ADB

Sector Paper

Sri Lanka Country Assistance Program Evaluation:

Transport Sector

August 2007

Operations Evaluation Department

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 27 April 2007)

Currency Unit — Sri Lanka rupee (SLR)

SLR1.00	=	$0.0092
$1.00	=	SLR109.27

ABBREVIATIONS

ADB	—	Asian Development Bank
EIRR	—	economic internal rate of return
GDP	—	gross domestic product
JBIC	—	Japan Bank for International Cooperation
km	—	kilometer
km^2	—	square kilometer
OECF	—	Overseas Economic Cooperation Fund
PPP	—	public-private partnerships
RCDC	—	Road Construction Development Corporation
RDA	—	Road Development Authority
TA	—	technical assistance
TEU	—	twenty-foot equivalent units

NOTE

In this report, "$" refers to US dollars.

Director General	Bruce Murray, Operations Evaluation Department (OED)
Director	R. Keith Leonard, Operations Evaluation Division 1, OED
Evaluation Team Leader	Njoman Bestari, Principal Evaluation Specialist Operations Evaluation Division 1, OED

Operations Evaluation Department

CONTENTS

		Page
Maps		ii
A.	Scope and Purpose	1
B.	Sector Context	1
C.	The Country Sector Strategy and Program of ADB	12
	1. ADB's Sector Strategies in the Country	12
	2. ADB's Sector Assistance Program	16
D.	Assessment of ADB's Sector Strategy and Assistance Program	21
E.	ADB's Performance in the Sector	24
F.	Identified Lessons	24
G.	Future Challenges and Opportunities	25
Appendix		
Positioning/Coherence of Asian Development Bank's Transport Sector Strategies in Sri Lanka		28

Njoman Bestari (team leader, principal evaluation specialist) was responsible for the preparation of this evaluation working paper. Administrative and research assistance was provided by Caren Joy Mongcopa (senior operations evaluation assistant). Peter Darjes (consultant, transport economist) and Jennifer Simon (consultant, evaluation research associate) collaborated with the evaluation team leader in the preparation of this paper.

The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of OED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

SRI LANKA
TRANSPORT SECTOR
COMPLETED PROJECTS
Covered under Loan 1567-SRI Southern Provincial Roads Improvement Project
Loan 0753-SRI Trunk Roads Improvement Project
Loan 0864-SRI Second Roads Improvement Project
Loan 1312-SRI Third Road Improvements Project
National Capital
Provincial Capital
City/Town
National Road
Railway
River
Provincial Boundary
Boundaries are not necessarily authoritative.
80°00'E
81°30'E
9°00'N
7°00'N
Palk Strait
Palk Bay
Gulf of Mannar
Bay of Bengal
INDIAN OCEAN
Kankasanturai
Kodikamam
Jaffna
Kilinochchi
Mullaittivu
Tanniyuttu
Mankulam
Talaimannar
NORTHERN
Puliyankulam
Mannar
Vavuniya
Trincomalee
Horowupotana
Anuradhapura
NORTH CENTRAL
Tambuttegama
Kekirawa
Puttalam
Welikanda
Valaichchenai
Dambulla
Polonnaruwa
EASTERN
Batticaloa
NORTH WESTERN
Chilaw
Kurunegala
Matale
CENTRAL
Madampe
Polgahawela
Kandy
Ampara
Mawanella
Negombo
Warakapola
Kegalle
Minuwangoda
Gampola
Gampaha
Talawakele
Nuwara Eliya
Badulla
Colombo
Avissawella
Welimada
SRI JAYAWARDENEPURA KOTTE
Hatton
UVA
Monaragala
Moratuwa
WESTERN
Bandarawela
Ratnapura
Wellawaya
Pelmadulla
Balangoda
Kalutara
SABARAGAMUWA
Alutgama
Elpitiya
Ambalangoda
SOUTHERN
Hikkaduwa
Akuressa
Hambantota
Galle
Matara
Tangalle
N
0 10 20 30 40 50
Kilometers


SRI LANKA
TRANSPORT SECTOR
ONGOING PROJECTS
Covered under Loan 1986-SRI Road Sector Development Project
Loan 1649-SRI Roads Network Improvement Project
Loan 1711-SRI Southern Transport Development Project
Loan 2217-SRI National Highways Sector Project
Loan 2167-SRI Tsunami Affected Area Rehabilitation
Loan 2043/44-SRI Conflict Affected Area Rebuilding
National Capital
Provincial Capital
City/Town
National Road
Railway
River
Provincial Boundary
Boundaries are not necessarily authoritative.
80°00'E
81°30'E
9°00'N
7°00'N
Palk Strait
Palk Bay
Gulf of Mannar
Bay of Bengal
INDIAN OCEAN
NORTHERN
NORTH CENTRAL
NORTH WESTERN
CENTRAL
EASTERN
WESTERN
SABARAGAMUWA
UVA
SOUTHERN
Kankasanturai
Kodikamam
Jaffna
Kilinochchi
Mullaittivu
Tanniyuttu
Mankulam
Talaimannar
Mannar
Puliyankulam
Vavuniya
Trincomalee
Horowupotana
Anuradhapura
Tambuttegama
Puttalam
Kekirawa
Welikanda
Polonnaruwa
Dambulla
Valaichchenai
Batticaloa
Chilaw
Madampe
Kurunegala
Matale
Polgahawela
Kandy
Ampara
Negombo
Warakapola
Mawanella
Minuwangoda
Kegalle
Gampola
Gampaha
Colombo
Talawakele
Nuwara Eliya
Badulla
Welimada
Avissawella
SRI JAYAWARDENEPURA KOTTE
Hatton
Monaragala
Moratuwa
Bandarawela
Ratnapura
Wellawaya
Kalutara
Pelmadulla
Balangoda
Alutgama
Elpitiya
Ambalangoda
Hikkaduwa
Akuressa
Hambantota
Galle
Matara
Tangalle
0 10 20 30 40 50
Kilometers

06-3741b HR

A. Scope and Purpose

1. This evaluation is part of the Country Assistance Program Evaluation for Sri Lanka.[1] It takes sector context into account and evaluates the strategies and assistance of the Asian Development Bank (ADB) in the transport sector.[2] This evaluation assesses the contribution of ADB to development results in Sri Lanka and identifies development issues and lessons in the sector pertinent to the preparation of the next country partnership strategy. The positioning and performance of ADB's sector strategies and assistance were analyzed. This paper also summarizes key features of Sri Lanka's transport system, taking into account historical changes in the economy and the development of the transport sector. This approach highlights developments in the past, recognizes current situations, and identifies challenges and solutions for the future. Situations discussed herein were updated in March 2007.

B. Sector Context

2. **Background.** The country measures about 400 kilometers (km) from North to South and 250 km from East to West encompassing a land area of about 65,000 square kilometers (km^2). The majority of the population (estimated at 19.6 million in 2006) live in southwestern and northern parts of the country. Sri Lanka's geography and spatial distribution of economic activities mean that movements of goods and people involve relatively short distances. Agricultural areas include coconut, rubber, and tea plantations with production for export, while rice and horticultural production are primarily for domestic consumption. Tea is grown mainly in the mountainous interior of the southern half of the country. In the dry northern region, rice is cultivated with irrigation. The manufacturing industry is located mainly in and around Colombo, the capital and principal port of Sri Lanka.

3. The service industry, which includes transportation, has traditionally been the mainstay of the economy. In 1948, when Sri Lanka became independent, services contributed 41% to gross domestic product (GDP). By 2006, its share in GDP had risen to 56%. During the same period, the share of mining and manufacturing increased slightly from 24% to 27%. In contrast, the significance of agriculture declined in terms of its contribution to employment, GDP, and export earnings of the country. In 1948, agriculture provided employment for about half of the active labor force, contributed 35% to the GDP, and generated more than 90% of Sri Lanka's export earnings. By 2006, these contributions had declined to 27% (employment), 16.8% (GDP), and 23% (exports). The changed structure of the economy is mirrored in the composition of foreign trade. Sri Lanka's manufacturing industry has become part of the international value chain. Imported intermediate goods for domestic processing have to a large extent replaced fully manufactured goods, and in 2006 accounted for about 55% of total imports. With a share of 73% in total export earnings, manufactured items, rather than agricultural products, currently dominate exports.

4. Sri Lanka has a well laid-out transport network for which development started in the 19th century with basic spatial coverage by road and railways for all major towns and centers of economic activities. By 1948, when Sri Lanka became independent, there were about 11,000 km of roads, of which about 7,000 km were paved. The railway network then comprised 1,460 km of mostly meter gauge track, which has largely remained at this level ever since. Sri Lanka has a road network of about 108,000 km, comprising about 11,700 km of national[3] roads; 15,500 km of provincial[4] roads;

---

[1] Referenced as Supplementary Appendix D in the main country evaluation report.

[2] ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp

[3] These national highways comprise roads that are categorized as Class A and B roads, the highest categories in Sri Lanka's road hierarchy.

[4] Provincial roads are categorized as Class C, D, and E roads.

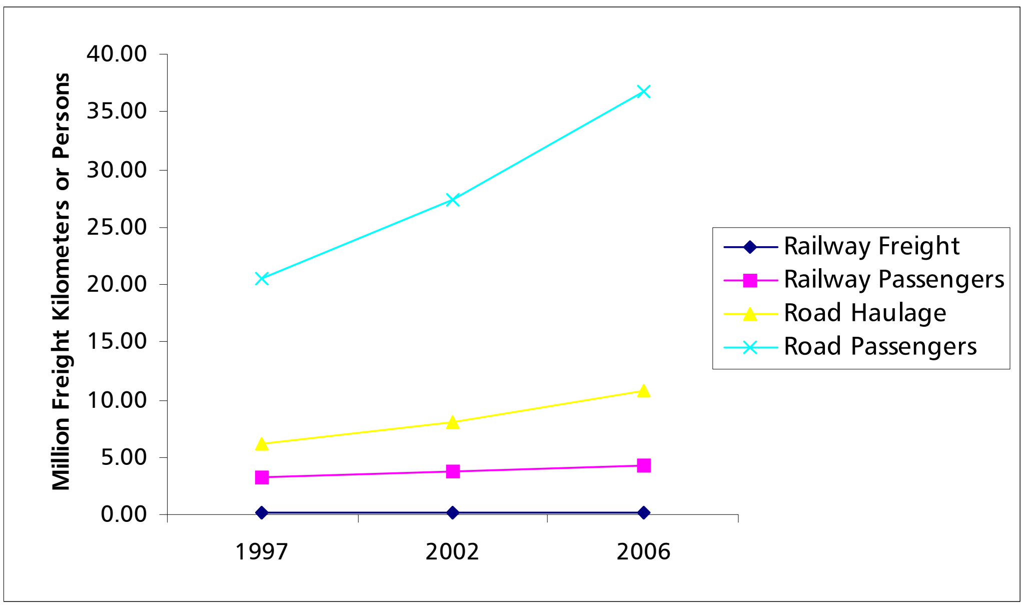
64,700 km of local authority roads; and 16,300 km of roads owned or controlled by irrigation, wildlife, and land development authorities.[5] While the network of trunk roads has little changed, substantial increases occurred in the density of local roads. Overall, the density of Sri Lanka's rail and road network is higher than that of Bangladesh and Pakistan (Table 1). While railway traffic has been stagnant, road traffic (passengers and freight) has doubled over the last decade (Figure 1).

