

Ex-ante Evaluation

1. Name of the Project

Country: The Democratic Socialist Republic of Sri Lanka

Project: Tourism Resources Improvement Project (TRIP)

Loan Agreement: March 28, 2006

Loan Amount: 2,604 million yen

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

2. Necessity and Relevance of JBIC's Assistance

Sri Lanka has a wealth of tourism resources; besides being home to seven world heritage sites, it boasts beautiful natural scenery and beaches and its Buddhist culture. The Sri Lankan government's efforts to develop the nation's tourism industry began with the establishment of the Ceylon Tourist Board Act in 1966. The surge in foreign visitors to Sri Lanka that has occurred since the ceasefire agreement was reached between the Liberation Tigers of Tamil Elam (LTTE) and the government of Sri Lanka in 2002 means that the tourism sector now occupies a strategic position in Sri Lanka's economy in terms of foreign currency earnings and employment generation.

However, sub-standard infrastructure at tourist destinations and shortages of human resource in the tourism industry needed to support the sector mean that Sri Lanka receives fewer foreign visitors than its Asian neighbors. Specifically, since Sri Lanka has failed to undertake adequate marketing or promotional activities in Japan and other parts of East Asia, it receives few tourists from this part of the region.

In light of these circumstances, the government of Sri Lanka has set forth a policy aimed at developing the tourist sector that involves the development of tourist infrastructure at six sites, including Sigiriya and Anuradhapura, which are world heritage sites, and the resort area of Nuwara Eliya; and will target East Asia and Japan, with its potentially large pool of latent demand, in particular.

JBIC's Medium-Term Strategy for Overseas Economic Cooperation Operations cites "infrastructure development for sustainable growth" and "support for human resource development" as priority areas for assistance. The same strategy identifies "the construction of economic infrastructure and the development of industries that will lead to sustainable development led by the private sector" as a priority area for its operations in Sri Lanka. This project is consistent with the strategy in that it involves the overdue development of infrastructure and support for human resource development in the tourism sector, a sector that is viewed as being of strategic importance to private-sector-driven economic development.

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 increase the number of foreign visitors to Sri Lanka and to stimulate the country's tourism industry through the development of infrastructure at six tourist destinations, including Sigiriya and Anuradhapura, the provision of support for human resource development, and the execution of marketing and promotional activities in Japan, thereby contributing to the socioeconomic development of Sri Lanka in terms of employment generation, the acquisition of

foreign currency and so forth.

4. Project Description

(1) Target Areas

Sigiriya, Anuradhapura, Nuwara Eliya, Negombo, Kandy, and Colombo

(2) Project Outline

To provide the following civil works, equipment procurement and service components as necessary to the execution of this project in Sigiriya, Anuradhapura and other tourist destinations:

- (a) Marketing and promotion (market surveys, promotion activities in Japan)
- (b) Human resource development (construction of and procurement of equipment for hotel schools for tourism industry, and training for instructors, etc.)
- (c) Infrastructure development (road rehabilitation, town beautification,, and heritage sites improvement at Sigiriya, Anuradhapura, Nuwara Eliya, and Negombo)
- (d) Community development activities for local residents (awareness program for visitor hospitality among locals and clean-up campaigns, etc.)
- (e) Consulting services

(3) Total Project Cost/Loan Amount

3,472 million yen (Yen Loan Amount: 2,604 million yen)

(4) Schedule

May 2006-December 2010 (56 months)

(5) Implementation Structure

- (a) Borrower: The Government of the Democratic Socialist Republic of Sri Lanka
- (b) Executing Agency: Ministry of Tourism
- (c) Operation and Maintenance System: Operation and maintenance will be carried out by following relevant institutions; Hotel schools,, Road Development Authority (RDA), Provincial Road Development Authority, Central Cultural Fund(CCF), Negombo Municipal Council, Anuradhapura Municipal Council, and Nuwara Eliya Municipal Council

(6) Environmental and Social Consideration

(a) Environmental Effects/Land Acquisition and Resident Relocation

(i) Category: B

(ii) Reason for Categorization

This project is classified as Category B since it is not listed as a sensitive sector/area or has having sensitive characteristics (i.e. liable to cause adverse environmental impact) in the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established April 2002) and is deemed unlikely to have a significant adverse impact on the environment.

