publicly or developed through a PPP. The GoSL's Public-Sector Efficiency Strengthening Program financed by the World Bank and the Public Investment Management Assessment carried out in coordination with the IMF, seek to assess the shortfalls in the PIM and provide recommendations to address such shortfalls. One such recommendation of the program is the establishment of the Public Investment Committee (PIC) which would play a similar role to that of the apex institution recommended by the PPP Diagnostic. It is expected that these functions will be formalized through the Public Finance Act. The functions of the PIC would be centered around ensuring appropriate prioritization of investments, rigorous appraisal of feasibility assessments, and alignment of the process of budgeting with investment selection and management.
- (e) **Financial sector modernization.** The ongoing GoSL project financed by the World Bank provides support to the GoSL in implementing legal and regulatory reforms to increase financial market efficiency. This work will help develop the financial markets to accommodate the increase in domestic financing required to support long-term infrastructure investments.
- (f) **Supporting investment prioritization.** The World Bank, as a prelude to the proposed project, has also provided support to the GoSL to address some of the inherent weaknesses with respect to investment prioritization by carrying out a project prioritization activity in the water supply sector based on the Infrastructure Prioritization Framework tool developed by the World Bank. This was carried out in collaboration with the NPD. The Infrastructure Prioritization Framework offers a systematic approach to infrastructure prioritization that places social-environmental as well as financial-economic factors at the forefront of decision making. Assistance for prioritization of proposed transactions has also been part of the PPIAF-supported activities (see Annex 5).
- (g) **Transaction support being provided by IFC.** IFC has been mandated to provide transaction advisory support to the National Water Supply and Drainage Board on the Weliwita Water Supply Project. This transaction has already been structured and is progressing through the procurement phase. IFC is also currently discussing providing similar support to a renewable energy project.
- (h) **Improvement of the PPP framework.** The GoSL with the assistance of the PPIAF grant has initiated work on the PPP legal and institutional framework. The activities carried out under this assistance are described in more detail in Annex 5.

### **III. Key Infrastructure Sectors Which Require Support**

3. **Transport.** Sri Lanka's land transport is dominated by a road network, which carries 95 percent of the passenger traffic and 98 percent of the freight. The remaining land transport needs are addressed through a much less-developed rail network. Severe traffic congestion, lack of connectivity, and poorly maintained roads have come to the forefront as pressing issues in the sector as demand for transport



increases over time. In the past, a substantial part of the investment in the transport sector was concentrated on the rehabilitation of the road network and the development of expressways with less focus on the development of bus or rail networks. As a result, the share of public transport has diminished paving the way for increased motorization exacerbated by increases in per capita incomes of the country. Modernization of public transport through introduction of technology, integration of several modes of transport, creation of multi modal centers, facilitation of moving congestion away from the city centers, and creation of efficient freight transport are at the forefront of transport needs. The Western Region Megapolis Transport Master Plan (2016) developed by the Ministry of Megapolis and Western Development, envisions a number of transport projects within the Western Region in the coming years, which will require about US\$11 billion in investments up to 2020. Public investment in passenger transport and road development amounted to only 1.8 percent of GDP in 2016<sup>24</sup> with more than three quarters of it invested in roads. This level of resources will be insufficient to support a program integrating more mass transit investment as envisaged in the Transport Master Plan. Private sector participation in the sector has been limited to investments in bus transport and paratransit. However, the sector has some experience in PPPs with several successfully operating PPPs in the port sector.

4. **Energy.** Sri Lanka has achieved a grid connectivity of 99 percent,<sup>25</sup> with an annual total electricity demand of about 14,150 GWh. According to the LTGEP 2018–2037 of the GoSL, electricity demand in Sri Lanka is expected to grow at an annual rate of 5.6 percent through 2037 and will require a high level of investment in the sector. Based on capacity projections, the World Bank team estimates the need to mobilize at least US\$2.73 billion worth of capital investment in the power sector up to 2020, US\$5.46 billion up to 2026, and US\$10.53 billion up to 2037. The estimated capital needs include investment requirements for generation, transmission, and distribution, and demand-side management. Sri Lanka has historically relied primarily on government finance to finance investments in the energy sector. In 2016, public investment in power and energy infrastructure amounted to 0.3 percent of GDP.<sup>26</sup> Currently, there is considerable private sector participation in the power sector. Comparison of 2015 and 2016 data reveals that private participation in the power sector has increased, including a 23.4 percent increase in electricity generated by independent power producers (IPPs) and a 17.04 percent increase in installed capacity undertaken by IPPs. While IPPs have been able to mobilize international finance, it has primarily been with support from the Government in the form of direct/indirect guarantees/indemnities. The majority of large scale IPPs have been implemented on a Build-Own-Operate-Transfer scheme.

5. **Water supply and sanitation.** While about 90 percent of Sri Lanka's population have access to safe drinking water, only 48 percent of the population has access to piped water<sup>27</sup> and sewerage networks cover only about 2.5 percent of the population.<sup>28</sup> A study<sup>29</sup> identifies several key constraints facing the sector, including (a) lack of capital due to weak cost recovery, (b) high investments required for water resource development, (c) pollution of water bodies due to lack of organized wastewater and disposal systems, and (d) low-standard tariffs. A study by the World Bank in 2014<sup>30</sup> estimated the investment needs

<sup>24</sup> Annual Report 2016 - Ministry of Finance and Mass Media: US\$1.5 billion against GDP of US\$81.3 billion.

<sup>25</sup> Annual Report 2016 - Ministry of Finance and Mass Media.

<sup>26</sup> Annual Report 2016 - Ministry of Finance and Mass Media: US\$0.2 billion against GDP of US\$81.3 billion.

<sup>27</sup> Annual Report 2016 - Ministry of Finance and Mass Media.

<sup>28</sup> ADB (Asian Development Bank). 2015. *Sri Lanka's Water Supply and Sanitation Sector: Achievements and a Way Forward*.

<sup>29</sup> Challenges in the Water Sector and Waste Water Sector - Eng. P. H. Sarath Gamini, National Water Supply and Drainage Board.

<sup>30</sup> Water and Sanitation Study Dissemination (2014) - World Bank.



of water supply and sanitation infrastructure at US\$429 million per year until 2020. Of this, about US\$340 million per year is needed for new infrastructure, while about US\$89 million per year is needed to rehabilitate existing systems. This annual expenditure requirement is about twice the US\$220 million that the GoSL spent on capital improvements in the water sector in 2011. According to the study, historically, development partners have provided the GoSL with about 68 percent of the funds it spends on investments in water infrastructure.

#### IV. Project Components

##### Component A: Improving the Enabling Environment (US\$2.5 million from IBRD)

###### *A.1: Establishing the Institutional Environment for Sustainability of PPPs*

6. **This subcomponent will build on the broad support that has been provided under the PPIAF grant (see Annex 5) in strengthening the institutional framework for PPPs.** This project will focus its support in the development of those institutional arrangements necessary for the successful implementation and sustainability of PPPs. This component will (a) strengthen the organization structure and staffing of the NAPPP, especially in view of its upcoming restructuring as a separate legal entity; (b) address those constraints identified in mobilizing long-term debt for the financing of infrastructure investments and, in that context, assess the need for an infrastructure fund; (c) assess the need for a long-term sustainable mechanism for providing project development funds based on the appetite, utilization, and success of funds applied to project development under this project; (d) establish the procedures and arrangements necessary to institutionalize VGF; (e) finance capacity building in those institutions necessary for the sustainability of the PPP program such as those providing procurement oversight and arbitration; (f) help establish PPP nodes within the respective line agencies pursuing PPPs; and (g) develop a framework to measure, monitor, and manage those direct and contingent liabilities arising from PPP projects. In the past, PPP transactions were coordinated through the Bureau of Infrastructure Investment (see Box 1.1) which was wound down post-2005, despite its considerable success in attracting private sector investment.

###### **Box 1.1. The Bureau of Infrastructure Investments (BII), the Previous PPP Unit Established by the GoSL**

In the past, the GoSL's PPP program was spearheaded by the BII, the PPP Unit that was established in 1995. The BII established under the Board of Investment functioned as the promoting, facilitating, and coordinating agency in executing private investments in infrastructure. It was tasked with assisting the line ministries/agencies with the identification, structuring, evaluation, and negotiation of PPP transactions. The role of the BII was to provide financial and legal inputs to the transactions during the entire project cycle and navigate the project development process as the convener. The BII was a leader in the region having been established before many of the PPP Units today and was responsible for the successful execution of the South Asia Gateway Terminal of the Colombo Port, a landmark project in the country's PPP sphere which continues to contribute positively to government revenue. The BII managed to close transactions of US\$2.1 billion over 10 years in transport, power, and telecom sectors carrying a staff strength of under 10. However, despite the success, the BII was wound up post-2005 when the tendency was to increasingly favor the development of infrastructure using public finance, particularly with the assistance of bilateral development partners.

- (a) **Institutional arrangements for long-term debt and equity finance for Infrastructure.** To ensure the success and sustainability of a PPP program in Sri Lanka, it will be important to



mobilize long-term domestic financing to support private sector investment. However, the current pool of financing is very limited in Sri Lanka for several reasons including (i) the limited balance sheet of domestic banks, (ii) immature capital markets, (iii) restrictions on investments by institutional investors, and (iv) limited interest rate and currency hedging instruments. In this context, this subcomponent will explore the potential of mobilizing finance from both domestic banks and domestic investors through a number of conduits including green bonds, infrastructure bonds, and asset securitization. To support this, this subcomponent will also look at what changes are necessary to current institutional investment policies and regulations as well as the tax regime to determine how best to mobilize financing from institutional investors through the capital markets. In addition, the option of establishing a specialized infrastructure financing fund will also be looked at, which could be capitalized with investments from the GoSL and multi/bilateral institutions. In 1996, the World Bank supported GoSL in establishing the Private Sector Infrastructure Development Company Ltd, to facilitate long term financing to the private sector. However, due to the weak enabling environment at the time and governance issues associated with the company, the project failed. The lessons learned from this experience will be reflected in the design of any new institution (see Box 1.2).

**Box 1.2. Private Sector Infrastructure Development Company Ltd. (PSIDC)**

In 1996, the Private Sector Infrastructure Development Project funded by the World Bank sought to establish an entity – the PSIDC - which provided long-term financing to the private sector to encourage private sector participation in infrastructure development and enhance the GoSL’s technical capacity required to evaluate and negotiate private funded projects. The project failed to realize its expected results due to many issues among which the lack of an enabling environment for private investments and governance and control issues around the PSIDC were key. This reflected the need for a comprehensive approach in encouraging private investments which goes beyond making available long-term funding. It is noted that several private sector-funded infrastructure projects, mostly in the power sector, were launched during this period without the involvement of the PSIDC. One reason for the PSIDC’s inability to attract private investment projects was the lack of clarity around the role it played in the institutional structure. This kept the PSIDC from becoming an influential player in the market.