Table 1: Comparative Transport Network Indicators, 2004

Item	Sri Lanka	Bangladesh	Pakistan
Population Density (people/ km^2)	301	985	198
Road Density:			
• Km/1,000 people	5.19	2.00	1.69
• Km/km^2 land	1.66	1.79	0.32
Railway Density			
• Rail route km/1,000 people	0.073	0.02	0.05
• Rail route km/ km^2 land	0.020	0.02	0.01

km = kilometer, km^2 = square kilometer.
Source: Transport in South Asia. *World Bank*. Available: http://www.worldbank.org/sartransport

Figure 1: Growth in Road and Rail Traffic, 1997–2006



Sources: Central Bank of Sri Lanka. 1998. *Economic Progress of Independent Sri Lanka*. Colombo.
Central Bank of Sri Lanka. *2000–2006 Bulletins*. Colombo.
Central Bank of Sri Lanka. 2006. *Recent Economic Developments*. Colombo.

5. Sri Lanka's economy has been open to international trade with exports and imports averaging more than 60% of GDP over the past two decades, with the exception of the 1970s when the Government pursued an inward looking policy of import substitution. In this respect, ports and shipping play a vital role, while coastal shipping is relatively insignificant. Sri Lanka has three deep seaports—Colombo, Trincomalee, and Galle. However, due to its proximity to main international shipping routes and affiliated support services, only Colombo Port has

[5] ADB. 2005. *Report and Recommendation of the President to the Board of Directors on A Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the National Highways Sector Project.* Manila.

attained commercial significance.[6] The performance of the Colombo Port since independence has been variable. Despite a substantial expansion program in the 1950s that added 16 berths, cargo handling dropped from about 5 million tons in 1955 to 2.2 million tons 10 years later. Labor problems and the import substitution policy kept cargo handling at a low level until late 1970s. In the following period, fuelled by economic liberalization, another port expansion program, the onset of containerization, and transshipment cargo, port traffic grew at an average rate of 6.5% per annum reaching a level of about 42 million tons, equivalent to 3.08 million containers of twenty-foot equivalent units (TEU), in 2006. About two-thirds of the cargo throughput is transshipment cargo to and from India. Colombo Port currently has an annual capacity of approximately 3.5 million TEUs, and the port traffic is expected to grow by at least 8% per year. At this growth rate and with current measures to improve port efficiency, demand will exceed the capacity of Colombo Port by 2010.

6. **Development Challenges.** For transport policy and institutions to contribute effectively to economic development and social welfare, they should ensure that transport services are provided at minimum cost. Specific conditions to meet this overall requirement include (i) existence of rational planning and decision making processes; (ii) efficient delivery of services by demarcating government responsibilities from those of the private sector; (iii) resource allocation based on economic efficiency and performance; (iv) maintenance of existing asset base and expansion of capacity in step with demand; and (v) a cost recovery mechanism that favors traffic allocation to least cost transportation modes and routes, and encourages competition within modes and between modes. These principles are contextually important for assessing the performance of Sri Lanka's transport sector, identifying reform requirements, and finding ways to move forward.

7. **Transport Planning and Coordination.** Transport sector responsibilities in Sri Lanka have traditionally been spread over a multitude of ministries and agencies, leading to a highly fragmented structure of decision-making. Consequently, the various transport agencies tended to tackle their own challenges and problems in isolation, resulting in insufficient consideration for an integrated, multimodal approach to planning. This situation has impeded rational allocation of investments and prevented the Government from formulating consistent transport policies. In addition, transport planning has not been aligned with the budgeting process, largely defeating the purpose of planning. Seeking to rectify the limitations inherent in the planning process, the Government has over time made various attempts at consolidating responsibilities and streamlining the planning and decision processes. While responsibilities were reshuffled, ministries renamed and new ones created, substantial improvements had not been achieved.

8. The preferred organizational choice in Sri Lanka for formulation of comprehensive transport policies and intermodal coordination has invariably been by forming interagency committees. The effectiveness of these committees has been limited. At present there are nine ministries with a direct responsibility for transport infrastructure.[7] However, there is no single

---

[6] Colombo accounts for more than 90% of the total cargo volume handled by the country's three ports. The port of Galle was significant in the 19th Century, but lost its significance when the development of Colombo started in the 1880s. Trincomalee, while being one of the largest natural harbors in the world, is disadvantaged by its location away from shipping routes and weak links to the hinterland.

[7] Based on the cabinet reshuffle of January 2007, there were nine ministries, including four non-cabinet ministries: (i) Ministry of Ports and Aviation (cabinet), (ii) Ministry of Highways and Road Development (cabinet), (iii) Ministry of Transport (cabinet), (iv) Ministry of Construction and Engineering Services (cabinet), (v) Ministry of Local Government and Provincial Councils (cabinet), (vi) Ministry of Highways (non-cabinet), (vii) Ministry of Port Development (non-cabinet), (viii) Ministry of Road Passenger Transport (non-cabinet), and (ix) Ministry of Local Government (non-cabinet). In addition, deputy ministers in the transport sector include those responsible for (i) highways, (ii) railways, and (iii) aviation. Prior to the cabinet reshuffle (January 2007), there were seven ministries, including two non-cabinet ministries: (i) Ministry of Highways; (ii) Ministry of

institution with sufficient clout to undertake transport planning and implementation with intermodal concerns. Addressing existing interface problems and integrating the transport modes would make the whole transport system more efficient. Interface problems that need to be addressed include rail-to-port and road-to-port linkages, feeder bus-to-rail services, single ticketing system for road and rail transport, and thorough documentation for road/rail freight services. Not having a lead transport ministry was regarded by observers as the single most serious constraint to improving integration and transport efficiency.

9. **Delineation of Government from Private Sector Responsibilities.** In general, the Government's role in transportation should be limited to planning, policy and strategy formulation, safety and environmental regulation, and supervision and monitoring of transport operations. In Sri Lanka, in addition to assuming the above functions, government authorities have been and are still directly involved in the operations of all principal transport modes, including passenger road transport, railways, and port operations. Sri Lanka Railways does not have immediate prospects for greater private sector involvement, and privatization is not an option under the current policy stance of the Government. Given the short distances and small consignments involved in the transport sector in Sri Lanka, coupled with social concerns that keep the labor force at a high level, Sri Lanka Railways is unlikely to become a commercially viable enterprise. It will continue to depend on transfers from the state treasury for meeting part of its operating costs and capital needs. While the railways' operations have been commercially unattractive and loss-making for a long period, there is scope for improving its operations efficiency by potentially allowing the private sector access to defined business areas. Nevertheless, the underlying assumption would be to accept the quasi-social function of Sri Lanka Railways and to recognize explicitly the need for subsidization of railway transport.

10. For economic and financial sustainability, considerations should be given to reduce the role of the Government in direct provision of transport services by focusing government efforts on managing competition and regulation. This principle would imply the following:

(i) Colombo Port assumes a "landlord" role in the provision of port infrastructure and services, where it would retain ownership of assets and responsibilities for development of common user facilities and where selected operations would be assigned to partnerships with the private sector based on a variety of available and proven options of public-private partnerships (PPP).

(ii) Sri Lanka Railways (a) makes railway track available to private freight forwarders in return for access payments; (b) focuses on suburban passenger services, in areas where it achieves the highest level of cost recovery; (c) establishes a commercial business unit, separate from the railway's passenger services; and (d) places non-remunerative passenger operations under a dedicated business unit and concludes a public service obligation contract with the Government for such services. This approach would terminate open-ended subsidies and create a mechanism for the isolation of loss-making operations and improvement of accountability.

(iii) Existing state-owned bus companies need to be rationalized, and several options examined: (a) privatization of the state-owned bus companies to reduce the financial burden placed by them on the government budget, (b) strengthening of access and safety regulation to improve road worthiness and sustainability of transport services, (c) rationalization of bus fares, and (d) determination of

Railways and Transport; (iii) Ministry of Ports and Aviation; (iv) Ministry of Provincial Councils and Local Government; (v) Ministry of Agriculture, Irrigation and Mahaweli Development; (vi) Ministry of New Railroad Development (non-cabinet); and (vii) Ministry of Road Development (non-cabinet).

selective subsidies for non-economic rural bus routes and maintenance of low fares for targeted groups. However, easing the financial burden of the Government will not be an easy task given the politicized role of the Government in the provision of transport services and strong resistance from trade unions against restructuring attempts and reforms.

11. In addition to the provision of transport services, government authorities and corporations have over time been involved in transport infrastructure construction and maintenance. Although the Government's declared objective has been to promote and increase private sector involvement in road construction and maintenance, the past legacy of carrying out maintenance through force account and of construction entrusted to state-owned corporations and foreign contractors has meant that the local private contracting industry has had little opportunities to develop. Past attempts to promote private local contractors had been muted and crowded out by the creation of the Road Construction Development Corporation (RCDC) in 1986, which was fully owned by the Government's Road Development Authority (RDA) and entrusted with a major portion of road maintenance work in Sri Lanka.[8] In 2004, RCDC was closed but another government-owned company, the Group Maga Neguma, was created.[9] While the Government's intention appears to exclude Maga Neguma from internationally funded road construction works, this company is expected to play a role in RDA road works.[10] Maga Neguma has also expressed its desire to participate in international biddings for contracts outside of Sri Lanka.

12. Whether Maga Neguma will be allowed access to internationally funded domestic road contracts or not should be a lesser issue than the risk it poses to the development of a local private sector contracting industry and to good governance. Maga Neguma, quite like its predecessor, the RCDC, is a major player in the road sector, given its close ties with the Government. This characteristic may be perceived as a threat to private contractors and counterproductive to the Government's professed intention to promote the private contracting industry. From this perspective, it may be desirable if Maga Neguma was genuinely privatized.

13. **Resources Allocation.** Over the last 10 years, total budget allocations[11] to the transport sector have increased in real terms by an average rate of 7.3% per year. During this period, the composition of the allocations for maintenance and capital expenditures has little changed, with maintenance expenditures accounting for about 20% of the total allocations, and the remaining 80% for capital expenditures. The high share of capital expenditures is partly a result of the past maintenance pattern. The continued neglect of routine maintenance has caused a gradual deterioration of infrastructure conditions to the extent that rehabilitation and reconstruction were needed to remove the backlog of deferred maintenance. Capital expenditures are predominantly financed with international development assistance comprising loans and grants, which usually require government counterpart funds. With government budget constraints, counterpart funding

---

[8] RCDC was created by converting RDA's Works Division into a private (limited) company with all shares held by RDA.