(iii) Environmental Permit

The EIA report is not required for the project in Sri Lanka’s legal system. The project

execution has been approved by the Central Environmental Authority (CEA).

(iv) Anti-Pollution Measures

Under domestic law, the safety (non-toxicity) of dredged soil must be confirmed ahead of the start of dredging operations and CEA authorization obtained regarding its reuse in landfills. Since the other sub-projects are all small-scale, no significant adverse impact from execution is foreseen.

(v) Natural Environment

This project primarily involves the rehabilitation of existing sites and since all components are small-scale it is likely to have minimal adverse impact on the natural environment.

(vi) Social Environment

This project is expected to require the acquisition of approximately 1 ha of land and the involuntary resettlement of 23 households (21 in Negombo, 2 in Nuwara Eliya). Compensation for land acquired will be provided in accordance with domestic law.

Regarding the involuntary resettlement in Negombo, Negombo Municipal Council has already drawn up a basic plan and broad agreement on the resettlement has been reached through consultations with the affected residents. The detailed resettlement action plan for involuntary resettlement is to be prepared by Negombo Municipal Council with the assistance of the consultant, and the resettlement and compensation procedures are to be carried out in accordance with this plan.

Regarding the involuntary resettlement in Nuwara Eliya, Nuwara Eliya Municipal Council has elicited the consent of affected residents by agreeing to provide compensation (for land and housing).

(vii) Other/ Monitoring

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

(b) Promotion of Poverty Reduction

None

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

Consideration has been given to community involvement in the form of clean-up activities targeting local communities and awareness program on visitor hospitality for local taxi drivers and tour guides.

(7) Other Important Issues

None

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Baseline (2004)	Target (2013, 3 years after completion)
Japanese tourists (thousands/year)	20	120
Tourists (thousands/year)	566	1,452
Negombo	58	148
Sigiriya	99	253
Anuradhapura	6	16
Nuwara Eliya	29	75
Tourist revenues (Sri Lanka) (Rs million/year)	42,000	108,000
Hotel guests (target areas) (thousands/year)	4,394	11,250
Vocational students (per year)	721	1,081

(2) Internal Rate of Return

Economic Internal Rate of Return (EIRR): 23.6%

- (a) Cost: project costs; operation and maintenance costs
- (b) Benefit: tourist revenues
- (c) Project life: 25 years

Financial Internal Rate of Return (FIRR): 28.5%

- (a) Cost: project costs; operation and maintenance costs
- (b) Benefit: improved productivity of hotel school graduates; increased revenues from tuition fees
- (c) Project life: 25 years

6. External Risk Factors

The deterioration of domestic security, and intensified competition contingent upon the development of tourism in neighboring Asian countries.

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

Ex-post evaluations of earlier, similar projects have highlighted the importance of clarifying the roles of individual organizations and of ensuring adequate inter-organizational coordination on project involving numerous executing organizations. For this project, regional directors have been appointed in Nuwara Eliya, Anuradhapura, Sigiriya and Negombo, all of which are remote from Colombo; these directors will hold regional committee meetings on a monthly basis to monitor the progress of the various sub-projects being undertaken in each of the regions. Further, these regional directors will submit monthly reports to the Ministry of Tourism as the project's executing agency, to allow the executing agency to monitor progress and identify any problems in an effort to build and strengthen the project's supervisory system.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation

- (a) Japanese tourists (thousands/year)
- (b) Tourists (Negombo, Sigiriya, Anuradhapura, Nuwara Eliya) (thousands/year)
- (c) Tourist revenues (Sri Lanka) (Rs millions/year)
- (d) Hotel guests (target areas) (thousands/year)
- (e) Hotel school graduates (per year)
- (f) Internal rates of return: EIRR (%)

(2) Timing of Next Evaluation

Post completion