1. Name of the Project
Country: The Democratic Socialist Republic of Sri Lanka
Project: Southern Highway Construction Project II
Loan Agreement: July 29, 2008
Loan Amount: 17,499 million yen

2. Necessity and Relevance of JBIC Assistance

1. Situation and issues of the road sector in Sri Lanka
In Sri Lanka, road transportation comprises 95% of overland passenger transportation, and 98% of freight distribution, and thus plays an extremely important role in the country’s socio-economic activities.

However, while the number of registered vehicles in Sri Lanka as a whole is growing by an average of 8.2% a year (2001-2005), the average annual increase in the extent of the country’s road network remains at only 1.7% (in the same period). Sri Lanka’s road infrastructure is thus unable to keep up with the increasing traffic volume, which is a major factor behind the chronic traffic congestion on the main trunk roads. Furthermore, in addition to this problem, inadequate operation and maintenance of the existing roads, outdated structural criteria including excessively narrow roads, aging roads and lack of road networks connecting major cities are acting as obstacles to efficient distribution in the country.

Furthermore, while much of Sri Lanka’s economic activity is concentrated in Greater Colombo area, the importance of development which is balanced over the entire country and regional development is recognized; a new network of expressways which aims to strengthen transportation capacity between Greater Colombo area and other regions, and between the major cities of the regions, is also essential.

2. Sri Lanka’s policies relating to the road sector and to regional development, and the position of this project
In the Road Sector Master Plan created in 2005, the establishment of a new network of expressways between major cities was considered as a high priority issue for the promotion of economic growth and the correction of regional disparities.

From the perspectives of promoting the economy and correcting regional disparities (on which the government puts a particularly strong emphasis), the construction of a number of new expressways is planned in order to increase the connectivity between Greater Colombo area and the major cities of the regions, and to vitalize regional economies, as the existing road network does not meet the standards adequate for a road network. Currently, two cases of construction are
being promoted through yen loans: the Southern Highway Construction Project and the Colombo outer circular highway southern section. In addition to these, the Colombo-Katunayake Expressway, Colombo-Kandy Expressway and Colombo-Jaffna Expressway are being planned.

3. Direction of Japan’s and JBIC’s assistance policies for Sri Lanka
In Japan’s Country Assistance Program for Sri Lanka (April 2004), “Assistance for systematic reforms and the improvement of economic infrastructure” is stated as the direction for assistance during the next five years. This project is consistent with this direction. Moreover, in JBIC’s Medium-Term Strategy for Overseas Economic Cooperation Operations, areas such as “economic infrastructure with the objective of achieving private sector-led sustainable economic development” are positioned as priority areas for assistance to Sri Lanka. Thus, JBIC’s support of this project is highly necessary and relevant.

3. Project Objectives
The project aims to alleviate traffic congestion in Greater Colombo area and facilitate traffic between Greater Colombo area and southern Sri Lanka through the construction of a high-standard expressway over the area between the surrounds of Colombo and southern Matara, and thus contributing to increased traffic safety in the southern part of Sri Lanka and to economic development.

4. Project Description
(1) Target Area
From the suburbs of Colombo to southern Matara

(2) Project Outline
(a) Construction of a total of 125km of a high-standard expressway (of which approximately 67km between Kottawa-Kurundugahahetekma will be funded by JBIC, the total being a four-lane expressway)
(b) Construction of facilities and procurement of equipment for operation and maintenance facilities and toll facilities
(c) Consulting services (D/D review, tendering assistance, supervision of construction, technical assistance relating to supervision of operation and maintenance/management/fee collection)

(3) Total Project Cost/Loan Amount
51,344 million yen (Yen Loan Amount: 36,269 million yen. Yen Loan Amount for phase 2: 17,499 million yen)

(4) Schedule (as envisaged at time of appraisal)
March 2008 to October 2011 (44 months). The project will be considered completed when the construction work is completed.
NB: Part of the construction work is currently being carried out as part of the Southern Highway Construction Project I.
(5) Implementation Structure
(a) Borrower: The Government of the Democratic Socialist Republic of Sri Lanka
(b) Executing Agency: Ministry of Highways and Road Development (MOHRD). The Road Development Authority (under the direction of the above ministry) will be responsible for the construction of expressways, construction of interchanges, and installation of toll facilities.
(c) Operation and Maintenance System: Responsibility will lie with the Expressway Authority, which is planned to be set up in July 2009 (until the Expressway Authority is set up, responsibility for preparations relating to operation and maintenance/management lie with the Road Development Authority).