[9] The Maga Neguma Group consists of (i) Maga Neguma Road Construction and Equipment Company, a road construction equipment company; (ii) Maga Neguma Emulsion Production Company, an emulsion production company; and (iii) Maga Neguma Consultancy and Project Management Service Company, a consulting firm. This Group has carried out emergency restoration works after the tsunami disaster of December 2004. Currently, the role of Maga Neguma Road Construction and Equipment Company is limited. It provides equipment to RDA (primarily for works conducted under force accounts) and supplies asphalt for routine maintenance works. For emulsion supplies, RDA depends entirely on Maga Neguma Emulsion Production Company.

[10] The Government has agreed (through a covenant of Loan 2217: National Highways Sector Project) to limit the share of Maga Neguma to less than 25% of government-funded construction activities.

[11] Excluding allocations to the national shipping and airlines and the regional bus companies, for which historical budget data are not available.

requirements for aid-funded investment projects have tightened the availability of government funds for routine maintenance. Development assistance has to some extent substituted recurrent maintenance budgets with rehabilitation investments, a situation which may further constrain government funding for routine and periodic maintenance of roads.

14. Annual budget allocations to the transport sector are shown in Table 2. From 1997 to 2006, allocations to the roads sector have tripled, and by 2006 reached three times of the amount allocated for railways. Budget allocations to Sri Lanka Railways fluctuated slightly from 1997 to 2001, declined from thereon until 2005, and surged in 2006 in connection with the announcement of new investments in railways and the government declaration of a "railway decade".

Table 2: Transport Sector Budget Allocations (1996 Prices, in SLR million)

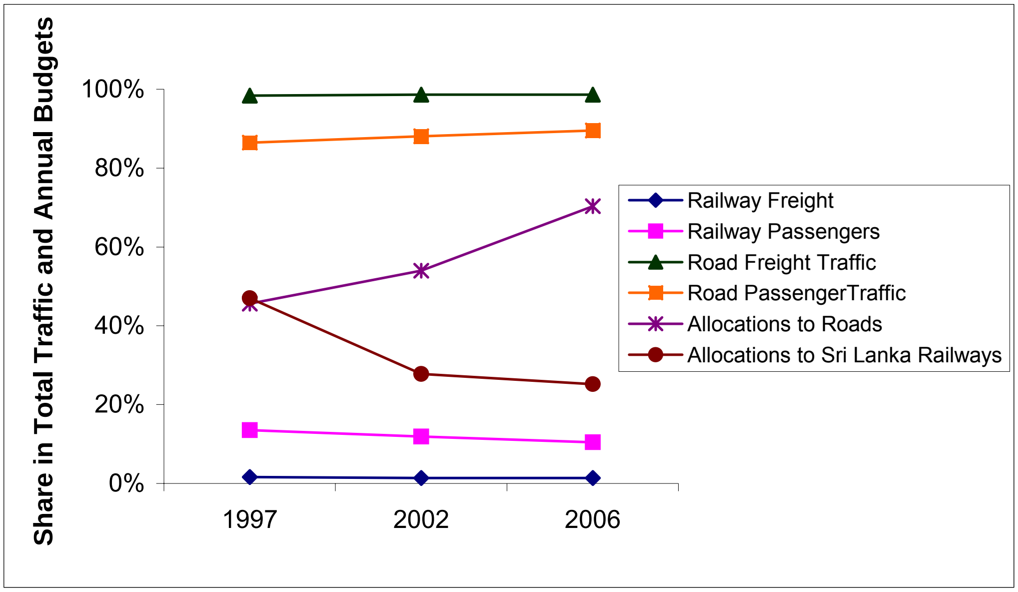
Item	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
A. Roads										
Recurrent Expenditure	831	703	495	546	1,255	570	299	382	367	1,535
Capital Expenditure	4,904	6,238	5,850	7,048	7,087	5,490	5,403	7,473	10,005	16,287
Total	5,736	6,941	6,345	7,594	8,342	6,060	5,702	7,855	10,372	17,822
Shares (%)										
Recurrent Expenditure	14.5	10.1	7.8	7.2	15.0	9.4	5.3	4.9	3.5	8.6
Capital Expenditure	85.5	89.9	92.2	92.8	85.0	90.6	94.7	95.1	96.5	91.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
B. Railways										
Recurrent Expenditure	1,857	1,730	2,346	2,046	2,178	2,018	1,900	1,838	1,835	3,218
Capital Expenditure	4,050	3,249	2,131	4,782	3,229	1,106	1,208	1,226	1,225	3,168
Total	**5,907**	**4,979**	**4,477**	**6,828**	**5,407**	**3,124**	**3,108**	**3,064**	**3,060**	**6,386**
Shares (%)										
Recurrent Expenditure	31.4	34.7	52.4	30.0	40.3	64.6	61.1	60.0	60.0	50.4
Capital Expenditure	68.6	65.3	47.6	70.0	59.7	35.4	38.9	40.0	40.0	49.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
C. Ports										
Recurrent Expenditure	2	3	3	42	40	44	40	40	40	40
Capital Expenditure	917	2,851	2,327	1,792	1,882	1,998	1,896	1,094	1,093	1,090
Total	**919**	**2,854**	**2,330**	**1,834**	**1,922**	**2,041**	**1,936**	**1,134**	**1,133**	**1,129**
D. Total										
Recurrent Expenditure	2,691	2,435	2,845	2,634	3,474	2,632	2,239	2,260	2,242	4,792
Capital Expenditure	9,871	12,338	10,307	13,622	12,197	8,594	8,508	9,793	12,322	20,545
Total	**12,562**	**14,773**	**13,152**	**16,256**	**15,671**	**11,226**	**10,747**	**12,053**	**14,564**	**25,337**

Sources: Website of the Ministry of Finance and Planning (available: www.treasury.gov.lk), Government of Sri Lanka budgets 2003 and 2004, and staff estimates.

15. Although the allocations of financial resources to the different modes of transport have come closer to their respective shares in traffic output, there are still substantial imbalances in two respects. The first is related to the ratio of maintenance expenditures to capital outlays, which supports the supposition that maintenance expenditures are to some extent substituted by capital allocations. In both the railways and roads subsectors, a portion of capital outlays is used to reduce substantial backlogs in deferred maintenance. Substantial savings can be achieved by allocating more funds to regular maintenance to avoid premature deterioration of infrastructure, and less to capital expenditures for rehabilitating poorly maintained assets. The

second imbalance is related to modal resource allocations although the imbalance has gradually declined over the last decade. In 1997, budget allocations to Sri Lanka Railways still exceeded those of the road sector. Since then, increasingly more funds have been allocated to roads leading to a widening spread in favor of roads.[12] Figure 2 shows modal distribution of traffic and resources.

Figure 2: Development of Modal Split and Resource Allocations, 1997–2006



Source: Evaluation team analysis.

16. **Provision of Capacity and Asset Maintenance.** While the capacity of local and rural roads has been expanded since 1948, most of the trunk roads date back to pre-independence years and their capacity has become inadequate owing in part to neglected maintenance. Road conditions are generally poor. Available data on road conditions vary depending on their sources. According to RDA, 43% of the national road network is in either poor or bad condition, with the remaining 57% in excellent (5%), good (34%), and fair (18%) condition. A survey of provincial roads in 1999 indicated that 11% were in good or very good condition, 15% in fair condition, and 74% in poor and very poor condition requiring major rehabilitation. More accurate information on road conditions will be available later in 2007 during the finalization of the preparation of the road sector master plan. To address the serious backlog in maintenance, it will be necessary to increase the financial resources for road maintenance. This also means that decisions for new investments should be rationalized to take into account the budgetary implications on maintenance. Further, in order to ensure that funds are appropriately used for maintenance, there is a need to develop mechanisms that provide predictable and reliable resource allocations for road maintenance.

17. During the last two decades emphasis was placed on the rehabilitation of existing roads and construction of new rural roads. In addition to the issue of road maintenance, the limited capacity of trunk roads poses major challenges to the fast growing traffic. Traffic levels now exceed the design capacity of many roads and new construction has not kept abreast of the

[12] The basis for comparing modal resource allocations is not equal. Whereas budget allocations to railways reflect the resources absorbed by the whole system (including infrastructure and rolling stock), the road allocations are limited to the cost of infrastructure. Thus, the intermodal distribution of resources is less distorted than suggested by Figure 2.

rapid growth in demand for transport. Uncontrolled roadside development has reduced the capacity of the road network. The scope for widening roads on existing alignments is limited mainly because of land acquisition issues. Increasing traffic volumes and a traffic mix consisting of motorized and non-motorized traffic have resulted in low travel speeds, severe traffic congestions, and increased accident rates. In addition to the need for improving and rehabilitating deteriorated roads, there is an urgent need to embark on a program for the construction of new intercity highways. Innovative financing strategies will be needed to mobilize adequate funding for such highways.

18. The emerging capacity constraints have created severe traffic safety problems. As a result of rising traffic, uncontrolled roadside development, and a traffic mix that includes pedestrians, animal driven carts, and cyclists, road safety has emerged as a major sector issue. This issue has social and economic dimensions because accidents on roads are severely impacting on those who are least able to cope with the effects.[13] Sri Lanka's road accident fatality rate in 2002 was at 15.5 per 10,000 vehicles, compared with 1–2 per 10,000 vehicles in industrialized countries, and less than 10 per 10,000 vehicles in some of the newly industrialized countries in Asia.[14] At this accident rate, the annual economic cost to the country was estimated at SLR9 billion ($85.0 million). Improving road safety and reducing traffic injuries will require concerted efforts to change public behavior, reform institutions, and improve engineering and road safety standards.

19. The challenges facing Sri Lanka Railways do not result from capacity constraints. Sri Lanka Railways is trapped in a vicious circle that is driven by a monolithic organization unable to reform, a high cost-structure coupled with poor service quality, declining traffic, inadequate cost recovery, and insufficient resources for modernization. The railway infrastructure and rolling stock have deteriorated, reducing the quantity and quality of service that the system is able to provide. The decline in Sri Lanka Railways' rolling stock over the last decade is a result, rather than a cause, of the circular problem.[15] Government investments in Sri Lanka Railways have been substantial over the years, reaching $120 million in 2006.[16] Officially, expenditures for maintenance and investments have an equal share in the overall allocation for railways. Similar to the road sector, capital expenditures for railways are used to reduce a backlog of deferred maintenance so that real capital allocations may be overrepresented. This has contributed to the shortfall in rolling stock capacity.