- (b) **Institutional arrangements required for providing viability gap support.** Experience with PPP transactions around the world has shown that some transactions that are assessed as economically viable may still require additional support to ensure financial viability to attract private investors. In such a case, financial viability can be achieved through the Government providing an up-front subsidy to cover a portion of the capital costs or an ongoing subsidy (for example, backstopping initial availability payments) to be paid over the lifetime of a project. This support could come in various forms, such as loan guarantees, availability payments, minimum revenue guarantees, and VGF. Although the project will not provide direct support for VGF, it will help establish the institutional arrangements and processes necessary for the channeling of such funds. Further assessments to be carried out during the implementation of the project will help decide if the role of determining whether or not VGF should be provided should be with the NAPPP or another institution.
- (c) **Support to other Institutions/arrangements.** This component will support the establishment and strengthening of institutions necessary and integral to the smooth



operation of the project life cycle. Listed below are the potential areas that the project will look to provide its support under this subcomponent. In providing assistance, due consideration will be given to the activities already included in other World Bank-supported projects in Sri Lanka:

- (i) Strengthening of the arbitration center and the panel of experts to handle procurement complaints identified under the procurement guidelines.
- (ii) Institutional support to agencies involved in the PPP process such as the Attorney General's Department, NPD, Central Environment Authority, Chief Valuer's Office, and Surveyor General's Department.
- (iii) Development of PPP nodes within the relevant line agencies to liaise with the NAPPP in the project development process. The nodes would also be responsible for monitoring the PPP contracts under their responsibility.
- (iv) Institutional support to those agencies involved in managing those fiscal risks associated with PPPs. This would include the development of a framework to help these agencies assess and manage direct and contingent liabilities.

#### *A.2: PPP Capacity Building*

**7. Given the general lack of understanding and expertise around PPPs, it is critical that the project provides necessary capacity building and training to important stakeholders of the PPP program.** Proposed activities under this subcomponent will build on the initial capacity building that USAID has carried out around PPPs and the capacity building provided with the PPIAF support (see Annex 5). The general capacity building and training in this component of the project is expected to focus on familiarizing the public sector on PPPs distinct from the public-sector finance that has been pursued for many years. This capacity building should also help the GoSL identify those transactions best suited for procurement as PPPs. The PPP procurement process to be followed in the event of pursuing PPPs should also be clearly outlined and included in the training. The capacity building and training under the project will be structured to ensure that it benefits both male and female civil servants equally. This subcomponent will include the following activities:

- (a) Capacity building for the NAPPP:
  - (i) NAPPP staff will take the PPP certification training offered by APMG International and be Certified PPP Professional (CP3P)
  - (ii) Other sector-specific training on PPPs
- (b) Training for GoSL agencies that are currently involved in the PPP process as well as potential users such as the provincial councils
- (c) Capacity building for decision makers in the GoSL and staff at central and provincial levels



- (d) Capacity building and training around the assessment and monitoring of fiscal risks associated with PPPs
- (e) More specialized training for Attorney General's Department on legal aspects of PPPs and concession agreements
- (f) Awareness creation for the private sector through the Ceylon Chamber of Commerce

8. More specialized areas of training are designed to include building preliminary business cases; preparation of feasibility studies with PPP options analysis; preparation of safeguards instruments; calculation of value for money and affordability; determination of fiscal impact; procurement and management of contracts; and formulation of standard documents and templates such as terms of reference, bid documents, and contracts for less complex transactions that can be easily replicated. These programs are expected to be delivered during the entire duration of the project to both the public and private sectors.

#### *A.3: Communication and Stakeholder Engagement for PPP*

9. **This component will support the development of a communication strategy and private sector (and other stakeholders) engagement.** Engaging stakeholders and having a robust communication strategy is seen as a critical element in ensuring the successful implementation of PPPs that will require buy-in from all stakeholders and general acceptability from the public. This component will support the NAPPP in the development and implementation of a robust communication strategy which will ensure that all stakeholders are adequately informed and engaged in the GoSL's PPP program as well as the sustainability of the program by addressing issues proactively. This component will also support roundtables, consultations with the private sector and other stakeholders to obtain their input into the design and sustainability of the PPP program. Media analysis and discussions with stakeholders have identified several areas that needs to be addressed through the implementation of a robust communication strategy:

- (a) Misconception among the public that PPPs are the same as privatization. As privatization is generally viewed in a negative light, there is a risk that there may be a resistance to PPPs being implemented in Sri Lanka.
- (b) Lack of understanding of what PPPs are and their benefits and risks.
- (c) Lack of awareness of NAPPP's role among line agencies/ministries.

10. The communication strategy to be implemented by the NAPPP is expected to follow the overall outline indicated in table 1.1 and will be closely monitored. It will, among others, focus on the following:

- (a) Build awareness of the NAPPP's objectives, mission, and activities in Sri Lanka among key stakeholder groups. More importantly, present the NAPPP as a transparent, accountable, and reputable PPP Unit, on par with other leading global PPP Units.
- (b) Secure the commitment and participation of a defined group of stakeholders to facilitate and participate in an open dialogue on PPPs, including influencing key policy makers around



key aspects of PPPs. Ensure all stakeholders have access to up-to-date information on present and future PPP transactions.

- (c) Achieve a better understanding of PPPs, their benefits and risks among all stakeholders through training, education, and capacity-building exercises. Encourage participation among line ministries/agencies and other government bodies in PPP transactions.



**Table 1.1: Communications Strategy - Target Audience, Key Messaging, Implementation Strategy**

Audience	Key Messaging	Expected/Desired Result	Channels
General public	<ul style="list-style-type: none"> <li>• What PPPs are</li> <li>• How and in which instances PPPs are beneficial (or not) to Sri Lanka</li> <li>• Case Studies: Successful PPPs in Sri Lanka</li> <li>• Differences between privatization and PPPs</li> </ul>	<ul style="list-style-type: none"> <li>• Informing public of the benefit and need for PPPs</li> <li>• Informing public of current PPP projects</li> <li>• Informing public of positive impacts of PPPs</li> </ul>	<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Press</li> <li>• Online               <ul style="list-style-type: none"> <li>○ Website</li> <li>○ Social media</li> </ul> </li> </ul>
Public sector/Government	<ul style="list-style-type: none"> <li>• Capacity building</li> <li>• Benefits and constraints of PPP model for public sector</li> <li>• How PPPs can be used to improve Sri Lanka</li> <li>• Ministry/sector-specific PPP case studies</li> <li>• Challenges faced by public sector in implementing/managing successful PPPs</li> <li>• PPP best practices</li> <li>• PPP guidelines and frameworks</li> <li>• Legal and regulatory issues surrounding PPPs</li> </ul>	<ul style="list-style-type: none"> <li>• Stronger relationship between line ministries/agencies and the NAPPP</li> <li>• Standardized approach and professional execution of PPPs</li> <li>• Improved range of PPP projects from across the sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Events</li> <li>• Face-to-face meetings</li> <li>• Print</li> <li>• Online               <ul style="list-style-type: none"> <li>○ Website</li> <li>○ Social media</li> </ul> </li> </ul>
Private sector	<ul style="list-style-type: none"> <li>• Benefits and constraints of PPPs for private sector</li> <li>• PPP guidelines and frameworks</li> <li>• Business opportunities</li> <li>• Vision for Sri Lanka in terms of PPPs</li> <li>• Policy decisions made by the GoSL to improve the PPP landscape, by sector</li> <li>• Government incentives for investors in Sri Lanka</li> </ul>	<ul style="list-style-type: none"> <li>• Greater private sector participation and engagement in PPPs</li> <li>• Inclusion of private sector at an earlier stage in PPP discussions</li> <li>• Creating private sector confidence in the Government and the NAPPP</li> </ul>	<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Press</li> <li>• Online               <ul style="list-style-type: none"> <li>○ Website</li> <li>○ Social media</li> </ul> </li> </ul>



**Component B: Preparation of Selected, Prioritized, Proposed PPP Transactions (US\$19.34 million from IBRD)**

11. This component will finance the preparation of PPP transactions through the project life cycle from the pre-feasibility/feasibility stage up to the award and financial closure of a PPP concession contract. The transactions that have already been identified for the preparation of OBCs by the NAPPP will be further supported by the project from feasibility study stage to the financial closure. To meet the evolving needs of the GoSL, the project will retain the flexibility to also support other transactions which have not had OBCs prepared as yet but will meet the screening and scoring criteria adopted by the NAPPP (see Annex 2). In addition, the project will also finance PPP transactions that are already under preparation or have received assistance under other funding mechanisms where further assistance is required to move the transaction toward commercial and financial close.

*B.1: Feasibility Studies*

12. **Recent failed attempts to engage developers for PPPs have demonstrated the need for transactions to be supported through well-prepared feasibility studies and properly structured in terms of risk allocation and contract documentation.** Due to several failed attempts to procure PPPs in the past, there is likely to be strong demand from sector ministries and line agencies for their transactions to be properly prepared to be able to attract private sector investors and finance.

13. **This component will support the necessary due diligence for PPP transactions to be successfully taken to market.** This component will finance due diligence work to assess the technical, legal, economic, and financial feasibility of a transaction (technical scoping, concept design, economic and financial analysis including value-for-money analysis). It will include an options analysis and assess the preliminary PPP options that could be followed to achieve the objective of the transaction. Furthermore, this component can also finance further assessments required such as gender impacts, traffic surveys, willingness-to-pay surveys, etc. and address mechanisms for citizen engagement, grievance redress, and labor influx. This component can also assist the required environmental and social assessments that should be carried out independent of the feasibility study itself.

14. It will be important to ensure that the feasibility study is embedded within the strategies and initiatives being pursued in a particular sector and the individual transaction is not pursued in isolation from other transactions. Therefore, it may be necessary for this component to also finance policy- and strategy-level advice that will be required to initiate PPPs. In addition, this component will also finance the identification of PPPs at the early stages of the project in those line agencies that are not so familiar with PPPs and the possible financing options. However, in the longer term, the GoSL intends to develop this capacity within the NPD.

*B.2: Project Structuring and Transaction Advisory Services*

15. **It is important that PPPs are appropriately structured and procured while ensuring value for money.** This component will provide support for the completion of the project life cycle through transaction structuring, procurement and negotiations up to the financial closure of a transaction. The project under this component will finance the necessary financial and legal resources required to structure and negotiate transactions and to supplement the NAPPP's limited in-house resources. This component



will include market sounding, appropriate risk allocation, financial modelling, evaluation of bids, preparation of concession and other agreements as well as professional and experienced skills for negotiations with the selected developers for the GoSL to ensure value for money. It will further finance the project cycle through commercial close, award, and financial closure of a transaction that will also require assistance for drafting and negotiating direct agreements and any other financing-related agreements. Furthermore, it will also finance the assessment of direct and contingent liabilities for each transaction and where necessary, structure risk mitigation instruments to ensure bankability.