(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 according to the “JBIC Environmental Guidelines for ODA Loans” (established October 1999) because it is the new construction of a large-scale road. (In addition, in the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations” (established in April 2002), it is also classified as Category A because it falls under the road sector, and has the characteristic of being liable to cause impacts).
   (iii) Environmental Permit
   The Environmental Impact Assessment (EIA) for this project was approved by the Central Environmental Authority in July 1999.
   (iv) Anti-Pollution Measures
   Regarding the impact during the construction, countermeasures such as spraying of water and correct disposal of waste will be taken. After the road comes into use, alleviation countermeasures in the form of planting trees alongside the road and installing a sound insulation wall will be taken against air pollution and noise.
   (v) Natural Environment
   When some alternatives for the northern section were considered, a route which avoided Bolgoda Lake and its surrounding marshlands located to the south of Greater Colombo area was selected.
   (vi) Social Environment
   951ha of land is required for this project, and resident relocation for the entire section has been completed.
   (vii) Other/Monitoring
   For this project, the executing agency will monitor air quality, water quality and land acquisition.
(b) Promotion of Poverty Reduction
   None.
(c) Promotion of Social Development (e.g. Gender Perspective, Countermeasures for
Infectious Diseases Such as HIV/AIDS, Participatory Development, Consideration of the Disabled etc.

It is planned to include the implementation of HIV/AIDS countermeasures for construction workers in the tendering documents in the project, and for construction companies to implement HIV/AIDS countermeasures in cooperation with NGOs.

(7) Other Important Issues
None.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicators)

<table>
<thead>
<tr>
<th>Sections (between interchanges)</th>
<th>Target (2013, 2 years after project completion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kottawa-Kahatuduwa</td>
<td>27,279</td>
</tr>
<tr>
<td>Kahatuduwa-Gelanigama</td>
<td>34,294</td>
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<tr>
<td>Gelanigama-Dodangoda</td>
<td>21,925</td>
</tr>
<tr>
<td>Dodangoda-Weligenna</td>
<td>8,387</td>
</tr>
<tr>
<td>Weligenna-Kurundugahahetekma</td>
<td>7,922</td>
</tr>
</tbody>
</table>

(2) Number of Beneficiaries
Approximately 540,000 people

(3) Internal Rate of Return (IRR) (Economic Internal Rate of Return (EIRR)/Financial Internal Rate of Return (FIRR))
Based on the following assumptions, this project’s Economic Internal Rate of Return (EIRR) is set at 13.3%.

Economic Internal Rate of Return (EIRR)
Costs: Project costs (excluding costs of land acquisition, tax), operation and maintenance costs
Benefits: Saving of travel costs, saving of travel time, reduction in traffic accidents
Project Life: 20 years

6. External Risk Factors
Possibility of project being delayed due to climatic conditions, particularly flooding.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past
The lesson has been learned from ex-post evaluations of similar projects conducted previously in the road sector that it is essential to pay attention to the establishment of frameworks for operation and maintenance after project completion. Support frameworks for raising capabilities and creating operation and maintenance plans have been created when establishing and starting up the Expressway Authority; in addition to carrying out monitoring appropriately, the Authority will
carry out consultations at the Implementation Council held by the Deputy Minister of Highways and Road Development whenever problems arise, and respond promptly.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation
   (a) Average traffic volume per day over one year (vehicles/day) (for each section between interchanges)
   (b) Economic Internal Rate of Return (EIRR) (%)

(2) Timing of Next Evaluation
Two years after project completion