20. Although Colombo Port is a transshipment hub for the South Asian region, it faces capacity constraints that will adversely affect its growth. In recent years, the market share of Colombo Port in regional transshipment has been threatened by market development trends. The Colombo Port has water depth of 15 meters, but this is inadequate for future generation of container ships. The increasing demand for containerization has expanded ship capacity from 6,000 plus TEUs in 1996 to those of 10,000 TEUs or more today. Future generation ships may carry much more than 10,000 TEUs. The existing Colombo Port cannot offer (i) the additional operating capacity to remain competitive in the Indian subcontinent transshipment market, or (ii) the depth required to berth the latest generation container ships. Colombo Port will therefore have to develop additional container

[13] The majority of road accident fatalities and injuries are borne by bicyclists, motorcyclists, and pedestrians, mainly from the poorer sections of society.
[14] The road accident fatality rate per 10,000 vehicles in Sri Lanka (15.5 in 2002) was generally lower than the fatality rates in Bangladesh (85.6 in 2002), India (20.3 in 2003), and Pakistan (18.7 in 2002).
[15] The number of locomotives declined by about 25%, passenger coaches by 20%, and goods wagons by 23%. By 2006, Sri Lanka Railways has 139 serviceable locomotives, about 500 coaches, and 1,500 goods wagons.
[16] Figure obtained by the Operations Evaluation Mission from the Additional Secretary of the Ministry of Transport and Railways.

berths with the required depth to address current capacity limitations and depth infrastructure constraints if it is to remain a transshipment hub port. User shipping lines place a lot of value on port performance efficiencies, which may be derived from a strategic location, berthing/turnaround productivity guarantee, and pricing. Credibility and reliability perceptions are important contributors to the reputation of a port. Labor disputes that have led to port slowdown and strikes in the past have affected the reputation of the Colombo Port. Access to the Colombo Port is presently congested, and there is no expressway that is linked to the port. The existing transport system does not have an effective road link and railways to support the Colombo Port development. Port safety is a global issue. While steps have been taken to improve facilities, equipment, and personnel at the Colombo Port for enhanced security measures and customs vigilance, the resumption of armed conflict in the North and East have increased security threats to ports in Sri Lanka.[17] The Government has declared Colombo Port a high-security zone and appointed the Sri Lankan Navy as the designated authority for port security.

21. **Cost Recovery.** Issues related to cost recovery in the transport sector are pervasive. Operations of the government-owned bus services and that of Sri Lanka Railways are subsidized, because fares are set below cost mainly for social reasons. Fares policy was introduced in 2002 for bus services, and the politicized control on bus fares has continued to affect the financial sustainability of private bus operations in the country. Fare increases have been infrequent, and have not generally kept pace with inflation. This has deterred investment and discouraged potential investors from entering the industry, leaving the majority of services in the hands of small-scale, owner-operators who lack management expertise and capital. The fare structure has led to poor quality of service, overcrowding on relatively profitable routes, and underprovision of services on other routes. Observers emphasize that the role of the regulator has not been effective partly due to the political contexts of transportation services in Sri Lanka. There is potential to achieve greater cost recovery, if not full cost recovery. Greater cost recovery can be achieved by delineation of business units that can be operated more profitably from those that require explicit subsidization out of social considerations. A guiding principle in this respect would be the introduction of a public service obligation (para. 10). However, the ports subsector is an exception in terms of cost recovery. The Sri Lanka Ports Authority has consistently made operating profits in recent years, ranging from SLR5.26 billion in 2001 to SLR7.4 billion in 2005. The Colombo Port accounts for approximately 97% of Sri Lanka Ports Authority's incomes.

22. Total proceeds from road-usage related charges estimated at $530 million for 2006 exceed the Government's capital and maintenance expenditures on the road network.[18] Revenues from road transport related charges are not earmarked for expenditures on roads. Heavy vehicles are not charged in accordance with the wear and tear inflicted by them on road pavements. Overloading contributes substantially to the deterioration of the road network in Sri Lanka. Surveys of axle loads indicate a high degree of overloading by the most common truck type in Sri Lanka, which is a two-axle, dual-tired truck.

23. Innovative financing strategies are needed to mobilize funding for road maintenance and construction and make road development sustainable. Toward this end, a road maintenance trust fund has been set up, and it came into operation on 1 January 2006. The main objective of

---

[17] The subsequent escalation of armed conflict in the East in July 2006 affected Trincomalee harbor. On 18 October 2006, a naval base in Galle harbor was attacked. Available: http://news.bbc.co.uk/2/hi/south_asia/6061184.stm
On 27 January 2007, an attack aimed at Colombo Port was successfully thwarted by the Sri Lankan Navy. Available: http://www.alertnet.org/thenews/newsdesk/COL36599.htm

[18] Customs duties on imported vehicles and spare parts represent the most important revenue component accounting for about 51% of total revenues, followed by fuel excise and value-added taxes of 44%. Other charges include registration and license fees (3%) and a provincial fuel tax (2%).

the trust fund is to finance routine and periodic road maintenance programs of national roads in a timely manner. The operation of the fund is dependent on budgetary allocations, notably earmarked tax proceeds from the sale of gasoline and diesel. Such allocations will replace budgetary allocations previously given directly to the Ministry of Highways for the maintenance of national roads. While not specified in the Deed of Trust, the Government intends to bind its fund allocations to the sale of gasoline and diesel at the rate of SLR1 per liter of gasoline and SLR0.5 per liter of diesel. It is now too early to assess the effectiveness of the trust fund. The performance of the fund, and hence road maintenance, will depend on the extent to which replenishments follow a formula that is related to traffic, rather than based on discretionary allocations.

24. Taking a longer-term perspective, options for expanding the use of the road maintenance trust fund should be explored to include road construction, by securitizing parts of the fund to leverage new funding for road construction. This would require new forms of road pricing and operations, in the construction and operation of highways coupled with highway tolls, to generate revenues. Faced with public finance and capacity constraints, the Government should seek various workable PPP for investments and operations of highways.

25. **Government Sector Strategy.** Over the past two decades, the Government's primary objective has been to promote economic growth and ensure an equitable distribution of benefits arising from this growth. A national transport policy approved in 1991 by the Government was to ensure the provision, maintenance, and operation of an adequate and publicly acceptable transport system at least cost to the economy. Realizing that this would require a significant improvement in transport infrastructure, the Government increased the budgetary allocations for the transport sector substantially over the past few years. However, the increase, in both absolute and relative terms, was not well-focused. The allocations for road maintenance remained low until 1997 in relation to substantially increasing needs, while the allocations for railways increased significantly despite the rail's declining share of the transport market. Subsequently, following a long period of neglect of road maintenance, the Government under its medium-term investment programs has been earmarking a high level of resources, recurrent and capital, to road rehabilitation and maintenance. Since the mid 1990s, a trend has set in toward a closer relationship between budget allocations and share of transport demand, and a more rational distribution of resources within the transport sector.

26. Traditionally, the Government has provided and operated all types of transport infrastructure and services. Since the early 1990s, greater emphasis has been placed on private sector participation, with the intention of improving efficiency and quality of services. In pursuit of this objective, the national transport policy stipulated that (i) transport tariffs should be related to the costs of providing the service; (ii) transport services and users should not be subsidized by the Government except in special cases; (iii) subsidies should only be provided if there is no acceptable alternative; (iv) the Government should fund capital investments only after the technical, economic, financial, and environmental studies of all alternative proposals are completed; and (v) the Government should charge commercial rates for the use of domestic transportation facilities. Ownership of state-owned bus companies has been "peoplised",[19] thereby reducing the direct budget subsidy that the service once required, but leading to an unmanageable large number of firms, which later on had to be consolidated into cluster companies. In the railway sector, little progress has been achieved despite the Government's commitment to

[19] Ownership was transferred to the employees of the bus companies.

improve the quality of services, increase efficiency and productivity, and reduce losses.[20] In the road sector, the general principles of the Government's declared policy that facilities should be maintained, costs should be recovered from users, and subsidies among modes should be eliminated, have largely been followed.

27. In 2000, the Government prepared a medium-term sector framework that focused on improving overall sector performance through implementation of institutional and sector reforms.[21] The reform program was aimed at (i) reengineering central government sector agencies, (ii) bolstering private sector participation, (iii) strengthening the functions of provincial councils with respect to roads, (iv) improving passenger transport services, (v) supporting priority investments in road improvement, and (vi) improving road safety. Two years later, in another policy initiative,[22] the Government emphasized the need for reducing financial contributions form the public sector and attracting private investment. Further objectives included (i) building an integrated national highways and road network to connect poor regions and production centers to domestic and international markets; (ii) enhancing the performance of the bus system and implementing a fare policy; (iii) improving the management of the road sector; (iv) implementing a comprehensive traffic management policy; (v) facilitating rural transport development; (vi) designing and implementing an overall pricing policy for private transport; and (vii) institutionalizing road safety and discipline. With regard to roads, a comprehensive road development program was proposed to be implemented in conjunction with sector reforms. The reform program would follow a medium-term sector approach, and would be based on three pillars: (i) strengthening RDA and provincial road agencies, (ii) developing a domestic private contracting industry, and (iii) establishing a mechanism for sustainable financing of road maintenance.

28. In 2006, the Ministry of Finance and Planning prepared a 10-year horizon development framework (2006–2016) as a vision for a new Sri Lanka.[23] The vision is to attain an economic growth rate of at least 8% per year. With regard to the transport sector, the framework sets out the vision *"to provide accessibility to all population in the country and to have a high and quality mobility road network for the transportation of passengers and goods."* This framework recognizes that a number of key sector issues need to be addressed to realize the vision. These issues include (i) inadequate quality and capacity of roads, (ii) increasing road user costs, (iii) inadequate coordination among sector institutions, and (iv) capacity development of provincial level authorities. In connection with policies and strategies, the framework reiterates principles and actions that have been proposed under previous initiatives. The framework considers the option of using the newly created road maintenance trust fund for the purposes of road construction. However, the framework sets forth ambitious quantitative targets for specific projects and operational outputs, without providing their rationale and analytical justifications. Although the railways does not figure prominently in the overall vision for the transport sector, railways is expected to regain a substantial portion of its lost market share by promoting the return of bulk freight to the railways, increasing competitiveness, introducing cost-recovery, improving service quality, and developing interaction with other transport modes.

---

[20] In the early 1990s, legislation was enacted to create a railway authority with a view to delegating greater managerial autonomy to railway operations. In 2003, when Sri Lanka Railways still had the status of a Government department, the legislation was implemented and a railway authority established. In 2005, the authority was abolished and Sri Lanka Railways reinstated as a Government department.

[21] ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the Democratic Socialist Republic of Sri Lanka for the Road Sector Development Project*. Manila.

[22] Government of Sri Lanka. 2002. *Regaining Sri Lanka: Vision and Strategy for Accelerated Development*. Colombo.

[23] Ministry of Finance and Planning. 2006. Mahinda Chintana: Vision for a new Sri Lanka. A Ten-Year Horizon Development Framework 2006–2016. *Discussion Paper*. Colombo.

29. The current government policy for the ports subsector aims to (i) develop the country's main ports to facilitate trade (export and import) associated with the economic development of the country and the region by taking advantage of trade liberalization and globalization process; (ii) decongest Colombo international port by constructing and developing Colombo South Port, Galle, and Hambantota ports; (iii) develop medium-scale ports in the South, East, and North to divert increasing volumes of domestic bulk freight transport from road to sea transport; (iv) encourage alternative sources of funding for new investment in port related infrastructure development; (v) operate ports as commercial entities without support from government treasury; and (vi) encourage PPP arrangements for new investments in the ports subsector. While continuing the state ownership of existing ports, the Government's strategy is to increase the efficiency of existing ports, operate ports as commercial entities, and establish container terminals as PPP projects.

