Ex-ante Evaluation

1. Name of the Project

Country: The Democratic Socialist Republic of Sri Lanka
Project: Energy Diversification Enhancement Project (Engineering Services)
Loan Agreement: July 29, 2008
Loan Amount: 820 million yen
Borrower: The Government of the Democratic Socialist Republic of Sri Lanka

2. Necessity and Relevance of JBIC Assistance

1. Situation and issues of the electricity sector in Sri Lanka

Hydroelectric power comprised approximately 80% of the total volume of electric power generated in Sri Lanka in 1990, as a result of increasing demand for electricity being met in the preceding period primarily through the construction of hydroelectric power plants. However, as most of the sites with the potential for developing large-scale hydroelectric power plants have now been developed, in recent years Sri Lanka has planned to respond to increasing demands primarily through the construction of thermal power plants. Furthermore, in order to keep down the increasing cost of supplying electricity in the future, Sri Lanka has planned to construct large-scale coal-fired thermal power plants, but due to the issues of fund-raising for construction and the possible negative impact that such plants would have on the surrounding environment, this was not promoted as originally planned. As a result, the supply of electricity through independent power producers (IPPs) using small-scale diesel power generation facilities etc., which have high generation costs, was promoted in order to cover the shortfall in the supply capacity; because of this, power generation costs have become higher for structural reasons. Reducing power generation costs through energy diversification and other means is thus an issue for Sri Lanka.

2. The power generation policies of the Government of Sri Lanka

The direction of the development of Sri Lanka's power generation policies is displayed in Meeting Basic Energy Needs which covers the cheap and sustainable provision of the energy necessary for the basic needs of the citizens, for improving the standard of living, and for opportunities for economic activities, and in Energy Security, which covers the supply framework for energy in Sri Lanka in terms of diversifying energy sources and creating a balance for the future. Furthermore, Mahinda Chintana's 10-Year Plan sets out that the expansion and diversification of the supply of electric power will depend on the development of a new energy source based on natural gas, in addition to the long-postponed coal-fired thermal power and hydroelectric power.

3. Direction of Japan's and JBIC's assistance policies for Sri Lanka

In Japan's Country Assistance Program for Sri Lanka (April 2004), "institutional reform and assistance for providing economic foundation" 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, "basic infrastructure aimed at sustainable growth" is positioned as a priority area for assistance, and 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 will enable the stable and cheap supply of electric power in response to increasing demand through the construction of a gas pipeline to send gas to the liquefied natural gas (LNG)-receiving terminal and thermal power plant in the northern part of Colombo, and thus contribute to the economic development and social stability of the country.

The Yen Loan, whose target is the engineering services required by the basic design of the abovementioned project, aims to promote the smooth implementation of the project.

4. Project Description

(1) Target Area
Northern part of Colombo

(2) Project Outline
(a) Feasibility Study review
(b) Creation of an Environmental Impact Assessment (EIA) report
(c) Creation of basic design etc. (creation of basic design, implementation plan, tender documents etc.)
(d) Creation of legal system analysis and organizational plan

(3) Total Project Cost/Loan Amount
983 million yen (Yen Loan Amount: 820 million yen)

(4) Schedule (as envisaged at time of appraisal)
December 2007 to November 2009 (24 months). The project will be considered completed when consulting services are completed.

(5) Implementation Structure
(a) Borrower: The Government of the Democratic Socialist Republic of Sri Lanka
(b) Executing Agency: Ministry of Power and Energy
(c) Operation and Maintenance System: None in particular, as this is an engineering services project.

(6) Environmental and Social Consideration
(a) Environmental Effects/Land Acquisition and Resident Relocation
(i) Category: B
(ii) Reason for Categorization
As this project is an engineering services loan, and the overall project is not classified as Category C according to the "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (established in April 2002), it is classified as Category B.
(iii) Other: An EIA and Land Acquisition/Resident Relocation Plan will be created based on the JBIC's guidelines, and with the assistance of the consultants employed through this loan.
(b) Promotion of Poverty Reduction
None.

(c) Promotion of Social Development (e.g. Gender Perspective, Countermeasures for Infectious Diseases Such as HIV/AIDS, Participatory, Consideration of the Disabled etc.)
None.

(7) Other Important Issues
None.

5. Outcome Targets

(1) Operation and Effect Indicator
To be set at the time of project implementation (construction stage)
(2) Number of Beneficiaries
To be set at the time of project implementation (construction stage)
(3) Internal Rate of Return
To be set at the time of project implementation (construction stage)

6. External Risk Factors

None

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

No similar projects in the past.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation
To be set at the time of project implementation (construction stage)

(2) Timing of Next Evaluation
To be set at the time of project implementation (construction stage)