



DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
ECOSYSTEM CONSERVATION AND MANAGEMENT  
APPROVED ON APRIL 25, 2016  
TO  
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

ENVIRONMENT & NATURAL RESOURCES

SOUTH ASIA

|                                  |                             |
|----------------------------------|-----------------------------|
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I. BASIC DATA

Product Information

|  |  |
|--|--|
| Project ID<br>P156021                          | Financing Instrument<br>Investment Project Financing |
| Original EA Category<br>Partial Assessment (B) | Current EA Category<br>Partial Assessment (B)        |
| Approval Date<br>25-Apr-2016                   | Current Closing Date<br>30-Jun-2021                  |

Organizations

|  |   |
|--|---|
| Borrower<br><br>Democratic Socialist Republic of Sri Lanka | Responsible Agency<br>Department of Wild Life Conservation, Forest Department, Ministry of Mahaweli Development and Environment, Ministry of Sustainable Development, Wildlife and Regional Development |
|--|---|

Project Development Objective (PDO)

Original PDO

The project development objective (PDO) is to improve the management of ecosystems in selected locations in Sri Lanka for conservation and community benefits.

Summary Status of Financing

| Ln/Cr/Tf  | Approval    | Signing     | Effectiveness | Closing     | Net Commitment | Disbursed | Undisbursed |
|-----------|-------------|-------------|---------------|-------------|----------------|-----------|-------------|
| IDA-57920 | 25-Apr-2016 | 05-Sep-2016 | 01-Dec-2016   | 30-Jun-2021 | 45.00          | 7.58      | 37.76       |

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



## II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

### Project Status

The Project was approved by the World Bank Board on April 25, 2016 for a total IDA Credit of US\$45 million and an implementation period of 5 years. The Financing Agreement was signed on September 5, 2016 by the Ministry of Finance and the World Bank. The Bank received the Legal Opinion from the Attorney General on September 28, 2016. The project was made effective on December 1, 2016. The project has disbursed US\$ 7.58 million (16.72%) of IDA Credit.

The project development objective (PDO) is to improve the management of ecosystems in selected locations in Sri Lanka for conservation and community benefits. The PDO is still relevant to the context and the results indicators represent an appropriate means to assess the project performance. The project has three components:

**Component 1: Pilot landscape planning and management:** This component provides technical assistance, training and capacity building to develop the guiding framework for landscape-level management planning and support the piloting of landscape planning and management in two selected landscapes comprising contiguous areas of unique ecological, cultural and socio-economic characteristics. The completion of the first landscape plan is behind the schedule. The establishment of baseline conditions and drivers of land-use change of the first conservation landscape selected in the dry zone is currently on-going and is expected to be fully completed by the end of September 2018. The PMU has completed setting up of stakeholder forums at the national and regional levels for raising awareness and for the early engagement of strategic partners in the proposed planning process. A number of stakeholder consultations and awareness sessions have been conducted to date (based on a formal stakeholder analysis) including 9 focus group meetings with key community groups with a significant stake in the selected landscape. The first landscape planning process is expected to commence by end 2018.

**Component 2: Sustainable use of natural resources and human-elephant co-existence:** This component supports communities living adjacent to Protected Areas (PAs) and other ecologically sensitive areas to plan for natural resource use and to develop biodiversity compatible, productive and climate resilient livelihood activities and to scale-up successful models that address the human-elephant conflict.

(a) Sustainable use of natural resources for livelihood enhancement: The Forest Department (FD) is currently implementing Community Action Plans (CAPs) to ensure sustainable use of natural resources in 77 villages. Only 5 CAPs have been consultatively prepared by the Department of Wildlife Conservation (DWC). Some of the challenges faced by the DWC include (i) lack of understanding within the DWC's outreach team of the project principles; and (ii) lack of positive experience working with communities. The DWC has identified a menu of potential activities that address the challenges to sustainable use of natural resources and related livelihoods to guide the discussion with communities more effectively.

(b) Human-elephant co-existence for livelihood protection: Two strategies to address human-elephant conflict have been identified. Considerable progress has been made in planning for the island-wide elephant survey and problem elephant rehabilitation center (PERC). Discussions and training of stakeholders have commenced for the community based village and agricultural electric fences. The 12 village/agriculture fencing activities are on track to be concluded by end of 2018.



Component 3: Protected areas management and institutional capacity: This component supports interventions in PAs in compliance with the Fauna and Flora Protection Ordinance (FFPO) and the Forest Ordinance (FO); support nature-based tourism development, and strengthens the institutional capacity and investment capability for conservation and management.