30. In summary, the Government's strategies for the transport sector over the past two decades have been appropriate to evolving sector issues and consistent with the overall objective of reducing poverty. The 10-year horizon development framework with respect to the transport sector would benefit from a closer alignment with efficiency and affordability considerations. Overall, government policies and programs have largely recognized the key constraints impeding the transport sector and have formulated relevant strategies to address them. Given the pending reform agenda, policy and institutional reforms have been carried out less rigorously than the stated objectives of government strategies, and overall progress has been limited.

C. The Country Sector Strategy and Program of ADB

1. ADB's Sector Strategies in the Country

31. The focus of ADB assistance to the transport sector has evolved and broadened over time, encompassing the relatively narrow initial concerns with the completion of network gaps and asset preservation, an increasing attention to the policy and institutional environment which surrounds projects and affects their sustainability, and the impact of transport projects on poverty reduction. This pattern is reflected in ADB's technical assistance (TA), which initially was merely a tool for project preparation and implementation. Following the change in focus of lending, ADB's TA began to take a broader perspective on overall sector performance, concerning itself with institutional and organizational capabilities and appropriateness of policies and regulations.

32. The overall focus of the ADB's strategy for the transport sector is on increasing efficiency and improving service quality. ADB's strategy includes promoting policy reforms and sector restructuring in order to create the environment necessary for efficient and sustainable infrastructure provision and the mobilization of the resources needed for future infrastructure development including using PPP arrangements for financially viable transport infrastructure development such as container terminals in ports. Policy changes are pursued with respect to cost recovery, tariffs and regulations, competition, and resource mobilization. Where market orientation is not appropriate, ADB supports introduction of market surrogates and rules and regulations to ensure satisfactory and cost efficient delivery of services.

33. ADB fosters institutional development and sector reforms aimed at developing a more market-responsive transport sector and at increased private sector participation in the financing and operation of infrastructure. In terms of poverty reduction, the strategy is to promote equity of access to infrastructure and, in particular, to ensure that the needs of disadvantaged groups are

met. Human resource development and training continue to form significant elements of the ADB strategy.

34. **ADB's Evolving Sector Strategy in Sri Lanka.** ADB's early interventions in the transport sector of Sri Lanka were not based on explicit sector strategies. The first two loans were narrowly focused on reducing the backlog in deferred maintenance on trunk roads. The main thrust was the promotion of efficient utilization of existing road capacity, rather than the construction of new roads. The loans were accompanied by TA to address issues of truck overloading and vehicle weight legislation and to improve maintenance management. While new areas have been added to ADB's agenda, road maintenance and vehicle overloading have persisted as major concerns. Addressing road maintenance issues has been difficult, and effecting organizational, institutional, and procedural changes within a short time period has not been possible.

35. In response to the more complex development needs of the transport sector, ADB's assistance has over time broadened beyond the narrow focus on road rehabilitation and ad hoc policy engagement that had marked ADB's road sector involvement in the 1980s and the early 1990s. The new approach involved a more coherent and consistent dialogue that encompassed all facets, policy, institutional and investment matters, and the entire road network. ADB's strategy over the medium-term was aimed at mobilizing resources to remove the physical bottlenecks in the road network and also at supporting efforts to improve the policy and institutional environment and to raise subsector efficiency and performance. Accordingly, key issues which were addressed included (i) institutional reform and capacity building; (ii) subsector financing, covering road user charges, operation and maintenance financial allocations and practices, and private sector participation; (iii) environmental and social impact of civil works; (iv) the optimum integration of the road network with other modes of transport; and (v) road safety.

36. ADB's 1993−1997 transport sector strategy maintained its focus on roads, leaving railway transport to other aid agencies. The strategic concern was to ensure that improvements in infrastructure act as stimuli to economic activity and that growth would not be impeded by infrastructure bottlenecks. Another important objective of the strategy was to create an environment conducive for the participation and development of the domestic contracting industry. The 1993−1997 sector strategy also adopted a regional focus on areas where poverty and unemployment were pervasive. While the North and East were recognized to be in need of infrastructure rehabilitation, the risks associated with the civil war had not warranted ADB operations in the area. Parts of the southern region, which were both underdeveloped and somewhat isolated, were identified and selected to be a potential target for intervention. Subsequently, given the continuing importance of roads for the attainment of equitable economic growth, the 1998−2003 transport sector strategy of ADB maintained its focus on roads. However, the sector strategy further broadened its focus to include policy, institutional development, and investments related to all aspects of the road networks. The sector strategy supported the reform program to address integration of the road network with other transport modes, capacity building of sector institutions, strategic financing of operation and maintenance, private sector participation, social and environmental safeguards, and road safety.

37. In the 2004−2008 Country Strategy and Program, ADB reiterated its support for policy and institutional reform in the sector and emphasized the need for ensuring national ownership of the reform processes. The key thrusts of the 2004−2008 Country Strategy and Program were to (i) explore the potential for PPP in developing expressways, (ii) develop a mechanism for sustainable funding of road maintenance, (iii) assist in the preparation of a comprehensive road sector master plan to guide future physical development in the sector, and (iv) assist in the establishment of a project preparatory facility for designing future road projects. With the exception of one TA project, ADB has been absent from the railway sector, despite its repeated emphasis on integration of the road network

with other modes of transport and the need for intermodal coordination. The issue is whether ADB would have been well positioned to address a premier source of inefficiency in Sri Lanka's transport sector, or whether it would have spread itself too thinly given its main preoccupation with road transport.

38. In the ports subsector, ADB's strategy is to increase overall port efficiency by increasing the efficiency of Sri Lanka Ports Authority-operated Jaya Container Terminal in Colombo Port by making the landlord port model the dominant model in Colombo Port. While the original approach was to corporatize the Jaya Container Terminal, the prevailing government policy did not support the corporatization of this terminal. In response, ADB encouraged the Government to adopt a PPP approach to make the landlord port model workable in Colombo Port. Subsequently, the Government agreed to adopt the PPP approach for the expansion of Colombo Port.

39. ADB's sector strategies have been aligned with the Government's strategies and plans. There have been no major discrepancies between the Government's and ADB's sector strategies. The ADB sector strategies were based on thorough sector knowledge and work, including the comprehensive transport strategy formulated under the auspices of the United Nations Development Programme and the World Bank. In general, ADB's transport sector strategy had rested on relevant policy dialogue and a sound analytical foundation.

40. **Positioning.** In the 1980s, the World Bank Group was the primary development partner providing assistance to the transport sector. ADB at that time was commencing its operations in the sector, and it benefited from its liaison with the World Bank on project and policy matters. In 1988, the Overseas Economic Cooperation Fund (OECF) of Japan emerged as a new development partner. ADB and OECF at that time became the most active donors to finance priority investments related to primary and secondary road networks. Although the World Bank was dominant in policy dialogue, it did not provide new loans for almost a decade since 1999 when both World Bank-financed Colombo Urban Transport Project and Third Roads Project were completed.[24] With the gradual withdrawal of the World Bank from substantial lending to the transport sector, ADB during the 1990s became the lead agency engaged in policy dialogue and discussions on institutional reforms. In the mid 1990s, ADB's focus on the southern region generated synergies with the Government's program for the development of that region.[25] ADB has been the only external funding agency providing assistance to all levels of the road network (primary, secondary, and farm-to-market roads). In addition to rehabilitation and improvement of the road network, policy improvements have been promoted in the areas of road safety, capacity enhancement of private contractors, and management of provincial roads.

41. Overall, ADB's sector strategies positioned ADB to effectively provide support in areas where ADB had a comparative advantage. There was adequate coordination among development partners to ensure that ADB could complement the assistance of others. Overall, the positioning of the transport sector strategies for the evaluation period was assessed "satisfactory", based on a four-category scale of highly satisfactory, satisfactory, partly satisfactory, or unsatisfactory. A summary evaluation of the positioning of ADB's consecutive strategies is presented in Table 3, and detailed in the Appendix of this paper. Throughout the evaluation period, ADB's operations possessed critical mass to make a difference and strategy formulation has been meaningful.

---

[24] The World Bank resumed lending to the road sector, and approved the Road Sector Assistance Project on 15 December 2005 with a loan of $100 million out of an estimated project cost of $144 million. This project focuses on road maintenance and rehabilitation of national roads (Classes A and B), pilot maintenance and rehabilitation of rural roads, and institutional strengthening and policy support.

[25] The Government formed the Presidential Task Force for the Southern Area Development in 1995, which became the Southern Development Authority in 1996.

Table 3: Rating of the Positioning of ADB Sector Strategies

Sector Strategy	Criteria for Positioning[a]						
	Sufficient Basis for the Strategy	Government's Absorptive Capacity and Ownership	ADB's Comparative Advantage and Partnership with Other Development Partners	Focus/ Selectivity and Synergies	Long-Term Continuity	Constraints/ Risks and Adjustment/ Monitoring Mechanisms to Achieve Targets	Average of All Criteria
1993−97	2 (S)	2 (S)	3 (HS)	2 (S)	3 (S)	0 (US)	2.00 (S)
1998−03	3 (HS)	1 (PS)	3 (HS)	2 (S)	3 (S)	2 (S)	2.33 (S)
2004−08	3 (HS)	1 (PS)	3 (HS)	2 (S)	3 (S)	2 (S)	2.33 (S)
Overall							**2.22 (S)**

ADB = Asian Development Bank, HS = highly satisfactory, PS = partly satisfactory, S = satisfactory, US = unsatisfactory.
[a] Note: HS = 3 points, S = 2 points, PS = 1 point, and US = 0 point. An equal weight is applied to each of the six criteria for positioning and coherence. The ratings are as follows: (i) HS > 2.5, (ii) 2.5 ≥ S ≥ 1.6, (iii) 1.6 > PS ≥ 0.6, and (iv) 0.6 > US.

42. The Government's absorptive capacity and sense of ownership had been overestimated at times. This observation applies particularly to TA grants. Two TA grants, one for reengineering of road sector institutions aimed at road maintenance management (TA 3110-SRI) and the other for the improvement of passenger transport services (TA 4075-SRI), are cases in point. TA 3110-SRI was subsequently undermined by absorptive capacity constraints, lack of ownership, and inappropriate follow-up actions such as (i) timing gap with the implementation of the Road Sector Development Project (Loan 1986-SRI) which did not build up a strong reform momentum; (ii) there was no continuity between the TA consultants and project consultants; (iii) changes of government and their effects on policy implementation; (iv) absence of the required champion for promoting the reform agenda; and (v) a large increase in the number of projects and TA grants assigned to the executing agency as part of the international and national efforts for reconstruction and recovery following the Tsunami of December 2004. The TA for the improvement of passenger transport services was not supported by government ownership. There was no political will to reform the bus transport services. In terms of absorptive capacity, 5 out of 10 ADB-financed road projects were still ongoing with completion delayed between 1 and 5 years by the end of 2006. With emergency relief operations and restoration work assigned to RDA following the tsunami, RDA's absorptive capacity had been stretched to its limits.