**Component C: Project Management (US\$2.5 million from IBRD and US\$2.0 million from counterpart funding)**

16. **This component will include the incremental operating costs of the MoFMM associated with the NAPPP in managing the GoSL's PPP program.** It will finance the day-to-day activities of the NAPPP as well as the goods, services and other operating costs required for the efficient operation of the NAPPP. It will also support the cost of consultants hired by the NAPPP for certain preidentified positions that require specific skills that cannot be easily accessed in the domestic market. As the project is designed to assist the GoSL to kick-start a successful PPP program centered around the NAPPP and the selected transactions, the project will include all incremental costs associated with this objective. Other development partners may step in to fund different transactions within the program during the implementation of the project, but the setting up costs of the NAPPP will not be financed by them. Appropriate audit functions will be put in place to ensure avoidance of duplication of resources.



## ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Sri Lanka

Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project

### Project Institutional and Implementation Arrangement

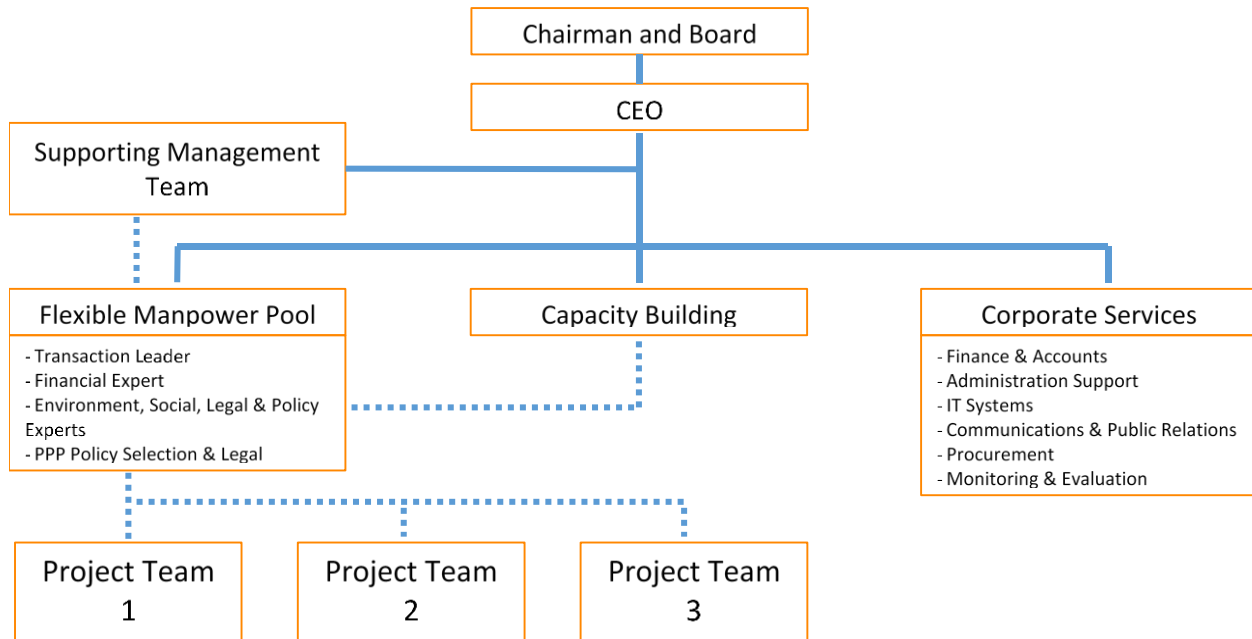
#### I. Institutional Arrangements

1. **The implementing agency of the project will be the MoFMM. The MoFMM has established a separate division (that is, the NAPPP) to carry out activities related to PPPs by its Cabinet Decision dated July 11, 2017.** Once the NAPPP is constituted as a separate legal entity distinct from the MoFMM, pursuant to an Act of Parliament, it will assume the role of the implementing agency for the project. The NAPPP will be adequately staffed with procurement, FM, and safeguards specialists and project monitoring staff to provide overall coordination of the activities in the project. The implementation of PPP transactions and the execution of the framework supported by the World Bank-financed project are functionally carried out through the NAPPP. As such, this section provides a brief overview of the institutional arrangements of the NAPPP.

2. **The organization structure of the NAPPP.** The NAPPP was established in July 2017 and the first round of recruitments with 11 personnel was finalized in January 2018. It is currently being managed by a Chairman and a BoD. The Chairman is also the acting CEO of the NAPPP until the appointment of the CEO is made. It is staffed with contract employees and consultants with experience from the private sector complemented by employees seconded from the GoSL. The NAPPP is still in the process of recruiting the required personnel. It is envisaged that the required specialists for environment and social safeguards, FM, and procurement will be recruited and/or seconded from the MoFMM, as necessary, so that the NAPPP will have a healthy mix of public and private sector skills and experience.

3. As the PPP pipeline and the competing demands for the NAPPP's resources are yet to be clearly laid out, the GoSL proposes to adopt the organization structure indicated in figure 2.1 with the intention that it will change to meet the changing needs of the GoSL. This structure will include a 'Flexible Manpower Pool' that will include all financial and legal expertise as well as environment and social specialists. The project teams for each of the transactions will be pulled in from this division where each of them will work across a number of PPP transactions. The 'Corporate Services' will include procurement, financial management, gender, communication, IT, and M&E specialists as those providing administration support. As the organization grows, capacity building will also be carried out by the staff that have gained necessary experience and are included within the flexible manpower pool.

**Figure 2.1. Adopted Organization Structure of the NAPPP**



4. **Functions of the NAPPP.** The NAPPP’s mandate will be governed by the new PPP Procurement Guidelines of the GoSL, which are currently being finalized. According to the draft guidelines, the NAPPP is envisaged to be the single facilitation point for all stakeholders in designing and preparation of PPPs and will act as the interface between the GoSL and the private sector. However, the final responsibility and ownership of each PPP transaction will remain with the relevant line ministry, while the authority to finally approve them will remain with the Cabinet of Ministers. Under these guidelines, the NAPPP will function as the convener and facilitator for the successful delivery of all types of PPP transactions. It will support the various ministries and line agencies in project identification, preparation, evaluation, negotiation, award, and monitoring of the transactions at these stages. More importantly, it will provide financial and legal expertise in the preparation of PPP transactions from the identification to award of a transaction. According to the proposed procurement guidelines, the specific key functions of the NAPPP are to:

- (a) Provide recommendations on policy guidance and procedures on the development and strengthening of the PPP framework and implementation;
- (b) Provide financial and legal advice on the PPP transactions throughout the whole PPP project cycle;
- (c) Function as the convener of the meetings of the Project Committees (PCs) and the CANCs;
- (d) Advise the MoFMM, line ministry, CANC, and/or PC on fiscal issues;



- (e) Assist in conducting prefeasibility and feasibility studies, the formulation of request for proposals (RFPs), and evaluation of proposals;
  - (f) Assist in conducting financial evaluation and improving the risk allocation of the projects, to ensure they deliver maximum value for money;
  - (g) Promote PPPs and provide information on PPPs to third parties and investors;
  - (h) Generate and improve capacities of GoSL officials in developing and implementing PPP projects;
  - (i) Facilitate access to technical assistance funding and VGF;
  - (j) Establish data rooms and other transaction facilitation to monitor PPP projects; and
  - (k) Carry out structured communication on PPPs.
5. **Board of Directors.** The BoD who will have oversight over the NAPPP and its processes has been appointed by the Minister of Finance. The BoD will be tasked with the following:
- (a) Providing policy guidance and required oversight for the effective functioning of the NAPPP;
  - (b) Providing approval of staff positions and funding arrangements with respect to the functioning of the NAPP;
  - (c) Providing advice on strategy and approval of the PPP transaction pipeline;
  - (d) Providing advice on the long-term finance arrangements, project development funding, VGF, etc. that are required to successfully close PPP transactions; and,
  - (e) Monitoring of the PPP program and World Bank-financed project and its activities.

## **II. Implementation Arrangements**

6. The NAPPP established under the MoFMM will be responsible for the implementation of Components A, B, and C.

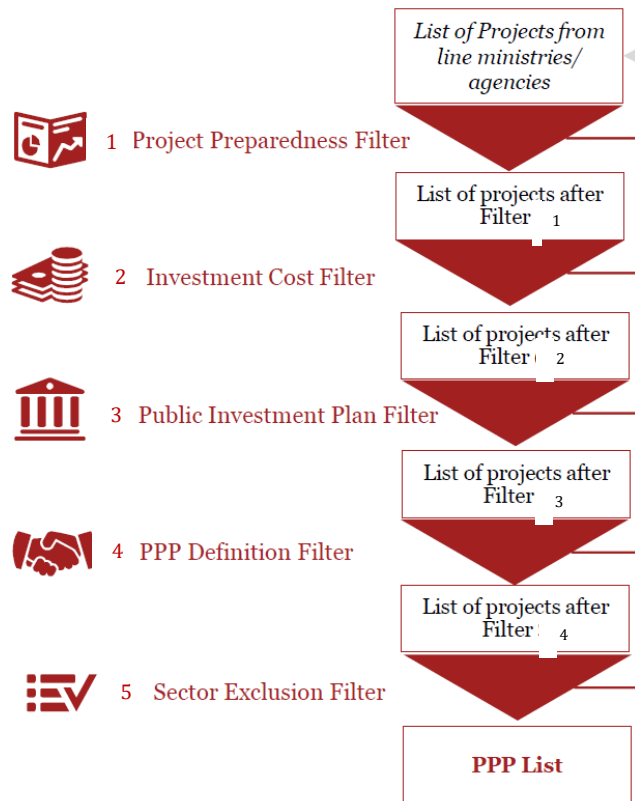
### **Component A: Improving the Enabling Environment**

7. The MoFMM through the NAPPP will be responsible for the implementation of Component A in accordance with the PPP policy and PPP Procurement Guidelines to be adopted by the GoSL. The NAPPP will be responsible for assessing the weaknesses identified during project preparation and thereafter driving the establishment of necessary institutions and establishing the necessary procedures. The NAPPP will design the capacity building and training programs with participation from the stakeholders to ensure they are targeted and designed to meet the expectations of the stakeholders. Similarly, the NAPPP will play the lead role bringing all the stakeholders, including the private sector, together in carrying out proactive communication for PPPs in the implementation of Subcomponent A.3.

**Component B: Preparation of Selected, Prioritized, Proposed PPP Transactions**

8. The MoFMM through the NAPPP will be responsible for the implementation of Component B. The NAPPP has adopted the screening and scoring tool described below to assess all proposed PPP transactions submitted by line ministries/agencies as well as to filter out those transactions that are not suitable for PPPs or not in line with the criteria laid out in the procurement guidelines for PPPs. Its application enabled the NAPPP to develop a robust initial pipeline of 12 proposed priority PPP transactions. It is expected that this will also enable the NAPPP to ensure that such a pipeline of PPP transactions will continue to be maintained in the future, with proposed PPP transactions that are no longer a priority exiting the pipeline and those that have reached the level of readiness and meet the criteria being added to the pipeline. The pipeline will also include transactions with service provision to be contracted through a PPP mechanism. The prioritization process adopted by the NAPPP is a two-step mechanism that involves the successive application of the screening criteria and scoring criteria listed in tables 2.1 and 2.2. The list of proposed priority PPP transactions obtained from the application of this mechanism and included in the initial priority pipeline is given in table 2.3.

