

Ex-ante Evaluation

1. Name of the Project

Country: The Democratic Socialist Republic of Sri Lanka

Project: The Galle Port Development Project (I)

Loan Agreement: March 28, 2006

Loan Amount: 14,495 million yen

Borrower: The Government of the Democratic Socialist Republic of Sri Lanka

2. Necessity and Relevance of JBIC's Assistance

Sri Lanka occupies a strategic position in the Indian Ocean on the east-west shipping routes that link Europe and Asia; Colombo Port handles 90% of the country's container freight, primarily transshipments, whilst the ports at Trincomalee and Galle pick up any remaining slack in marine transportation. Recent economic development in Sri Lanka and its neighbors has produced a surge in demand for transshipment and other forms of freight transportation and the freight capacity of Colombo port is forecast to reach saturation point by around 2010. In order for Colombo to retain its international competitiveness, the port will require further development, predominantly of container freight handling facilities, and in tandem with this, an alternative port capable of handling freight that is bound for regional destinations will need to be established. Southern Sri Lanka, in which many cement plants and plantations make their home, has a strong latent demand for freight transportation. Therefore, the development of a regional port to handle international trade in the south is needed to encourage the economic development of this region. Sri Lanka's master plan for the port sector identifies the development of Galle port as a priority project, since it will be central to stimulating the economy in the southern Sri Lanka.

JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations cites "infrastructure development for sustainable growth" as a priority area for transport sector development operations and affirms the Bank's commitment to providing assistance for the development of social and economic infrastructure that will form the basis for private sector activity. Furthermore, the Medium-Term Strategy pinpoints assistance for "the construction of economic infrastructure that will lead to sustainable development led by the private sector" as a priority area for its operations in Sri Lanka.

In light of the above, the necessity and relevance of JBIC assistance for this project are considered to be considerable.

3. Project Objectives

The objective of this project is to accommodate the growing demand for freight handling in Sri Lanka via the construction of a multi-purpose terminal, a breakwater and other facilities at the southerly port of Galle, thereby contributing to economic development in this region.

4. Project Description

(1) Target Area

Galle district (located approximately 120km south of Colombo)

(2) Project Outline

To provide the following civil works, equipment procurement and service components as necessary to the execution of this project in Galle port:

- (a) Construction of a multi-purpose terminal (depth: 12m; length: 240m; berth × 1)
- (b) Construction of a breakwater (inner breakwater: 350m; outer breakwater: 800m)
- (c) Dredging of shipping lanes / moorings (depth: 12m)
- (d) Procurement of navigation aids facilities
- (e) Procurement of loading and unloading equipment (multi-purpose cranes, computer systems, etc.)
- (f) Consulting services (detailed design, bidding assistance, work supervision)

(3) Total Project Cost/Loan Amount

23,855 million yen (Yen Loan Amount: 14,495 million yen)

(4) Schedule

January 2006-June 2014 (102 months)

(5) Implementation Structure

- (a) Borrower: The Government of the Democratic Socialist Republic of Sri Lanka
- (b) Executing Agency: Sri Lanka Port Authority (SLPA)
- (c) Operation and Maintenance System: same as (b)

(6) Environmental and Social Consideration

(a) Environmental Effects/Land Acquisition and Resident Relocation

(i) Category: A

(ii) Reason for Categorization

This project is classified as Category A, since it is listed as a sensitive area in the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established April 2002)

(iii) Environmental Permit

Sri Lanka’s legal system requires the preparation of the EIA report and the approval of the Coastal Conservation Department; this process was completed in April 2001. Although Galle

Port sustained major damage in the Indian Ocean tsunami of 2004, the validity of the EIA was reconfirmed in November 2005.

(iv) Anti-Pollution Measures

There are plans to employ various construction methods, including the placement of a silt curtain, to control the dispersion of sediment produced during dredging operations. In operating the port, measures will be taken to control effluent from ships in line with the International Convention for the Prevention of Pollution from Ships. In addition, equipment necessary to minimize marine pollution consequent upon accidents is to be developed.

(v) Natural Environment

A small coral reef and valuable habitats have been confirmed in the vicinity of the project site; however, use of a silt curtain to control the dispersion of sediment and the introduction of low-noise equipment means that the project is not expected to have a significantly adverse impact on the natural environment.

(vi) Social Environment

Agreement on the compensation policy for fishermen whose livelihoods will be affected by this project is being reached through discussion with the local fishermen. SLPA is to develop a compensation plan based on this policy and will provide the appropriate compensation. The project will not involve any involuntary resettlement.

(vii) Other/ Monitoring

Environmental impacts regarding such items as air quality, water quality and noise will be monitored by the executing agency during construction and once the port goes into operation.

(b) Promotion of Poverty Reduction

The strengthening of port facilities in this southern region, which has a large poor population, is expected to create job opportunities for the poor in line with the development of industries in the port area in the mid- to long-term, thereby contributing to poverty reduction.

(c) Promotion of Social Development (e.g. Gender Perspective)

None

(7) Other Important Issues

This is the first Special Terms for Economic Partnerships (STEP) project in Sri Lanka, and it is anticipated that the project will draw on Japan's advanced technologies and expertise.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Baseline (2004)	Target (2017, 3 years after completion)
Freight handling capacity (thousand tons)	578	3,550
Vessels entered	88	424
Total Gross tonnage (thousand GT ¹)	474	3,568
Berth occupancy ratio (%)	60	58

(2) Internal Rate of Return

Financial internal rate of return (FIRR): 6.7%

- (a) Cost: building construction costs; operation and maintenance costs
- (b) Benefit: revenues from port charges
- (c) Project life: 35 years

Economic internal rate of return (EIRR): 17.9%

- (a) Cost: building construction costs; operation and maintenance costs
- (b) Benefit: reductions in land transportation costs for freight
- (c) Project life: 35 years

6. External Risk Factors

Reductions in freight volumes contingent upon economic conditions in Sri Lanka and its trading partners.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

Ex-post evaluations of prior projects indicate that decision-making holdups inside SLPA's board of directors, which has authority over procurements, have caused problems including delays in the procurement of equipment at the execution stage and delays in the procurement of spare parts at the operation and maintenance stage. The powers of the SLPA president over procurement have expanded and there is no evidence of procurement holdups on projects that are currently in progress. To pre-empt delays in the procurement of spare parts for operation and maintenance at the site level, there are plans to ensure that site supervisors at Galle Port are granted sufficient authority over procurement in the operation plans that are being drawn up for Galle Port by SLPA.

¹ Gross tonnage (GT) is a measurement of ship volume.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

- (a) Freight handling capacity (tons)
- (b) Vessels entered
- (c) Total Gross tonnage (GT)
- (d) Berth occupancy ratio (%)
- (e) Internal rates of return: EIRR (%), FIRR (%)

(2) Timing of Next Evaluation

Post completion