43. Overall, ADB's sector strategies have been sensitive to conditions of the country's political economy. For example, the exclusion of Sri Lanka Railways from most of ADB's transport sector strategies ensued from the valid concern that the Government might not have been amenable to reforms because of the political contexts of railways in Sri Lanka, including the opposition to reforms by trade unions. In view of the role of railways as a major public employer and the social implications that the restructuring of Sri Lanka Railways would have inevitably brought about, the Government preferred to maintain the status quo notwithstanding the substantial inefficiencies that emanated from it. In 2000, ADB provided TA to establish PPP for railways (TA 3410-SRI).[26] With no credible prospects for reform to make railways more efficient, ADB respected the government stance, and consequently did not engage itself intensively in railways development. However, in the context of transportation planning, intermodal transportation issues and interface problems should have been emphasized. In hindsight, ADB could perhaps have made greater use of its strategic positioning by engaging the Government in a dialogue to address intermodal transport issues along the lines of the principles discussed in para. 10.

[26] The TA prepared a strategy and action plan for establishing PPP in the railway sector. The TA provided the necessary inputs for the preparation of the action plan, including (i) surveys and analysis of rail freight transport; (ii) analysis of public passenger transport in Greater Colombo; (iii) surveys, analysis, and discussion on the public perceptions of the railway sector; and (iv) survey and analysis of PPP experience in other countries, specifically Bangladesh and India. The TA noted the various studies which had been done for Sri Lanka Railways. However, there had been little action on the recommendations of many studies commissioned by the Government, both internal and external.

44. Historically, the Japan Bank for International Cooperation (JBIC), formerly known as the OECF, has been the main aid agency in the ports subsector of Sri Lanka, and has provided over $690 million since 1980. The development of container facilities in Colombo Port has been mainly financed with JBIC loans. ADB entered this subsector relatively late and its focus was to encourage private sector development. In 1999, ADB provided a private sector loan of $35 million and took up equity investment of $7.4 million in the first privately-run container terminal in Colombo Port. This was followed by a project preparatory loan for $10 million in 2001 to prepare for the expansion of the Colombo Port.[27] In February 2007, ADB approved a loan amounting to $300 million for the Colombo Port Expansion Project.

2. ADB's Sector Assistance Program

45. ADB's assistance to Sri Lanka's transport sector has had a focus on roads (Table 4). Since 1985, ADB has approved 10 loans for road development with an overall amount of $555 million. This amount excludes other projects of different sectors which have road components. The vast majority of that assistance has been used for rehabilitating and improving the road network, while road network expansion has so far been limited to one project. ADB assistance included a loan of $300 million for the ports subsector, for expanding the Colombo Port as a PPP project, whereby the public sector carries out the dredging and breakwater construction, while the private sector is expected to build and operate the container terminals. Of the 10 road projects, 5 have been completed. Four of the five ongoing projects were cofinanced by other donors.[28] Three projects were rated generally successful at completion, while two were not rated.[29] Only one project (Loan 864-SRI: Second Road Improvement Project) approved in 1987 and completed in 1996 has so far been postevaluated by the Operations Evaluation Department. The successful rating by the project completion report was downgraded to partly successful by the project performance audit report mainly because of the failure of the project to achieve its objective of improving road maintenance. The project performance audit report noted that the project as designed was narrowly focused on road improvement, thus failing to address the institutional constraints that impede road maintenance.[30] The project was also affected by issues related to RCDC. The awards of contracts were delayed because of the Government's insistence to award contracts to RCDC, which had not been prequalified to carry out work under the ADB-financed project. The Government's policy to assign road maintenance to RCDC ran counter to the project's objective of promoting the domestic contracting industry.

---

[27] ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Technical Assistance Loan to the Democratic Socialist Republic of Sri Lanka for the Colombo Port Efficiency and Expansion Project*. Manila (Loan 1841-SRI, for $10 million, approved on 27 September 2001). This project comprised two components, namely (i) port sector policy, institutional, and regulatory issues, with measures to improve the efficiency of the existing port, in particular the Jaya Container Terminal, and the preparation of a regulatory and planning framework for port-related international trade operations; and (ii) preparation for the Colombo Port expansion.

[28] By 31 March 2007, cofinancing ($8 million) with the Organization of the Petroleum Exporting Countries (OPEC) Fund for Loan 2217-National Highways Sector Project had not been secured as the Government had not agreed to the terms and conditions of the OPEC Fund; OPEC Fund and JBIC are cofinancing Loan 1986-SRI: Road Sector Development Project for a combined amount of $88.5 million; JBIC, Nordic Development Fund, and Swedish International Development Cooperation Agency are cofinancing ADB Loan 1711-SRI: Southern Transport Development Project for a combined amount of $187.7 million; and JBIC is cofinancing Loan 1649-SRI: Road Network Improvement Project for $16 million.

[29] These were (i) Loan 753-SRI: Trunk Roads Improvement Project and (ii) Loan 865-SRI: Emergency Roads Restoration Project.

[30] ADB. 2000. *Project Performance Audit Report for Loan 864-SRI(SF): Second Road Improvement Project*. Manila.

Table 4: Loans and Advisory Technical Assistance Approved (1985–2005)

Item	1985–1992	1993–1997	1998–2003	2004–2005
Loans	• Loan 753-SRI: Trunk Roads Improvement Project (1985) • Loan 864-SRI: Second Road Improvement Project (1987) • Loan 865-SRI: Emergency Roads Restoration Project (1987)	• Loan 1312-SRI: Third Road Improvement Project (1994) • Loan 1567-SRI: Southern Provincial Roads Improvement Project (1997)	• Loan 1649-SRI: Road Network Improvement Project (1998) • Loan 1711-SRI: Southern Transport Development Project (1999) • Loan 1689/7153-SRI: Colombo Port Development (1999) • Loan 1841-SRI: Colombo Port Efficiency and Expansion Project (2001) • Loan 1986-SRI: Road Sector Development Project (2002)	• Loan 2080-SRI: Road Project Preparatory Facility (2004) • Loan 2217-SRI: National Highways Sector Project (2005)
Technical Assistance	• TA 1110-SRI: Institutional Strengthening of Road Development Authority (1989)	• TA 2152-SRI: Road Safety Study (1994)	• TA 3110-SRI: Reengineering of Road Sector Institutions (1998) • TA 3410-SRI: Establishment of Public-Private Partnership for Railways (2000) • TA 3691-SRI: Road Maintenance Budget and Expenditure Control (2001) • TA 4075-SRI: Passenger Transport Services Improvement (2002) • TA 4121-SRI: Port Sector Master Plan (2003) • TA 4178-SRI: Public Private Partnership Expressway Project (2003), later renamed as Capacity Building for Financial Management of Road Projects	• TA 4315-SRI: Road Sector Master Plan (2004) • TA 4736-SRI: Capacity Building of the Environment and Social Division of the Road Development Authority (2005) • TA 4748-SRI: Independent External Monitoring of Resettlement Activities of the Southern Transport Development (2005)
Other Projects with Road Components[a]	• Loan 1128-SRI: Southern Province Rural Development Project (1991) • Loan 1204-SRI: Urban Development Sector Project (1992)	• Loan 1462-SRI: North Central Province Rural Development Project (1996)	• Loan 1846-SRI: North East Community Restoration and Development Project (2001) • Loan 1849-SRI: Southern Province Rural Economic Advancement (2001) • Loans 2043/2044-SRI: Conflict Affected Areas Rehabilitation Project (2003)	• Loan 2084-SRI: North East Community Restoration and Development Project (Extension, 2004) • Loan 2168-SRI: North East Community Restoration and Development Project II (2005) • Loan 2167-SRI: Tsunami Affected Areas Rebuilding Project (2005)

[a] With the exception of Loans 2043/2044-SRI, which include Class A and B roads, road works of these components involve the rehabilitation of mostly rural roads and secondary provincial roads (Classes C, D, and E).

Source: Asian Development Bank databases on loans, technical assistance, grants, and equity approvals.

46. Overall, the positioning of the sector assistance program was assessed "satisfactory" based on a four-category scale of highly satisfactory, satisfactory, partly satisfactory, or unsatisfactory (Table 5). ADB's sector assistance program has been relevant and responsive to (i) evolving needs of the sector, (ii) Government's strategies and development objectives, (iii) ADB's sector strategies, and (iv) coordination with major development partners. In terms of positioning over the last decade, ADB's sector assistance has been progressively broadened to pay more attention to transport systems' needs, covering road networks, connectivity, and sector-wide policy and institutional challenges. The

programming of assistance has been cognizant of ADB's comparative advantage in infrastructure development, including initiatives in policy dialogue and support for phased sector reforms.

Table 5: Evaluation Rating of the Positioning of Sector Assistance Programs

	Criteria for Positioning[a]						
Sector Program	**Sufficient Basis for the Program**	**Government's Absorptive Capacity and Ownership**	**ADB's Comparative Advantage and Partnership with Other Development Partners**	**Focus/ Selectivity and Synergies**	**Long-Term Continuity**	**Constraints/ Risks and Adjustment/ Monitoring Mechanisms to Achieve Targets**	**Weighted Average of All Criteria**
1993–1997	3 (HS)	2 (S)	3 (HS)	2 (S)	2 (S)	0 (US)	2.00 (S)
1998–2003	3 (HS)	2 (S)	3 (HS)	2 (S)	2 (S)	2 (S)	2.33 (S)
2004–2008	3 (HS)	2 (S)	3 (HS)	2 (S)	2 (S)	2 (S)	2.33 (S)
Overall							**2.22 (S)**

ADB = Asian Development Bank, HS = highly satisfactory, PS = partly satisfactory, S = satisfactory, US = unsatisfactory.
[a] Note: HS = 3 points, S = 2 points, PS = 1 point, and US = 0 point. An equal weight is applied to each of the six criteria for positioning and coherence. The ratings are as follows: (i) HS > 2.5, (ii) 2.5 ≥ S ≥ 1.6, (iii) 1.6 > PS ≥ 0.6, and (iv) 0.6 > US.

47. **Trends in the Sector Lending Program.** ADB's assistance to the transport sector has generally been consistent with the principles defined under the various strategies. Initially in the 1980s, the sector assistance focused on the preservation of road infrastructures through support for road maintenance and rehabilitation.[31] Subsequently, in the mid-1990s, policy considerations became more prominent in the design of projects. In this regard, ADB-financed projects have tried to address all relevant sector institutional and policy issues, particularly in the road sector. Milestones and innovative shifts in ADB's program included (i) assistance to the secondary road network, rather than the traditional focus on key traffic arteries; (ii) the adoption of a sector-type approach, instead of the narrow project loan approach;[32] (iii) support to the construction of new high mobility roads, rather than retaining the previous focus on the preservation of existing assets; (iv) support for the establishment of a road fund as a mechanism to overcome the tenacious problem of maintenance funding; and (v) support for promoting and developing PPP options. In 2003, ADB provided a TA grant to Sri Lanka for PPP expressway projects.[33] Subsequently in 2004, ADB approved a TA loan (Road Project Preparatory Facility) that provides funding for the Government to conduct road project preparatory work including for preparation of feasibility studies, environmental and social assessments, resettlement plans, detailed designs, bid document preparation and evaluations, formulation of concession agreements, and negotiations for PPP projects.