**Figure 2.2. Project Screening Process**

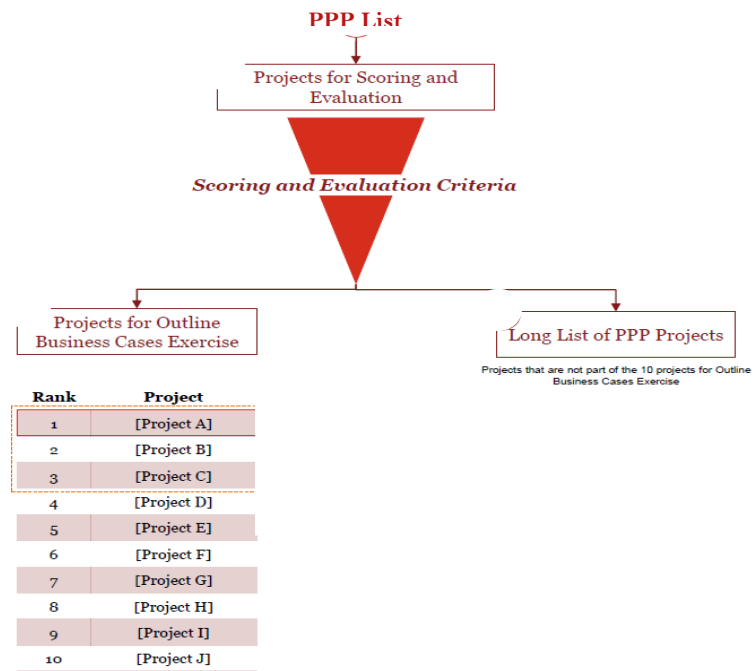


Source: PwC, Singapore.

**Table 2.1. Screening Criteria**

Screening Criteria	Description and Purpose
Project preparedness	To assess if the concept of the transaction is adequately clear and if the line ministry has planned and prepared for it.
Investment cost	To understand if the value (upfront construction cost of the transaction estimated or incurred) of the transaction meets the minimum thresholds prescribed by the NAPPP.
Public Investment Plan	To ascertain if the transaction has been considered under any of the master plans/implementation plans of the Government.
PPP definition	To ascertain if the transaction is aligned with the definition of PPP as specified in the PPP policy and/or PPP procurement guidelines of the Government.
Legal review	To assess if there are any legal barriers for PPPs to be carried out in respective sectors.

**Figure 2.3. Project Scoring Process**



Source: PwC, Singapore



Table 2.2. Scoring Criteria

Scoring Criteria	Description and Purpose
GoSL priority	To assess the strategic importance of the transaction in terms of prioritization assigned by the GoSL.
Management/technical gaps and level of consumer service	To understand if the line ministry/department/agency is currently facing any constraints in delivering the service provided by the transaction. These constraints could be in the form of financing, expertise, or other factors.
Line ministry/department/agency readiness	To ascertain if the line ministry/department/agency has experience of preparing and procuring PPP transactions.
Status of project preparation	To understand the current level of project preparation undertaken by the line ministry/department/agency.
Project implementation time line	To understand the likely implementation time line of the transaction.
Project feasibility	To understand the viability and attractiveness of the transaction.
Financing	To assess the status of financing of the transaction.
Private sector appetite and capability	To understand if the transaction is likely to attract interest from the private sector.

Table 2.3. Short List of Proposed PPP Transactions for OBCs/Feasibility Funding/Structuring Support as of July 27, 2018

No.	Transaction	Indicative Cost (US\$)	Description	Implementing Agency
<b>High Priority</b>				
1	Affordable housing - generic model	n.a.	<ul style="list-style-type: none"> <li><b>Objective:</b> Introducing PPPs in the housing sector. To meet the housing needs of poor/middle-income groups with a model that can be replicated. A pilot site proposed in Rajagiriya.</li> </ul>	n.a.
2	Mahaiyawa Affordable Housing Project	Approximately 100 million	<ul style="list-style-type: none"> <li><b>Objective:</b> Development of 1,220 affordable housing units in Kandy, Mahaiyawa area.</li> </ul>	Urban Settlement Development Authority
3	Transport Smart Card	n.a.	<ul style="list-style-type: none"> <li><b>Objective:</b> Enable PPPs in integrating a payment mechanism for transport and other services.</li> </ul>	Ministry of Transport
4	Wastewater collection, treatment and disposal system for Gampaha Municipal Council Area	Approximately 95 million	<ul style="list-style-type: none"> <li><b>Objective:</b> Introduce PPPs in the waste water sector. The PPP and policy reforms required to put in place a tariff structure to generate revenues through wastewater projects can run in parallel.</li> </ul>	National Water Supply and Drainage Board
<b>Medium Priority</b>				
5	Implementation of new Inland Water Transport System – IW1 and IW2	Approximately 5 million	<ul style="list-style-type: none"> <li><b>Objective:</b> (Unblocking PPPs) Ministry of Megapolis and Western Development has agreed with the NAPPP for a feasibility study to better scope the project, structure it, and mitigate the risks to</li> </ul>	Ministry of Megapolis and Western Development



			attract the private sector as well as make the project financeable.	
6	Kalpitiya desalination	Approximately 40 million	<ul style="list-style-type: none"> <li>• <b>Objective:</b> Establishment of a water supply project by using a sea water desalination plant in Puttlam District.</li> </ul>	National Water Supply and Drainage Board
<b>Low Priority</b>				
7	Hospitals - Generic Model	n.a.	<ul style="list-style-type: none"> <li>• <b>Objective:</b> Introduce PPPs in the health sector. Provision of diagnostic facilities through PPPs have currently been proposed for the GoSL section of the Port City.</li> </ul>	n.a.
8	Tunnel to Port City	Approximately 300 million	<ul style="list-style-type: none"> <li>• <b>Objective:</b> To enable the GoSL negotiate better terms within the PPP transaction.</li> </ul>	Road Development Authority
9	Convention center at Port City	n.a.	<ul style="list-style-type: none"> <li>• <b>Objective:</b> Enabling PPPs in the GoSL portion of the Port City</li> </ul>	Tourism Development Authority
10	Formation of recreational beach area along the shoreline south of Colombo (Kollupitiya to Wellawaththa)	Approximately 200 million	<ul style="list-style-type: none"> <li>• <b>Objective:</b> Development of a recreation area for the public/tourism</li> </ul>	Ministry of Megapolis and Western Development
<b>Additional projects that require transaction support (for which OBCs are not required)</b>				
11	Elevated expressway from new Kelani Bridge to Rajagiriya/Athurugiriya (Phase 1) Elevated Expressway from Rajagiriya to Athurugiriya (Phase 2)	Phase 1: Approximately 191 million  Phase 2: Approximately 300 million	<ul style="list-style-type: none"> <li>• <b>Objective:</b> To assist structuring of the transaction to make it financeable</li> </ul>	Road Development Authority
12	Rooftop solar project	n.a.	<ul style="list-style-type: none"> <li>• <b>Objective:</b> Assist the implementation of the LTGEP and relieve the power crisis</li> </ul>	Ceylon Electricity Board
	<b>Total Cost</b>	<b>Approximately 1231 million</b>		

9. The NAPPP has acquired capacity to develop OBCs that will help identify one or more options of PPP structuring for the proposed transactions in the pipeline, analyze the risks and benefits of each proposed option, and provide high-level financial analysis based on preliminary assumptions.

10. The NAPPP will use the World Bank Procurement Regulations to engage consultants required to carry out the feasibility studies, transaction advisory, and other consulting services up to financial closure, which are financed with the World Bank loan.



11. The selection of the developer of the PPP transaction will be carried out through the process described in Phases I to IV of the GoSL's Procurement Guidelines for PPPs (figure 2.4). As the proposed loan will not finance the PPP transactions, the use of PPP Procurement Guidelines of the GoSL for the PPP transactions does not violate the World Bank's requirements.

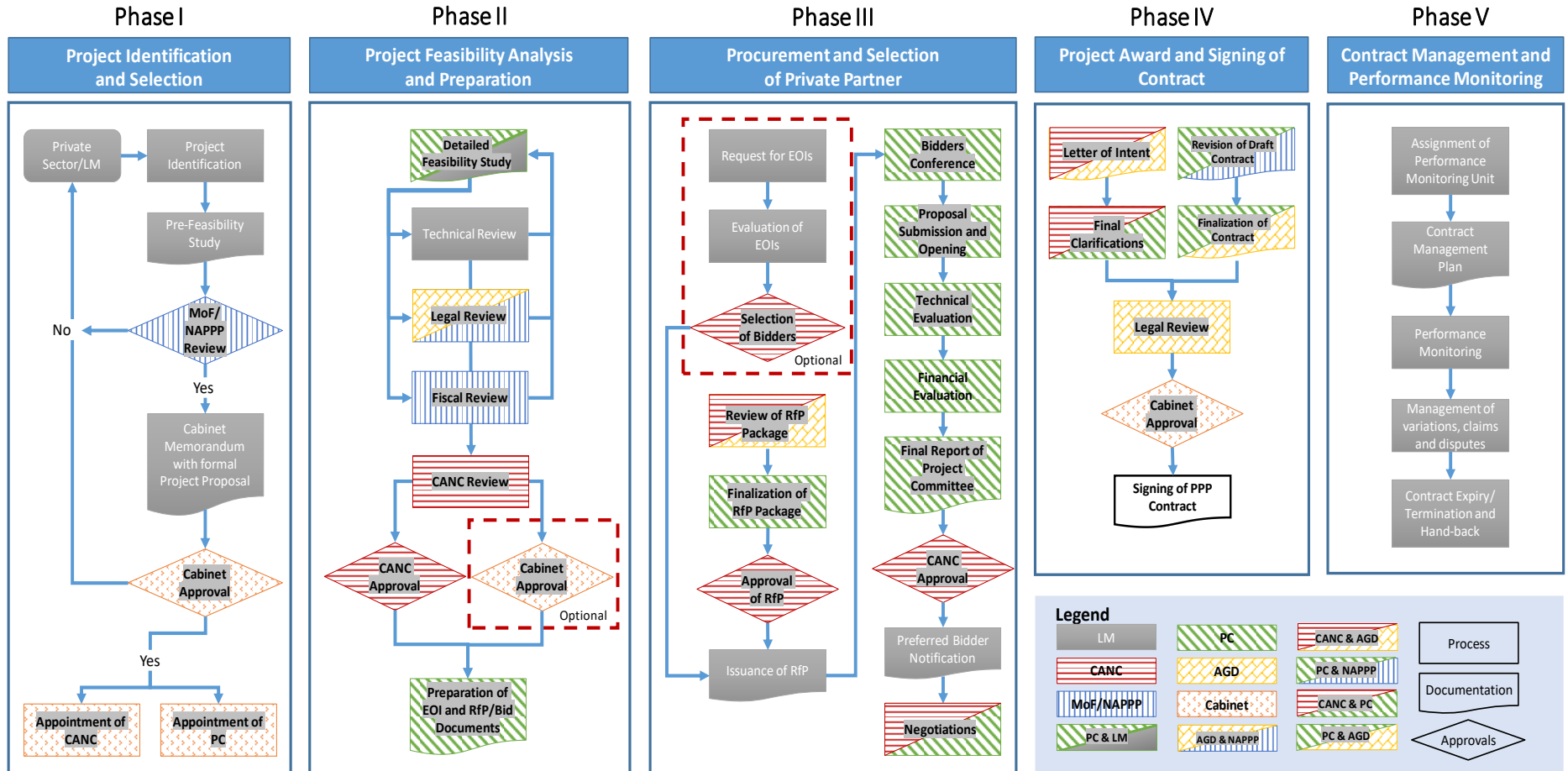
12. As indicated in figure 2.4, the line ministry/agency will identify a project for which it will coordinate with the NAPPP to ascertain if it can be developed as a PPP. The necessary prefeasibility/feasibility studies will then be facilitated by the NAPPP with the active participation of the line agency. Once found feasible and approved by the Cabinet of Ministers, a PC and a CANC will be established, which will carry out the preparation and monitoring activities. The line agency will be represented in the PC and the Secretary of the line ministry and the MoFMM will be represented in the CANC. The NAPPP will act as the adviser to both the PC and CANC during the preparation of a PPP transaction. The procurement of the PPP transactions will thereafter be carried out by the PC and CANC with the assistance of the NAPPP through Phases I to IV until the award of the PPP transaction. The NAPPP will facilitate the project preparation of the line ministry/agency by retaining consultants under the project and providing its own expertise.