(a) Protected area conservation and management: The FD is currently implementing Protected Area Management Plans (PAMPs) for 7 PAs covering 9 divisions. Conservation activities are progressing well covering 191,128 ha of forest areas. A total of 804ha of degraded forests areas were improved with enrichment planting, assisted natural regeneration and habitat restoration activities. In addition, 839km of boundaries were demarcated and 150km of fire lines have been created. The PA management infrastructure improvement and development are significantly delayed because the engineering capacity is still inadequate. The procuring of design and supervision consultants is currently being processed. The DWC initially identified 4 sites in the Southern region to implement the PAMPs and a proposal to improve enforcement in 7 National Parks in Uva, Southern and Ampara regions. Due to slow implementation progress, the DWC has started downsizing the scope of activities proposed from the PAMPs. Use of Smart Monitoring and Reporting Tool (SMART) for enforcement is successfully being used in the southern cluster of PAs with significant improvement in the enforcement activities. A second phase to roll out SMART Patrolling across the rest of the country by DWC and the FD's plan to pilot this in two PAs have just commenced. The use of community contracting for labor to undertake small-scale rehabilitation work and forestry/habitat management activities in many sites have been challenging, due to lack of registered community-based organizations in the targeted communities, lack of banking services, inability of community-based organizations to organize labor as needed and timing of payments to the laborers. This challenge is also faced under Component 2 and Sub-component 3(b) and may become a challenge in Component 1 when implementing the landscape plans.

(b) Nature-based tourism in PAs: An international nature-based tourism (NBT) consultant has been recruited in February 2018 to assist in assessing and planning to improve the quality of NBT in 4 selected PAs under the FD (Sinharaja World Heritage Site and Hurulu Eco park) and the DWC (Bundala and Udawalawe National Parks), undertake the tourism carrying capacity assessment of Yala National Park and to train the staff of the two departments to undertake carrying capacity assessments and NBT planning to be subsequently carried out in other PAs. The tourism assessments of all sites have been undertaken and comments to the consultant have been provided. The consultant is undertaking NBT planning exercise focused on each site between July 30 – August 2, 2018, followed by an initial training to the DWC and the FD staff on August 3, 2018. The FD has also commenced rehabilitation of existing tourism infrastructure in Galoya Eco Park and Kanneliya Conservation Forest and the DWC has developed a proposal to address tourism challenges in Yala National Park.

(c) Institutional capacity and investment capability of the DWC and the FD: After the second round of bidding, the PMU has contracted two consultant firms to undertake design and supervision works of the Sri Lanka Forestry Institute and National Wildlife Research and Training Center for which the designs will be finalized by end September 2018. The FD has concluded forest conservation and management training of 280 staff. The DWC concluded local training of 27 wildlife rangers.

Component 4: Project Management: The project lost about 8 months of originally planned implementation period because of the delay in getting the project effective and forming a functional PMU. The project was designed as a framework because of short preparation period which required the DWC and the FD to undertake detailed planning of activities with the support of the PMU once the project was effective. However, there was a deceleration of project implementation during first half of this calendar year. To further improve the planning process at sub-activity level,



the PMU has purchased a project management software, which is currently being populated. Significant improvements have been also made to collect monitoring data related to results framework, as well as sub-project level output monitoring. An internal auditor has been recruited.

The project is in compliance with safeguards and all financial statements and audit reports have been submitted and there is no outstanding audit report.

#### Proposed Changes

The client has requested (i) inclusion of incremental operating cost (IOC) across all project components; (ii) inclusion of a new disbursement category – “Cash for work”, which will address some of the project implementation challenges and requires restructuring to accommodate the changes.

##### 1. inclusion of IOC across all project components

Currently, the use of IOC under the project is only limited to Component 4. There are some challenges accessing counterpart funds for IOC in a timely manner. Therefore, this change across all components will facilitate the involvement of field staff of the DWC and the FD to expedite operational processes at the project sites. Additional incentives to the staff where needed will be continued to be paid using counterpart funds. The new disbursement category 3 for Part 1, 2 and 3 with the inclusion of IOC will be applicable from the date of counter signature.

##### 2. Inclusion of a new disbursement category – “Cash for work”

The new disbursement category 4 – “Cash for Work” has been identified allowing the FD and the DWC to use direct labor in sites where community contracting is a challenge and there are no or limited banking facilities. Cash for Work is defined as "Use of direct labor with a view to creating short-term employment for communities (i) living adjacent to Protected Areas; (ii) participating in the human-elephant co-existence models; and/or (iii) participating in activities and plans under the project. It consists of carrying out labor intensive forest and/or habitat management activities and repair and small rehabilitation work under the implementation of conservation landscape management plans, community action plans, human-elephant co-existence strategies, Protected Area management plans, and nature-based tourism plans".