48. **Trends in Technical Assistance.** ADB has provided 8 advisory TA grants for the road sector since 1985. Most of these TAs were piggybacked to loans.[34] All advisory TA grants served the overall objective of capacity development in the transport sector. These TA initiatives

[31] ADB. 1999. *Country Assistance Plan Sri Lanka (1999–2001)*. Manila.
[32] ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the National Highways Sector Project*. Manila.
[33] ADB. 2003. *Technical Assistance to Democratic Socialist Republic of Sri Lanka for Preparing a Public-Private Partnership Expressway Project*. Manila. With a change of scope, this TA was later renamed as Capacity Building for Financial Management of Road Projects.
[34] TA 2152-SRI: Road Safety Study was piggybacked to Loan 1312-SRI: Third Road Improvement Project; and TA 3110-SRI: Reengineering of Road Sector Institutions, later extended and provided with supplementary funding was piggybacked to Loan 1649-SRI: Road Network Improvement Project. The TA for Passenger Transport Services Improvement was piggybacked to Loan 1986-SRI: Road Sector Development Project approved in 2002.

were formulated taking into account policy issues or themes that were the subject of policy dialogue during the preparation of the respective loan project. In general, and over time, the ADB-financed TA grants have covered all pertinent issues in the policy and institutional environment of Sri Lanka's transport sector. A more enduring and consistent general theme was road maintenance. TA initiatives addressed various facets of road maintenance, including management practices, pavement management systems, road maintenance budget and expenditure control, and maintenance financing. Other TA initiatives focused on a rather vast variety of topics, including traffic counting and axle load surveys, a quarry industry survey, institutional strengthening and organizational reform of RDA, railway privatization, passenger transport services improvement, communication services for the poor, and road safety, and promotion of PPP concepts and arrangements. Given the wide range of issues, a trend in TA designs, scope, and objectives has not clearly emerged. While the selected topics were important and relevant, most TA grants in the road subsector amounted to one-off interventions, with little follow up action on the TA recommendations by the Government. Nevertheless, greater TA integration and focus emerged since 2004. In view of the significance of the issues addressed and the time it would take for development results to be achieved, in hindsight it would have been more desirable if the TA grants had a longer life span covering several projects. Perhaps, this would have led to a more focused choice of TA topics and a more through treatment of the reform issues, with greater continuity in the context of the supported investment projects. In the future, greater coordination and synergies may be derived from coordinated strategies for road development among development partners, primarily ADB, JBIC, and World Bank.[35]

49. The frequent changes in TA subjects and the comings-and-goings of consultants created a sense of indifference in the clients and weakened TA ownership in some cases. For example, the Operations Evaluation Mission found that the TA for the reengineering of RDA was not effectively backed and taken up by the consultants under the road sector development project (Loan 1986-SRI). This situation led to a general perception among key stakeholders that government ownership and support for reengineering of RDA has been weak. Implementation of the TA for the preparation of a road sector master plan suffered from issues that stemmed from consultants' poor performance, shortcomings in interactions between the consultants and the clients, and lack of wider ownership among road transport stakeholders. When the draft master plan was submitted for review, ADB and RDA found the draft master plan to be unsatisfactory in the context of its objective. The draft master plan failed to provide strategic direction to new activities in the sector. Key informants also confirmed that the consultants did not conduct a comprehensive road condition survey that was required for a reliable investment plan. ADB and RDA have undertaken remedial actions to address the shortcomings of the draft master plan. The different roles of consultants deserve more careful attention and distinction in the future, and their requisites should be carefully assessed in the context of the scope of engagement and the roles of the clients.

50. **Factors Implementing Implementation.** Substantial delays in project implementation have been common to almost all loan-financed projects. Due in part to these delays, most projects suffered from cost overruns and their scope had to be reduced. Factors adversely affecting implementation have been (i) the resurgence of armed conflict in Sri Lanka; (ii) lengthy tendering and procurement procedures; (iii) land acquisition issues (iv) cases of unsatisfactory performance of contractors; and (v) unsatisfactory engineering, lack of preparedness, and

[35] In 2004, ADB, JBIC, and World Bank agreed on a common development framework for (i) institutional strengthening, (ii) sustainable road maintenance funding, and (iii) domestic private sector development.

preconstruction processes causing delay in calling tenders.[36] Problems related to contract management and procurement issues have been addressed by several TA grants directed at the Government's contract administration and implementation in general, and at RDA's in particular.[37] Compliance with loan covenants was mixed with government policy changes resulting in some key covenants not being fulfilled. Adequate funding for maintenance was covenanted under two projects and compliance was unsatisfactory. The timely issuance of a Motor Traffic Act and the required reduction in the maintenance labor force also met with difficulties. Audited project accounts were sometimes submitted with substantial delays. Issues related to delayed implementation need to be dealt with in the context of institutional capability, knowledge and preparedness in preconstruction processes, work planning and critical path management, and matching of the workload with the absorptive capacity of the executing agency.

51. A special implementation problem was caused by the change in government policy, which placed all road maintenance works under RCDC and effectively excluded private road maintenance contractors that the Second Road Improvement Project aimed to support. In addition, the Government's proposal to award one of the original three contracts to RCDC contributed to the failure of the first round of bidding. The Southern Transport Development Project (Loan 1711-SRI), was subjected to a compliance review in 2005. The request for the review was submitted by the Joint Organization of the Affected Communities of the Colombo-Matara Highway.[38] The Compliance Review Panel (CRP) determined in December 2004 that the request was eligible and recommended that a compliance review be conducted. The CRP found that there were lapses of compliance with ADB's operational policies and procedures in several areas: environmental considerations, gender and development, benefit monitoring and evaluation, formulation and implementation of loan covenants, incorporation of social dimensions in ADB operations, involuntary resettlement, and project administration instructions on change in project scope.[39]

52. With the resumption and escalation of armed conflict in the North and East since 2006, the implementation of several projects with infrastructure and road components has been adversely affected.[40] The effects of heavy fighting in the North and East have hampered project implementation

[36] New detailed designs had to be prepared in one or more cases. A related problem was seen by RDA in different consultants being engaged for feasibility studies, engineering, and construction supervision.

[37] (i) ADB. 1989. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for the Institutional Strengthening of the Road Development Authority*. Manila (TA 1110-SRI, for $575,000, approved on 17 January 1989).
(ii) ADB. 1995. *Improvement of Contract Approval and Implementation Procedures*. Manila (TA 2433-SRI, for $100,000, approved on 26 October 1995 [and a supplementary TA for $20,000, approved on 10 October 1996]).
(iii) ADB. 1997. *Improvement of Project Implementation in Sri Lanka*. Manila (TA 2745-SRI, for $45,000, approved on 7 January 1997).
(iv) ADB. 1997. *Technical Assistance to the Democratic Socialist Republic of Sri Lanka for Establishing the Sri Lanka Tender Support Bureau*. Manila (TA 2950-SRI, for $1 million, approved on 12 December 1997).
(v) ADB. 1998. *Reengineering of Road Sector Institutions*. Manila (TA 3110-SRI, for $640,000, approved on 8 December 1998).

[38] The requesters claimed that the *Report and Recommendation of the President to the Board of Directors for the Southern Transport Development Project* was for a trace known as the Combined Trace, and at least 40% of the Combined Trace had been altered to form the Final Trace for which the required studies and consultations had not been conducted according to ADB policies. The requesters claimed to be suffering from harm, including loss of homes, loss of livelihoods, damage to the environment, degradation to wetlands, dispersion of integrated communities, damage to five temples, negative effects of resettlement, and human rights violations.

[39] (i) CRP. 2005. *Final Report to the Board of Directors on CRP Request No. 2004/1 on the Southern Transport Development Project in Sri Lanka*. Manila.
(ii) CRP. 2006. *Annual Monitoring Report 2005–2006 to the Board of Directors on CRP Request No. 2004/1 on the Southern Transport Development Project in Sri Lanka*. Manila.

[40] These are the North East Community Restoration and Development family of projects:

progress in a number of ways. Road infrastructure and various facilities (including schools and hospitals) have suffered from collateral damage due to the war. Travel restrictions, rerouting of road traffic, checkpoints, and security inspections have restricted access to conflict-affected areas. This has restricted the transportation of people, building materials, and supplies. The government embargo on a number of construction materials and the general restrictions on transportation are major obstacles to project implementation. Further, the spiraling costs, scarcity of building materials, rising risk premiums, and the declining number of contractors willing to work in conflict-affected areas have posed serious barriers to project implementation under the prevailing climate. Thus, the effects of war have reduced the feasibility of implementing projects. Under the road component of the Conflict Affected Areas Rehabilitation Project, unit cost escalations have forced vast reductions in the total lengths of roads that can be rehabilitated within the available budget. In many cases, tenders were issued for extended periods but with limited response from contractors.

D. Assessment of ADB's Sector Strategy and Assistance Program

53. The overall rating of the program in the transport sector was "successful". The program was considered highly relevant, effective, efficient, and its sustainability likely (bordering on less likely). The assessment covered 12 loan projects and 9 TA projects. The loan projects included 5 completed projects and 7 ongoing projects in the transport sector proper, and in sectors and areas having a substantial portion of transport, mostly road projects. Ongoing projects were evaluated based on quality-at-entry indicators culled from reports and recommendation of the President and available project administration indicators. Assessment of ongoing projects must be considered as tentative. A summary of the evaluation is presented in Table 6.