### **Component C: Project Management**

13. This component will be implemented by the NAPPP and will only support the operating cost of the NAPPP.



Figure 2.4. Draft PPP Procurement Guidelines 2018 (for Solicited Transactions)



Note: AGD = Attorney General's Department; LM = Line Ministry; EOI = Expression of Interest.



## Financial Management

14. **It is envisaged that the FM responsibility will rest with the FM Unit that will be established at the NAPPP.** The NAPPP currently does not have FM staff and the Chief Accountant and his FM support staff of the MoFMM has been handling all FM-related activities pertaining to the NAPPP since the establishment of the NAPPP. For future activities, a person to head the finance division (Head of Finance) of the NAPPP has been currently identified and will be assigned to be the FM focal point for the project and will commence to carry out FM functions of the NAPPP. For the project, FM responsibilities include (a) ensuring compliance with all financial covenants in the Loan Agreement/Disbursement and Financial Information Letter; (b) preparing and submitting withdrawal applications and managing loan proceeds in an efficient, effective, and transparent manner; (c) preparing and furnishing financial reports and project audit reports to the World Bank; and (d) carrying out overall management of payments and accounting functions of the project and responding to any other requests relating to FM made by the World Bank's task team.

15. **World Bank loan proceeds will be used to finance eligible expenditures necessary to meet the development objectives of the project with due attention to considerations of economy and efficiency in accordance with the provisions of the Loan Agreement.** If the World Bank determines that the Loan has been used to finance ineligible expenditures, the amounts used for such expenditures shall be refunded to the World Bank by the GoSL.

16. **FM staffing.** The assigned Head of Finance, NAPPP, will work on a full-time basis and provide guidance and direction to ensure that the FM arrangements are implemented to the satisfaction of the GoSL and the World Bank. FM support staff may be recruited and be assigned to the NAPPP, who will work under the Head of Finance to support the management of routine accounting and FM activities of the project. The Head of Finance in the NAPPP will be responsible for managing day-to-day FM activities for the project, which may include (a) project budgeting, disbursement planning, and forecasting; (b) operating the DA, including claiming replenishments, disbursement of funds, and making required payments; (c) maintaining books and records for project financial transactions; (d) submitting quarterly IUFs; (e) preparing annual project financial statements; and (f) interacting with project internal and external auditors on audit issues and follow-up.

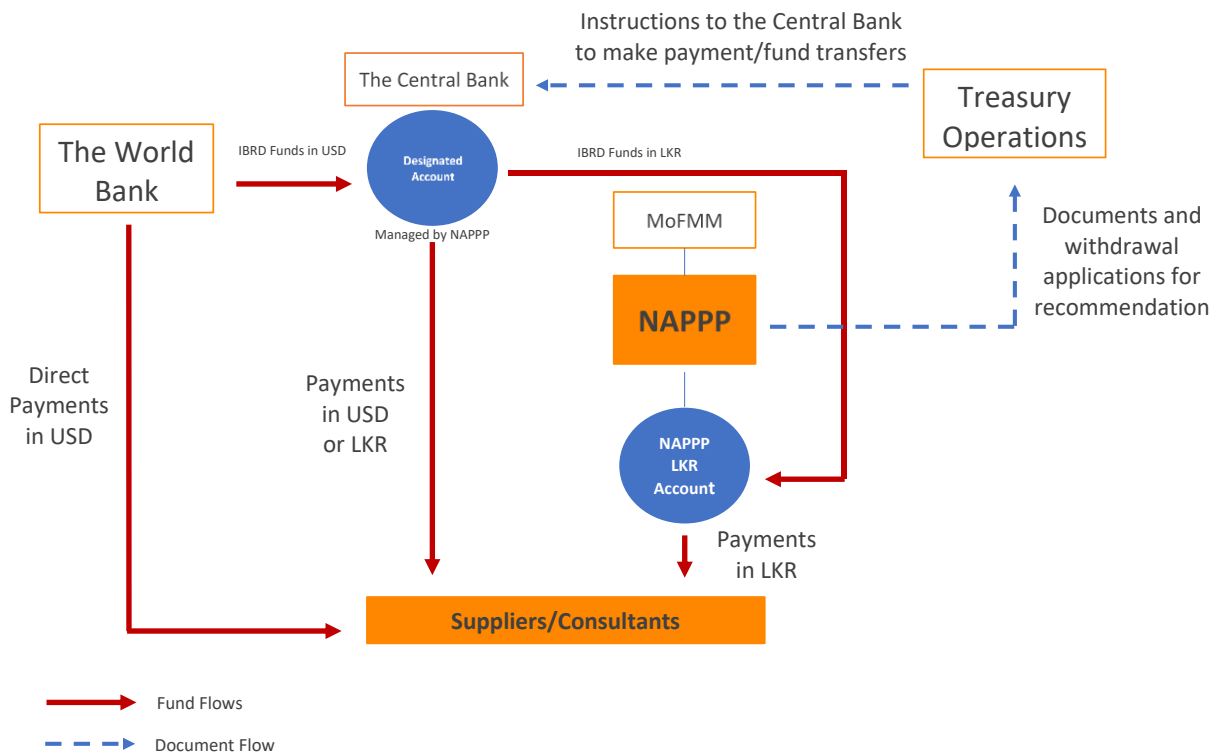
17. **Budgeting.** The NAPPP will forecast the required resources to be budgeted for the project and these forecasts will need to be incorporated into the overall MoFMM budget estimates, which is then submitted to the Budget Department under the MoFMM. A separate budget code (line item) will be set up for the project under the MoFMM. The NAPPP will prepare detailed implementation plans in line with the detailed project budget to clearly specify the funding requirement for the project components and activities. The NAPPP can implement the activities under the project by using the budgetary provision provided for this under foreign funds. The budgetary provisions made by the GoSL through Budget 2018 indicates an allocation of LKR 50 million GoSL funds for the activities of the NAPPP.

18. **Fund flow and disbursement arrangements.** A separate DA will be opened for the project. The DA will be operated and managed by the NAPPP, which will maintain separate sets of accounts for the project. Disbursement of funds will be report-based using IUFs. The NAPPP will submit quarterly IUFs to the World Bank within 45 days of the end of each quarter. The World Bank will advance funds to the

DA in adequate amounts to meet forecasted expenditures for a period of six months, as reflected in the respective IUF. Withdrawal applications will be prepared by the NAPPP and replenishments to the DA will be based on the IUFs acceptable by the World Bank. The specific format of IUFs, designed for the project in accordance with the guidelines issued by the World Bank, has been agreed during negotiations and is attached to the Disbursement and Financial Information Letter.

19. The NAPPP will also open a dedicated Sri Lanka rupee account. The focal point for FM in the NAPPP, will operate this account to make payments for eligible expenditures and track the inflow and outflow of the project funds. Exchange losses arising due to the transfer from the DA to the Sri Lanka rupee account will not be considered eligible expenditure and will not be financed by the loan. The NAPPP will have the option of requesting a direct payment to suppliers by (a) the CBSL, using the proceeds in the DA or (b) the World Bank against the credit for large payments. It is agreed that all payments related to the project will be handled centrally by the NAPPP, and no funds will be transferred to any other agency/unit. In addition, all fund transfers will be between bank accounts and no cash transfers will take place, except for petty cash. See the fund flow diagram in figure 2.5.

**Figure 2.5. Fund Flow**



20. **Accounting policies and procedures.** The accounting and FM staff in the NAPPP will closely coordinate with technical staff when a systematic verification of invoices needs to be carried out before payment. The accounting practices will be governed by the GoSL’s Financial Regulations and applicable circulars. World Bank accounts will be reconciled monthly, and trial balances and financial statements will be prepared monthly to facilitate monitoring of the progress of the project.



21. **Accounting system.** It is envisaged that the NAPPP can manage the accounting aspects through a manual and Excel-based system. This system will be used for the generation of financial information by creating relevant modules/ledgers and chart of accounts for the same. The accounting system will need to facilitate the generation of expenditure reports by budget classification/components and subcomponents thus enabling comparison with the budget/components and effective monitoring of expenditure. A separate chart of accounts and separate ledgers will be established for the project that enables separate accounting.

22. **Internal audit.** The project will be subjected to an internal audit. The internal audit team of the MoFMM will carry out the internal audit of the project and will work under the overall guidance of the Secretary. The internal auditors will assess whether the funds have been disbursed on time and used effectively and efficiently for their intended purposes. This will provide further assurance on the legitimacy and the eligibility of the payments made from the loan proceeds. The findings of the internal audit team will be reviewed by an Internal Audit Committee appointed for the project. The NAPPP will share the internal audit reports with the World Bank at agreed intervals.

23. **External audit and audit reports.** It is agreed that the external audit of the project be carried out by the Auditor General’s Department. The NAPPP will prepare the annual financial statements for the project. The audit will cover all component activities carried out by the NAPPP and all payments made from the project accounts related to the project. The audit will be conducted annually. The audit report will be submitted within six months after the end of the financial year. The NAPPP will be responsible for the timely submission of the annual audited financial statements to the World Bank. The audit report will be monitored in the World Bank’s Audit Reports Compliance System in Portfolio and Risk Management (PRIMA). According to the World Bank’s Access to Information Policy, the audit reports received by the World Bank will be disclosed on the World Bank’s external website for public access. Currently there are no overdue audit reports or outstanding ineligible expenditures for the projects implemented by the MoFMM.