The objective of the Cash for Work program is to implement small scale, labor-intensive works consisting of the repair and rehabilitation of small infrastructure and facilities in Protected Areas and villages and forest and habitat management activities in Protected Areas by employing members of the communities living adjacent to project targeted Protected Areas, beneficiary communities identified under the human-elephant co-existence program and communities living within the targeted conservation landscapes as laborers. The Cash for Work Program shall be implemented following the relevant procedures: (i) the management of social safeguards in accordance with the principles for wages, payments and delivery mechanism, (ii) the management of environmental safeguards during implementation of small works and forest and habitat management activities in accordance with the Environmental Management Framework, (iii) the use of procurement guidelines for purchase of goods necessary for small works and forest and habitat management activities, and (iv) financial management (i.e. management of payments and records, internal controls and auditing). The Cash for Work Program shall be applicable for sub-project proposals approved for implementation under Part 1, 2 and 3 and shall ensure adherence to relevant technical conditions of clearances of the sub-project proposals.



A review of the mechanism and applicable internal controls has been carried out under this disbursement category. The mechanism proposed and submitted by the PMU which is in line with the existing systems currently prevailing in the Government under the FD and the DWC have been found to be satisfactory to the Bank and are having the adequate controls that are necessary to ensure that the intended beneficiaries are being paid in a systematic manner. The transfer of funds under the Cash for Work program will be in cash. This will be after the due checks and balances carried out at various levels, on beneficiary registration, attendance verification, works carried out against the sub-project proposal selected activities eligible to use this mechanism and payments processed. Furthermore, as part of project’s fiduciary responsibilities, the Financial Management staff of the PMU will assess the use of funds for the intended purpose, undertake sample field checks, as well as review reports prepared by field staff and Internal Audit Divisions of the DWC and the FD. Additionally, the Internal Auditor of the PMU will also carry out inspections at field sites on sample basis including review of reports prepared by field staff and Internal Audit Division of the DWC and the FD. The Cash for Work mechanism will be also subjected to the external audit by the Auditor General’s Department.

The Operations Manual has been updated to guide the use of Cash for Work process including (i) the selection of individuals and related social safeguard requirements; (ii) management of environmental safeguards for small works and forest and habitat management activities; (iii) responsibilities to manage safeguards; (iv) adherence to procurement guidelines in the purchase of goods needed to undertake small works and forest and habitat management activities; (v) management of payments and records, internal controls and auditing. The project will ensure the labor employed will be from communities living adjacent to the Projected Areas that the project is in line with the project principles for community contracting. The proposed allocation for Cash for Work (Disbursement Category 4) is US\$5.5million, will be utilized across Components 1, 2 and 3. Reduction from Disbursement Category 1 has been made to this new Category 4.

Formal change to the disbursement projections

In addition, the following changes to disbursement projections have been proposed to be in line with the date of project effectiveness and proposed project implementation plan with no change to the project implementation period. These changes take into account the actual timing of disbursement against the project implementation plan updated following the project effectiveness.

| Fiscal Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |  |
|-------------|------|------|------|------|------|------|--|
| Annual      | 0.0  | 0.2  | 4.2  | 8.2  | 11.2 | 21.2 |  |
| Cumulative  | 0.0  | 0.2  | 4.4  | 12.6 | 23.8 | 45.0 |  |

Change in the name of Ministry of Sustainable Development and Wildlife

A change has been made in the amended Financing Agreement to reflect the change on the name of the above Ministry under which the DWC resides, which is now called Ministry of Sustainable Development, Wildlife and Regional Development.

**III. DETAILED CHANGES**



REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

| Ln/Cr/TF                          | Current Expenditure Category       | Current Allocation   | Actuals + Committed | Proposed Allocation  | Disbursement % (Type Total) |          |
|-----------------------------------|------------------------------------|----------------------|---------------------|----------------------|-----------------------------|----------|
|                                   |                                    |                      |                     |                      | Current                     | Proposed |
| IDA-57920-001<br>Currency:<br>XDR | Gds,Wks,NCS,CS ,Trg-Prts 1,2,3     | 31,850,000.00        | 2,750,981.05        | 3,400,000.00         | 100.00                      | 100.00   |
|                                   | Gds,NCS,CS,IOC, Trg-Prt 4          | 750,000.00           | 295,015.05          | 750,000.00           | 100.00                      | 100.00   |
|                                   | Gds,Wks,NCS,CS ,IOC,Trg-Prts 1,2,3 | 0.00                 | 0.00                | 24,535,000.00        |                             | 100      |
|                                   | CfW-Parts 1,2,3                    | 0.00                 | 0.00                | 3,915,000.00         |                             | 100      |
|                                   | <b>Total</b>                       | <b>32,600,000.00</b> | <b>3,045,996.10</b> | <b>32,600,000.00</b> |                             |          |