Table 2.2. Audit Reports

Audit Report	Auditor	Date
Project Annual Financial Statements	Auditor General	June 30 each year

24. **Financial covenants.** The financial covenants related to the project will include (a) audited annual project financial statements to be submitted to the World Bank no later than six months after the end of the financial year to which they relate and (b) IUFRs to be submitted to the World Bank no later than 45 days following the end of the reporting quarter.

25. **Consistent with a risk-based approach to FM supervision, FM supervision activities for this project will consist of desk reviews of internal and external audit reports, including verification of the adequacy of the resolution of major audit observations and reviewing of quarterly IUFRs, supplemented by dialogue with the NAPPP staff as needed, especially during the initial years of project implementation.** FM supervision missions will be conducted at least once every six months. Other supervision tools and resources, such as transaction reviews and site visits, will be used to periodically monitor the adequacy of the FM system. In addition to the regular FM implementation support, the World Bank team will provide training, capacity building, and knowledge sharing for FM staff, internal audit staff, and the external audit staff as required.



26. **Disbursement categories.** The World Bank will finance 100 percent of eligible expenditures for goods, non-consulting services, consulting services, training, and workshops, and incremental operating costs of the project including taxes.

27. Under the project, the proceeds of the World Bank loan will be disbursed against eligible expenditures in the categories shown in table 2.3.

**Table 2.3. Disbursement Categories**

Category	Amount of Financing Allocated (US\$, millions)	Percentage of Expenditures to Be Financed (including Taxes and Duties)
(1) Goods, non-consulting services, consulting services, incremental operating costs, and training and workshops, related to the operation.	24.34	100
(2) Refund of the Preparation Advance	0.60	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(3) Front-end Fee	0.06	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0.00	Amount due pursuant to Section 4.05 (c) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>25.00</b>	<b>100</b>

28. **Incremental operating costs.** Incremental operating costs include the reasonable expenditures related to the project, such as reasonable costs of goods and services required for the day-to-day implementation of the project, including maintenance of vehicles and equipment; fuel; office supplies; utilities; consumables; office rental and maintenance; bank charges; advertising expenses; salaries, allowances, and benefits of the NAPPP staff; communications; travel of staff (including per diems and accommodation); and salaries, allowances, and benefits of selected contracted staff, but excluding salaries and salary top-ups of civil servants of the GoSL.

29. **Sri Lanka Programmatic Project Preparation Facility (PPPF).** A PPPF to support the GoSL to carry out preparation activities for projects supported through World Bank financing has been established. The PPPF provides the GoSL, certainty on funding availability for preparatory activities; allowing government entities to plan and prepare public investments efficiently and to international quality standards. The proposed project is among the identified projects that are eligible to receive PPPF funds of US\$600,000 until the Loan Agreement is signed. This facility is an advance on the loan and is structured to accommodate project preparation and implementation activities to provide cashflow pending signature of the Loan Agreement.



30. **Eligible activities.** The borrower may withdraw the proceeds of the PPPF to finance 100 percent of eligible expenditures consisting of goods, training of the staff involved in the preparation of the project, non-consulting services, consulting services, and operating costs, inclusive of taxes.

31. **It is expected that the NPD will coordinate preparatory activities with relevant line agencies and provide an oversight role for the PPPF.** The Head of Finance of the NAPPP would handle the funds earmarked for PPP projects on behalf of the NAPPP under the PPPF. The NAPPP will be fully responsible and accountable to the GoSL for all transactions/activities handled at the NAPPP level for the project under the PPPF, but only the GoSL will be accountable to the World Bank. It is advised to open a separate bank account in Sri Lankan rupee for the NAPPP that can be used for PPPF activities. The same bank account can then continue to be used under the loan once it is disbursed. Separate accounting, books of accounts, and a ledger should be maintained that will enable the Head of Finance to separately track the expenditures/payments/transactions carried out for the NAPPP on account of the project. The Head of Finance should carry out specific PPPF-related activities: (a) budgeting, disbursement planning, and forecasting; (b) operation of the Sri Lankan rupee account, including claiming replenishments from the centrally managed DA through the NPD, making required payments; (c) maintaining books and records for their own activities under the PPPF; (d) submission of financial information to the NPD for quarterly IUFRRs; (e) preparation of information for consolidated annual project financial statements of the PPPF; (f) interacting and cooperating with internal and external auditors on audit issues and follow-up; and (g) submission of all required information to the NPD for compiling and consolidating.

#### Procurement

32. Procurement under the project will be carried out under the World Bank's Procurement Regulations for Investment Project Financing (IPF) Borrowers of July 2016, revised November 2017 (Regulations).

33. **The borrower has prepared a PPSD that takes a holistic and strategic view of the procurement of key contracts under the project.** The World Bank has carried out a risk assessment to provide the basis, along with the PPSD, for setting up implementation arrangements for procurement. A significant risk is the one posed by the lack of previous experience in implementing World Bank-financed projects.

34. **Assessment of the agencies' capacities to implement procurement.** Procurement under the project will be carried out by the NAPPP. The procurement team of the World Bank carried out a risk assessment using the Procurement Risk Assessment and Management System tool and identified the main procurement issues and risks that might affect the project. Areas identified as contributing to procurement risks are (a) the NAPPP having no previous experience of implementing projects under the regulations, (b) there being no documented complaints handling system in the NAPPP that records and tracks complaints from receipt to resolution, and (c) there being delays in the evaluation and award process across the public procurement landscape in Sri Lanka. The proposed action plan includes (a) putting in place effective capacity building for the implementing entities; (b) drafting a Procurement Manual or including a procurement chapter in the Project Operations Manual; (c) assigning dedicated procurement staff to the project; (d) designing an effective independent complaint-handling system; (e) establishing a procurement M&E system; (f) strengthening contract administration; (g) setting up a project-specific website that covers all the project implementing entities; and (h) tracking the bid evaluation process at all levels to ensure expeditious processes, both at the NAPPP and in STEP.



35. **Procurement risks and mitigating measures.** In view of the abovementioned risks, the mitigating strategy described in table 2.4 will be adopted.

**Table 2.4. Procurement Risks and Mitigation Measures**

Risk Factor	Initial Risk	Procurement Strategy to Mitigate the Risks	Residual Risk
Record keeping and documentation	Substantial	<ul style="list-style-type: none"> <li>• The project has prepared procurement arrangements addressing these issues.</li> <li>• At the beginning of the project, a brief overview of the documents to be maintained and filed would be discussed with the procurement and senior staff of the NAPPP.</li> <li>• Subsequently during project implementation, the record keeping and documentation regarding procurement shall be monitored.</li> <li>• Implementing STEP will help record keeping.</li> </ul>	Moderate
Inadequate understanding of the World Bank's Procurement Regulations	High	<ul style="list-style-type: none"> <li>• A procurement specialist to be recruited for the project who will be aware of the public (World Bank) procurement procedures.</li> <li>• The key staff and all relevant officers of the NAPPP will receive appropriate training for implementing procurement under World Bank-assisted projects.</li> <li>• The World Bank will provide the borrower with hands-on expanded implementation support for procurement because of experience capacity constraints.</li> </ul>	Moderate
Inefficiencies and delays in procurement process	High	<ul style="list-style-type: none"> <li>• Time line to finalize the tenders/selections has been specified in the Procurement Plan.</li> <li>• Use of the procurement specialist in the NAPPP.</li> <li>• Empowering the NAPPP and making it fully responsible for the entire procurement cycle from bid document preparation and invitation to contract signing.</li> </ul>	Moderate
Insufficient competition in procurement	High	<ul style="list-style-type: none"> <li>• Development of a website for the project and publishing all tenders in the procurement section of the website.</li> <li>• For Request for Quotations (RFQ), Invitations for Quotation shall also be advertised in at least one widely circulated national daily newspaper or national gazette to increase the reach.</li> <li>• In the RFQ, a minimum of three sealed quotations shall be obtained and must be opened in public in one location immediately after the deadline for the submission. In case three quotations are not obtained, the quotations shall not be opened; and new quotations must be called for. If, even after this repeated attempt, three valid quotations are not</li> </ul>	Moderate



Risk Factor	Initial Risk	Procurement Strategy to Mitigate the Risks	Residual Risk
		<p>available, prior approval from the World Bank may be obtained to carry on the evaluation process with less than three quotations.</p> <ul style="list-style-type: none"> <li>• Publishing the General Procurement Note close to project launch in STEP as well as in regional and national newspapers.</li> <li>• Publishing all Special Procurement Notes in the project website in addition to a national newspaper or national gazette.</li> <li>• Building up the cost database.</li> <li>• Implementation of STEP.</li> <li>• Agreement to disclose all contract awards in the project website.</li> <li>• Publishing list of purchase orders/ contracts placed using shopping procedure every quarter in the project web page.</li> </ul>	
Inadequate capacity of national consultants/contractors/goods suppliers that in some cases hinders designing appropriate qualification requirements according to the World Bank's Standard Procurement Documents for Goods and Works	High	<p><b>For Request for Bids - Open National</b></p> <ul style="list-style-type: none"> <li>• Allowing joint ventures in bid documents.</li> <li>• Reasonable qualification criteria shall be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.</li> <li>• Bidders will be allowed to bid in multiple currency.</li> </ul> <p><b>For RFQ</b></p> <ul style="list-style-type: none"> <li>• Bidders allowed to bid in multiple currency so that the foreign companies can also bid.</li> <li>• This will allow and encourage the international companies to bid in multiple currency.</li> </ul>	Substantial
Contract management	Substantial	<ul style="list-style-type: none"> <li>• Pre-dispatch and post-dispatch inspections will be undertaken.</li> <li>• A detailed quarterly report of all the ongoing contracts including status of contract management issues such as delays, payments, and so on, will be submitted by the Procurement Cell to the Project Director for review.</li> <li>• Implementing STEP.</li> </ul>	Moderate
Fraud and corruption risks (including collusion and outside interference) in contracting process	High	<ul style="list-style-type: none"> <li>• Measures to improve competition such as broad technical specifications, realistic post qualification criteria, and appropriate contract packaging.</li> <li>• Better disclosure, complaint handling, management information system, and documentation.</li> <li>• Training in detecting fraud and corruption indicators to the Project Management Unit (PMU) staff by hiring a consultant with requisite skills by the PMU.</li> </ul>	Substantial



Risk Factor	Initial Risk	Procurement Strategy to Mitigate the Risks	Residual Risk
Poor complaint redress mechanism	High	<ul style="list-style-type: none"> <li>A complaint handling mechanism described in the World Bank regulations shall be followed.</li> <li>A six-monthly report of all complaints received, and action taken will be submitted to the Project Director for review.</li> </ul>	Moderate
Corruption in procurement	High	<ul style="list-style-type: none"> <li>Disclosure of contract opportunities, contract award decisions, internal/external procurement, and financial audits.</li> </ul>	Moderate
<b>Overall Risk</b>	<b>Substantial</b>		<b>Moderate</b>

36. **Procurement arrangements.** All goods, works, consulting services, and non-consulting services under the project shall be carried out in accordance with and using methods and approaches contained in the World Bank’s Procurement Regulations for IPF Borrowers (July 2016, revised November 2017) and according to the Procurement Plan agreed and managed through the STEP tool.

37. **Additional measures for procurement conducted under National Procurement Procedures.** In accordance with the Procurement Regulations for IPF Borrowers (July 2016, revised November 2017) (Procurement Regulations), when approaching the national market, as agreed in the Procurement Plan tables in STEP, the country’s own procurement procedures may be used. When the borrower, for the procurement of goods, works, and non-consulting services, uses its own national open competitive procurement arrangements as set forth in Sri Lanka’s Procurement Guidelines 2006, such arrangements shall be subject to paragraph 5.4 of the World Bank’s Procurement Regulations and the following conditions:

- (a) Only bidding documents acceptable to the World Bank shall be used for all national open competitive procurement.
- (b) The request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank’s Anti-Corruption Guidelines, including without limitation, the World Bank’s right to sanction and the World Bank’s inspection and audit rights.
- (c) The eligibility of bidders shall be as defined under Section III of the World Bank Procurement Regulations for IPF Borrowers (Procurement Regulations): accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the World Bank for reasons other than those provided in Section III of the Procurement Regulations.

38. **Frequency of procurement supervision.** The World Bank will monitor the procurement performance on a sample basis. The capacity assessment of the implementing agencies recommended semiannual implementation support missions to review procurement actions on a sample basis.



Table 2.5. Thresholds for Procurement Methods and Prior Review for the Procurement to Be Carried Out under the Project

Expenditure Category	Contract Value (Threshold) (US\$)	Procurement Method	Contracts/Processes Subject to Prior Review
Goods	≥US\$1,000,000	Open International	All contracts over US\$2 million
	<US\$1,000,000	Open National	All contracts subject to post review
	≤US\$50,000	RFQ	All contracts subject to post review
Works	≥US\$10,000,000	Open International	All contracts over US\$10 million
	<US\$10,000,000	Open National	All contracts subject to post review
	≤US\$50,000	RFQ	All contracts subject to post review
Consulting Services (firms)	≥US\$300,000	All competitive methods except CQS (advertise internationally)	All contracts over US\$1 million
	<US\$500,000	All competitive methods (advertise locally)	All contracts subject to post review
	<US\$300,000	CQS	All contracts subject to post review
Individual consultancies	—	IC	All contracts over US\$300,000/equivalent

Note: CQS = Selection Based on Consultants’ Qualifications; IC = Selection of Individual Consultants

39. **PPSD.** The NAPPP has prepared a PPSD for the project that looks at the market and implementation risks of key projects and proposes approaches and mitigations. A summary of the strategy for the key contracts is provided in table 2.6

Table 2.6. Summary of PPSD

No	Particulars	Market analysis
1	Consulting services for feasibility studies and transaction advisory services - firms	<p><b>Total value of the proposed assignments would be US\$16.00 million</b></p> <p>The country possesses some knowledge and experience in PPPs in the power and telecommunication sectors having carried out certain successful transactions in the late 1990s. However, the knowledge and the experience required to achieve the objectives of the proposed feasibility studies covering infrastructure, energy, water management, social housing, government buildings, and etc. are limited or unavailable. Therefore, the above consulting services shall be selected following an international market approach.</p> <p>However, it would be encouraged to seek local participation for the better understanding of the country’s political, economic, legal, environmental, social, and cultural aspects.</p>
2	Consulting services for legal services	<b>The total value of the proposed assignments for firms</b>



No	Particulars	Market analysis
		<p><b>would be US\$1.50 million</b></p> <p>The country has experience in providing legal services for several PPP transactions in the power sector and ongoing transactions in several infrastructure projects. These services will be sourced following the international/national market approach and there will be several framework agreements.</p> <p>However, the parties would be encouraged to seek local participation for the better understanding and representation in the country’s legal system.</p>
3	Consulting services for transaction advisory services - individuals	<p><b>Total value of the proposed assignments for individuals would be US\$1.56 million</b></p> <p>Sufficient competencies to carry out a PPP transaction from the inception to the financial closure in the sectors of infrastructure, energy, government building, low-cost housing, and similar public good are individually available in the local market. Where such specialized skills are not available in the local market, such skills shall be sourced from the international market.</p>
4	Consulting services for specialized services such as legal, contract management, environmental, social safe guards, gender, etc.	<p><b>Total value of the proposed individual assignments would be US\$0.94 million</b></p> <p>These services are available locally. Therefore, they would be selected from the local market.</p>
5	IT equipment and related services	<p><b>Total value of the proposed procurement of IT equipment and related services is US\$0.540 million</b></p> <p>There are sufficient number of qualified vendors to provide such IT equipment and related services at a competitive market price.</p>

**Environmental and Social (including safeguards)**

*Implementation Arrangements to Manage Environmental and Social Safeguards*

40. **Staffing of the NAPPP.** The NAPPP will recruit a qualified environmental specialist and a social specialist to manage project-related environmental and social safeguards. Specifically, the environmental specialist and the social specialist will be responsible for ensuring the short-listed PPP transactions to be supported under the project under the feasibility studies follows the necessary environmental and social safeguard due diligence defined as part of the EAMF and the RPF.

41. **Environmental and social safeguards focal points with line agencies.** These focal points will be staff who will be used by the respective line agencies within the PPP nodes to be established. They will be responsible for ensuring activities implemented by the PPP developers according to the EAMF and the RPF are well-managed and report to the NAPPP. They will assist in providing data and the timely completion of environmental and social screening reports and other safeguard instruments and will



collaborate with the NAPPP environmental and social specialists to ensure these assessments are completed on time. They will participate actively during consultations and be part of the Grievance Redressal Mechanism.

42. **Training and awareness creation.** The environmental specialist and the social specialist of the NAPPP will take the lead in organizing the necessary safeguards training based on the training needs assessment for the EAMF and RPF implementation. Training will be provided for the line agencies of the selected PPP transactions on a range of safeguards requirements and processes. They will also be provided with training on the use of the Grievance Redress Mechanism and consultations.

### **Monitoring and Evaluation**

43. The overall monitoring of the project will be carried out by the NAPPP's BoD, which will review the progress of the NAPPP periodically. The progress reviews of the BoD will be held quarterly with the participation of the NPD, External Resource Department (ERD), Department of Project Management and Monitoring, ministries and line agencies of the PPP transactions under preparation, and the World Bank. A Quarterly Project Monitoring Report will be compiled and shared by the NAPPP providing key information such as the status of the transactions, key issues and disbursement, as well as compliance with the legal covenants included or referred to in the Loan Agreement with the World Bank. This report will be used to assess progress toward the achievement of the PDO and intermediate indicators of the project. A midterm review will be scheduled within 30 months of the effectiveness date of the project. The specific PPP transactions supported by the project during the preparation stage will be monitored separately (and without World Bank involvement) by the CANC in line with the PPP Procurement Guidelines. During the implementation of a transaction, the monitoring will be carried out by a Steering Committee established for each transaction by the line ministry.

### **Role of Partners**

44. **The World Bank has continued the work of USAID upon the cessation of its program that supported PPPs and has ensured that a comprehensive program is delivered.** Several of the donors have also pledged their support to the PPP program through the multi-donor facility PPIAF. IFC is currently providing transaction advisory support to a water supply PPP transaction. AFD is funding a feasibility study for the establishment of a multimodal center on a PPP basis with the intention of offering further support through VGF. ADB has also provided technical assistance in the transport sector for specific PPPs in ports and highways.



### **ANNEX 3: IMPLEMENTATION SUPPORT PLAN**

**COUNTRY: Sri Lanka**

**Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project**

#### **Strategy and Approach for Implementation Support**

1. The critical risk in the implementation of the project stems from the fact that PPP transactions require specialized skills and such skills are scarce in Sri Lanka as the country has not actively pursued PPP transactions in the recent past. Hence, the financial and legal skills that are a prerequisite to structuring these transactions will need to be sought from the private sector. Furthermore, the NAPPP is a recently established division within the MoFMM and is still being staffed. Some of the key positions, including that of safeguards specialist and gender specialist are yet to be filled. As such, the agency is likely to require substantial support both in terms of project preparation activities as well as in executing its core functions as a PPP Unit.
2. It is also of critical importance that there is sufficient buy-in from the GoSL and relevant stakeholders in terms of the wider PPP program as well as the implementation of the framework and execution of the specific PPP transactions that will be identified through the project. Therefore, a constant dialogue between the GoSL and NAPPP, with project implementation support from the World Bank, will be required to ensure that the project addresses any key issues and concerns that may arise as the project progresses. Due to the prevailing lack of understanding around PPPs, it will also be necessary to keep all stakeholders engaged and informed of the PPP program through a well-developed communications strategy. This is intended to contribute toward the public buy-in of PPPs that will, in the longer term, ensure sustainability of the PPP program.
3. As this is a project which will affect the entire infrastructure sector, it will be important to ensure effective coordination among all development partners to ensure their support for the successful implementation of the project. Such coordination should help ensure their buy-in and support to the wider PPP program, as well as the PPP framework being implemented through the project.

#### **Implementation Support Plan and Resource Requirements**

4. Support provided under the project in terms of structuring of PPP transactions and conducting feasibility studies is expected to provide necessary capacity building in these areas to NAPPP staff—particularly in the form of on-the-job training for NAPPP staff working with specialist consultants who will be engaged for the preparation of the PPP transactions assisted by the project.
5. To address any delays in recruiting staff to the NAPPP and to address any difficulty in attracting staff with the necessary skills under public pay scales, the project has allocated funds to engage the required staff as consultants. This is expected to accelerate the staffing up of the NAPPP, as well as ensure that the skills and expertise within the NAPPP are adequate for the functions it is expected to carry out.
6. In addition, the project team expects to provide continuous project implementation support in the areas of safeguards, procurement, and FM, to ensure that the borrower complies with its obligations



under the Loan Agreement. Furthermore, given that there are several procurements for consultants that need to be carried out by the NAPPP, it is intended that framework agreements will be followed for the provision of general services to ease the burden of the NAPPP.

7. To ensure buy-in and support from relevant stakeholders, the project has allocated resources to support the NAPPP to implement a PPP communications strategy. This is expected to, among others, build awareness of the NAPPP’s role, promote a better understanding of PPPs and their benefits and risks, support specific policies or policy makers around key aspects of PPPs, and encourage greater participation among the various ministries/agencies and other government bodies. Furthermore, the NAPPP will continue to keep relevant GoSL counterparts informed of all aspects of the project, to ensure that their needs and concerns are addressed and to ensure their constant engagement and support throughout the project.

8. Given the diverse sectors included in the PPP pipeline, the World Bank team for project implementation support will include members from several global practices such as Transport, Energy, Water, Urban, and Health. This will help supervise the NAPPP and the sector agencies in the technical aspects during the preparation of the PPP transactions. The specialized PPP skills required will be accessed through the sector global practices as well as through the Infrastructure, PPPs, and Guarantees group of the World Bank. Strengthening the investment climate and improving competitiveness will be supported through the Finance, Competitiveness, and Innovations Global Practice.

9. The World Bank team expects to work closely with the NAPPP throughout the implementation of the project with at least two supervision missions per year to review the progress of the project and address any deviations from expected implementation levels.

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>	<b>Partner Role</b>
First 12 months	(a) Procurement of individual consultants, preparation of framework agreements and procurement of consultants for feasibility studies and transaction advisory support (b) Review outputs from consultants already retained (c) Stakeholder consultations (d) Coordination of development partners	Procurement, sector-specific technical skills, and PPP expertise	Staff and consultants	Engage in discussions, decision making, and providing guidance
12–48 months	(a) Procurement of consultants for feasibility studies and transaction advisory support (b) Review of outputs from feasibility study reports and transaction advisory support	Procurement, Financial, legal and technical skills and PPP expertise, and safeguards	Staff and consultants	Engage in discussions, participate, guide, and facilitate



Time	Focus	Skills Needed	Resource Estimate	Partner Role
	(c) Environmental and social assessments (d) Stakeholder consultations			
Other	Communications strategy	Communication and PPP skills	Staff and consultants	Engage in discussions, participate, and facilitate

Skills Mix Required			
Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Team leader	10	n.a.	Country based
Social specialist	6	n.a.	Country based
Environment specialist	6	n.a.	Country based
Gender specialist	6	2	Headquarters
Procurement specialist	8	n.a.	Country based
FM specialist	4	n.a.	Country based
PPP specialists	10	4	Country based/Singapore/Headquarters

Partners		
Name	Institution/Country	Role
NAPPP within the MoFMM	Sri Lanka	Implementing agency



## ANNEX 4: ECONOMIC ANALYSIS

COUNTRY: Sri Lanka

Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project

### Economic Analysis Framework

1. **As Component A relates to improving the enabling environment through the development of an institutional framework and providing capacity building, a quantitative economic analysis will not be an appropriate tool to assess the framework's impact.** The potential benefits could, among others, include improved institutional capacities, more efficient use of scarce resources, multiplier effects arising from the crowding-in of commercial finance into PPPs, and improved risk management practices within PPP transactions. As these are long-term and qualitative in nature, a qualitative analysis will be carried out to assess their impact.

2. Component B relates to feasibility, transaction, and structuring support. It is not possible to perform economic analysis for the PPP transactions for which support will be provided for feasibility studies as these transactions have not been identified yet. However, it is possible to outline the economic analysis framework that will be followed for the investments selected in this component. In the economic analysis framework presented below the economic impact of transactions across three sectors is broadly outlined. The three sectors, namely transport, water supply and sanitation, and energy have been identified based on the composition of the current short list of PPP transactions considered for feasibility financing and project structuring. Once the specific tangible investments are identified, the economic analysis for each investment will follow the broad framework presented below.

### 3. General principles

- (a) The following general assumptions will be made when performing the economic analysis:
  - (i) The analysis will be performed for a period of 20 years or a comparable time frame. If needed a salvage value approach will be used to capture the lifetime benefits of the investment.
  - (ii) Project discount rate will be assumed to be in the range of 6 percent to 12 percent (depending on Sri Lanka's GDP growth rate).
  - (iii) A suitable conversion rate between U.S. dollar and Sri Lankan rupee will be assumed.
  - (iv) To convert financial costs into economic costs a conversion factor of 0.97 or an alternative suitable factor will be used.
- (b) For the cost benefit analysis, net GHG emissions will be priced at the recommended World Bank Group values to estimate the social cost of carbon. The current base estimate starts from US\$30 in 2015 and increases to US\$65 in real terms by 2040—see table 4.1. Linear



interpolation will be used to infer the price of carbon for the years between those not reported in table 4.1.

**Table 4.1. World Bank Group Recommended Social Values of Carbon in U.S. dollars (in real 2014 U. S. dollars)**

**Per Metric Ton of CO<sub>2</sub> Equivalent**

	<b>2015</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>
Low	15	20	30	40
<b>Base</b>	<b>30</b>	<b>35</b>	<b>50</b>	<b>65</b>
High	50	60	90	120

- (c) Various sensitivity analyses will be performed for the selected transactions. First, sensitivity analysis will be performed (a) when GHG emissions benefits are excluded and (b) when GHG emissions benefits are included and priced at base values. Second, sensitivity analysis will be performed while using the low and the high paths for the social value of carbon. Lastly, switching value analysis will be used to determine the percentage change in costs or benefits for the NPV to become zero.
- (d) NPV of the transactions will also be calculated in all instances where cost-benefit analysis is applied.

**Transport Sector Transactions**

4. To assess the economic impact of transport projects a cost-benefit analysis will be carried out based on a ‘with’ and ‘without’ project impact assessment methodology. In addition to general assumptions outlined above, the following assumption will also be considered: the vehicle classification used in the analysis will consist of at least five vehicle types.

5. **With- versus without-project scenario.** Economic analysis will be based on comparing the with-project scenario to the appropriate without-project scenario. The without-project scenario will of course vary from situation to situation. For example, for a road rehabilitation project the without-project case would assume that the current maintenance regime already in place continues. In this situation, the with-project case would entail the actual rehabilitation of the roads and subsequent improvement in road maintenance.

6. **Costs and benefits.** Economic analysis will account for at least three types of benefits: (a) time savings benefits (VoT), (b) reduction in VoC, and (c) GHG emission benefits. In addition, depending on the situation, the analysis may include other types of benefits (for example, fewer accidents). When appropriate, benefits for passenger and freight will be considered separately.

7. For the analysis, traffic volume and growth data will be calculated based on field surveys (or reliable secondary sources) and suitable projections. For the analysis, the investment will be divided into suitable homogenous sections and the results aggregated to produce overall economic internal rate of return and NPV. Value of time will be estimate using the prevalent average wage rate in Sri Lanka (based on government sources). When appropriate, generated traffic will be accounted for in the analysis.



8. **Estimation method.** When available, standard software will be used to do the economic analysis. For example, for highway projects, economic analysis will be done using the Highway Development and Management Model (HDM-4)—a globally accepted key analytical tool for economic analysis of highways investment alternatives, which simulates life cycle conditions and costs and provides economic decision criteria for multiple road design and maintenance alternatives.

9. The economic analysis for metro and suburban rail projects will account for at least four sources of time savings: time savings for metro/rail riders who had used other public transport before, time savings from new generated trips (induced demand), time savings from less waiting and shorter transfer times, and time savings from less congestion for surface transport (private and public) users. The analysis for VoCs will include analysis for both public and private vehicles. There is no software available for urban transport projects. In this case a spreadsheet-based approach (or another more rigorous approach) will be used.

### Water Supply and Sanitation Sector Transactions

10. To assess the economic impact of water supply and sanitation projects a cost-benefit analysis will be carried out based on a ‘with’ and ‘without’ project impact assessment methodology.

11. **Costs and benefits.** The benefits accounted for will include both direct benefits and cost savings (avoided costs). These will, among others, include increased availability and quality of drinking water, improved reliability of water sources, health benefits (reduced health costs) due to use of safe drinking water and improved sanitation facilities, congestion savings due to improved rainwater drainage, GHG emission benefits, and avoided disruption in economic activities and damages to infrastructure caused by floods due to improved wastewater management.

12. **Estimation method.** Benefits will be estimated based on willingness-to-pay estimates (willingness to pay for improved water supply, and safe drinking water), time-saving estimates (using the prevalent average wage rate), and social value of carbon. Where benefits are estimated as avoided costs or cost savings, cost of no action will be considered (cost of water-related illness and cost of damages to infrastructure and economic activities caused by floods).

### Energy Sector Transactions

13. To assess the economic impact of energy projects, a cost-benefit analysis will be carried out based on a ‘with’ and ‘without’ project impact assessment methodology.

14. **Costs and benefits.** Benefits of an energy project typically include increase of energy supply to meet increased demand, cost and time saving due to increase of reliability and efficiency of energy supply, reduction of energy costs by substitution of energy source (for example, shifting to renewal energy sources), and GHG emission benefits.

15. **Estimation method.** Benefits will be estimated based on willingness-to-pay estimates (maximum price a consumer is willing to pay for one more unit of energy consumed) and avoided costs associated with alternative systems of energy production (for example, self-generation of electricity and heat through microturbines and boilers). The benefits of substitution of energy sources will be assessed based on the opportunity cost of the substituted and/or substituting sources. The opportunity cost will be

accounted for based on long-run marginal cost of energy production which indicates the average incremental cost of electricity generation of each source.



**ANNEX 5: ASSISTANCE PROVIDED THROUGH THE PPIAF GRANT**

**COUNTRY: Sri Lanka**

**Framework Development and Infrastructure Financing to Support Public-Private Partnerships Project**

1. At the request of the GoSL, in 2017 the World Bank initiated a program to support the strengthening of the PPP-enabling environment in Sri Lanka through a grant of US\$700,000 from the PPIAF. This program is expected to end in March 2019. It includes the following:

- The development of a proposed PPP policy to standardize the government approach to PPPs across different infrastructure sectors and clarify the treatment of PPPs. The objective is to lay out the broad principles related to, among others, unsolicited proposals, sovereign guarantees, government risks, contingent liabilities, gender equality, and climate resilience in the context of PPPs.
- The development of a proposal to update the 1998 PPP Procurement Guidelines, for instance, to reflect recent changes in institutional responsibilities, outline the roles and responsibilities of all parties involved in the PPP procurement cycle and describe the NAPPP's mandate as the sole agency mandated for the preparation and coordination of PPPs; regulate unsolicited proposals; and provide for a more expeditious process for procurement of PPPs, setting out a clear process of identification, selection, preparation, and procurement of PPP transactions, and the award and monitoring of PPP contracts.
- The provision of recommendations to strengthen the structure and governance of the NAPPP and its BoD, including the development of: (a) a flexible organization structure (depending on the NAPPP's evolving needs) and internal processes for its operations; and (b) a strategy to improve financial sustainability of the NAPPP and reduce reliance on budgetary contributions.
- The assessment of various options for the long-term financing of infrastructure and project development and the provision of recommendations with respect to the establishment (or not) of dedicated funds for that purpose.
- A review of the legal framework (both general and water, energy and transport sector-specific) relevant to PPPs, including the land acquisition regime and the foundation for project finance (as opposed to corporate finance), to identify areas for improvement and make recommendations.
- The development and support for the delivery of a capacity-building program including: (a) a workshop to raise awareness of high-level government officials on the new PPP procurement guidelines, tools for project identification, screening and prioritization of proposed PPP transactions and the legal aspects of PPPs; (b) sector agency training, on



sector-specific knowledge gaps and capacity requirements in identifying and executing PPPs; and (c) ongoing training to NAPPP staff.

- Development of a screening and scoring mechanism of proposed PPP transactions comprising a set of screening criteria (to assess their readiness and timeline for implementation), an evaluation process, and a methodology to develop OBCs.
- Support the NAPPP in identifying PPP transactions using the screening and scoring mechanism mentioned above and providing assistance for one such transaction to proceed to the stage of market sounding.