Table 6: Performance Rating of ADB Assistance and Strategy to the Road Sector

Rating	Relevance	Effectiveness	Efficiency	Sustainability	Impact	Overall Rating
Score	3	4	2	4	4	17
Rating	Highly Relevant	Effective	Efficient	Likely	Substantial	**Successful**

ADB = Asian Development Bank.
Notes: (i) Relevance: highly relevant (3 points), relevant (2 points), partly relevant (1 point), irrelevant (0 point).
(ii) Effectiveness: highly effective (6 points), effective (4 points), less effective (2 points), ineffective (0 point).
(iii) Efficiency: highly efficient (3 points), efficient (2 points), less efficient (1 point), inefficient (0 point).
(iv) Sustainability: most likely (6 points), likely (4 points), less likely (2 points), unlikely (0 point).
(v) Impact: high (6 points), substantial (4 points), modest (2 points), negligible (0 point).
(vi) Overall rating: highly successful (20 points and above), successful (16−19 points), partly successful (11−15 points), unsuccessful (10 points or less).
Source: ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila. Available: http://www.adb.org/Documents/Guidelines/Country-Assistance-Program/default.asp

---

(i) ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Democratic Socialist Republic of Sri Lanka for North East Community Restoration and Development Project*. Manila (Loan 1846-SRI).
(ii) ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Democratic Socialist Republic of Sri Lanka for North East Community Restoration and Development—Extension Project*. Manila (Loan 2084-SRI).
(iii) ADB. 2005. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Grants to the Democratic Socialist Republic of Sri Lanka for the Tsunami-Affected Areas Rebuilding Project and the North East Community Restoration and Development Project II*. Manila (Loan 2168-SRI).
(iv) ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Democratic Socialist Republic of Sri Lanka for the Conflict Affected Areas Rehabilitation Project*. Manila (Loans 2043/2044-SRI).
(v) ADB. 2005. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Grants to the Democratic Socialist Republic of Sri Lanka for the Tsunami-Affected Areas Rebuilding Project and the North East Community Restoration and Development Project II*. Manila (Loan 2167-SRI).

54. **Relevance.** ADB's assistance to Sri Lanka's transport sector was assessed "highly relevant". Projects and TAs have consistently responded to critical sector needs and have addressed physical, institutional, and policy constraints.[41]

55. **Effectiveness.** The assistance program in the transport sector was assessed "effective". This result is supported by the project completion reports for the completed projects. In almost all road projects, the expected outcomes were reduced user costs, improved accessibility and connectivity, and broad social and economic benefits to the poor. While the projects have certainly contributed to the expected outcomes, the outcomes have in many cases fallen short of expectations. One frequent reason was the reduction in project scopes caused by either delays in implementation, cost overruns, and the security situation. In many projects, a combination of these factors has reduced the effectiveness of projects. TA performance has been mixed. One TA, the improvement of passenger transport services, was ineffective because of its failure to deliver an outcome. Another TA, reengineering of road sector institutions, was subsequently undermined by absorptive capacity constraints, lack of ownership, and inappropriate follow-up actions. TA efforts to establish PPP for railways were impeded by the lack of political will, and an operating environment that did not support reforms.

56. **Efficiency.** The assistance program was assessed "efficient". The key indicator for project efficiency is the economic internal rate of return (EIRR) of the projects. Most of the road projects were to rehabilitate existing roads, rather than construct new ones. Road rehabilitation projects are known to be robust in terms of their economic viability. In Sri Lanka, all road rehabilitation projects financed by ADB yielded EIRRs above 18% and their robust economic viability was confirmed by reevaluations through project completion reports and one project performance audit report (Table 7).

Table 7: Estimated Economic Internal Rates of Return of Selected Road Projects

Loan Number	Project Name	Per RRP	Per PCR	Per PPAR
0753	Trunk Road Improvement Project	31.6	29.1	n. a.
0864	Second Road Improvement Project	22.5	20.3	17.1
0865[a]	Emergency Road Restoration Project	35.0	—	—
1312	Third Road Improvement Project	25.9	29.5	—
1567	Southern Provincial Roads Improvement Project	18.2	18.6	—
1649	Road Network Improvement Project	23.6	—	—
1711	Southern Transport Development Project	14.5	—	—
1986	Road Sector Development Project	26.1	—	—
2217	National Highways Sector Project	18.2	—	—

EIRR = economic internal rate of return, — = not available, RRP = report and recommendation of the President, PCR = project completion report, PPAR = project performance audit report.

[a] The project employed broad economic analysis. No formal survey was conducted. Vehicle operating costs and benefits were derived from the economic appraisal of Loan 864-SRI: Second Road Improvement Project.

Source: Various reports and recommendation of the President, project completion reports, and project performance audit reports.

57. The assumptions for the ex-ante appraisal estimates of EIRRs and the economic reevaluations were reasonable and justified. The recalculated EIRRs were in almost all cases higher than 18%, which is usually considered the threshold for a highly efficient rating. Notwithstanding

[41] The Emergency Road Restoration Project was an exception because the project included components that had not been affected by the civil strife. The project largely served the purpose of providing contracts to the newly established RCDC. A major portion of the contracts were awarded directly without prior bidding under the pretext that only RCDC as a government-owned company could mobilize to project sites located in still unstable regions.

the positive project ratings, the assistance program could have been more efficient. Efficiency was compromised by problems encountered during project implementation. Long implementation delays, cost overruns, and reductions in project scope have contributed to higher economic costs and efficiency reduction.

58. **Sustainability.** Overall, the sustainability of the outcomes derived from ADB's sector assistance is considered "likely". Risks and future challenges lie in reliable funding for maintenance, maintenance management, and skills and institutional capacity. The creation of the road maintenance trust fund can enhance the sustainability of existing road infrastructure. In 2006, the Government provided more than $30 million for road maintenance, representing 75% of the full requirement. The amount allocated to road maintenance was based on current road conditions, and according to a current plan, this would be increased to achieve a fully maintained network by 2010. RDA has completed a comprehensive road network survey and put a pavement management system in place, which will help prepare need-based annual road maintenance programs. New investments in infrastructure must take into account their requirements for maintenance. Given tight budgetary constraints, the demand for government counterpart funds for externally-funded infrastructure projects competes with and crowds out maintenance funds. Externally-funded projects may exacerbate funding scarcity for maintenance, when the overall balance for maintenance, rehabilitation, and new investments is overlooked. Another risk is the inadequate institutional capacity for carrying out maintenance of lower level roads that are maintained by local authorities. These risks are manageable, and they can be mitigated with measures to strengthen capacity and funding for maintenance. Given the long-term nature of capacity development, TA sequencing and duration must be harmonized with the requisites for change, management of change, reform processes, and follow-up actions. TA grants would have had more lasting effects if they had been more focused and sequenced with longer implementation schedules. Several TA initiatives had not made much progress beyond their analyses and recommendations. Implementation of TA recommendations has been curtailed by policy changes, lack of political will and ownership, changes in government, and implementation feasibility constraints (such as resource requirements) of the TA recommendations.

59. **Impact.** The contribution of ADB's assistance over the last two decades is "substantial", based on a four-category scale of high, substantial, modest, and negligible. For still incomplete projects, this assessment needs to be substantiated later once the projects are completed. Four projects[42] had rehabilitated, upgraded, and improved 1,265 km of national roads (nearly 11% of the length of national roads of Classes A and B). Some sections of the improved roads were inspected by the Operations Evaluation Mission and, after about 10 years in operation, were found to be in good condition. The expected impacts in terms of efficiency gains and cost savings have been achieved. Adequate levels of traffic have used the completed roads and traffic growth reflects economic growth. Vehicle operating costs and travel times were reduced and transport services improved.

---

[42] ADB. 1985. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and a Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Trunk Roads Improvement Project*. Manila (Loan 753-SRI); ADB. 1987. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and a Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Second Road Improvement Project*. Manila (Loan 864-SRI); ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance to the Democratic Socialist Republic of Sri Lanka for the Third Road Improvement Project*. Manila (Loan 1312-SRI); and ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Road Network Improvement Project*. Manila (Loan 1649-SRI).

60. Evaluation case studies[43] in Sri Lanka covering the Southern Provincial Roads Improvement Project (Loan 1567-SRI) indicated that rural roads contributed to (i) income generation, as farming and other forms of employment are closely tied to access to roads and transportation; (ii) creation of employment options, as roads and transportation have enabled households to engage in mobile trading as part of their occupation choices in thriving rural markets; (iii) improvement of quality of life, as roads reduced physical isolation, and increased aspirations of the communities in the context of increased connectedness; (iv) improved access to health services; and (v) increased social capital. These case studies, documented the benefits of rural roads in a broad context of rural livelihood and quality of life. The poor benefited from rural roads through access to state services in areas such as health, education, agricultural extension, and provision of information. Roads allow regular contact with the outside world and such improvements reduce the perception of isolation and remoteness among the poor and very poor.

61. The impact of advisory TA grants on institutions is difficult to discern. The majority of these TA grants were targeted at RDA. The impact of earlier TA grants that attempted to improve contract management has been negligible, primarily because of significant staff mobility and turnover. ADB's long and persistent policy dialogue had led to the closure of the state-run RCDC, ending its monopoly and increasing the share of the private sector's participation to 95% of domestically-funded road works. The most significant outcome of ADB assistance on sector capacity development was a change in the institutional and policy environment which are most notably manifest in the creation of the road maintenance trust fund which offers a solution for the chronic problem of maintenance financing. This achievement is not attributable to ADB alone and came only after an almost 20-year long dialogue. Nevertheless, the road maintenance trust fund has generated a contentious issue from the viewpoint of public revenue and expenditure management, primarily because of the earmarking of tax proceeds from the sale of gasoline and diesel for road maintenance. This earmarking only represents a fraction of the public revenues accruing from road transport. The trust fund is an interim option for financing road maintenance that ADB has supported. The World Bank also supported the implementation of the road maintenance trust fund through the Road Sector Assistance Project (approved in December 2005).

E. ADB's Performance in the Sector

62. ADB's performance in the sector has different dimensions. Specifically, this performance should be measured in terms of ADB's (i) responsiveness to sector challenges, particularly as to which challenges were and were not responded; (ii) client orientation and the cost involved for the client to do business with ADB; and (iii) meeting its declared objectives and policies. Overall, ADB has responded well to evolving challenges and priority needs of the transport sector. Sri Lanka is a road-dependent country and ADB's focus on roads was responsive and well-positioned. Nevertheless, ADB has, time and again, highlighted the economic inefficiencies and resource wastages in the railway sector. In hindsight, given the comprehensive view ADB has taken on the sector as a whole, a more active approach by ADB to address intermodal transport issues including railways would have lent greater credibility to ADB's policy dialogue.

63. In the case of the Southern Transport Development Project, ADB's performance has been tarnished by noncompliance with its own operational policies. However, as deplorable as the case might have been, ADB's compliance review procedures have proven to be transparent and effective, and have enabled ADB and stakeholders to address the reported noncompliance.

---

[43] ADB. 2002. *Impact of Rural Roads on Poverty Reduction: A Case Study-Based Analysis*. Manila. Available: http://www.adb.org/Documents/IES/Regional/ies-reg-2002-15/rural-roads.asp

F. Identified Lessons

64. Lessons identified in the transport sector reside at different levels. Institutions and policies are marked by a high degree of uncertainty, posing risks to projects. Despite frequent institutional changes and restatements of policies, there has been little progress in policy and institutional development. Specifically, frequent reorganizations and redistributions of government portfolios have had no discernible impact on sector progress. The transport sector over the last two decades has recorded a multitude of strategy and policy announcements without substantial effort to translate the announcements into actions and effective implementation to achieve stated objectives.

65. Governance issues have been related to (i) the overall management of the sector, (ii) the ways the railway sector are organized and operated, (iii) policy changes regarding corporatization of port facilities, and (iv) impediments to greater participation of the domestic private sector in the road contracting industry as evidenced by the duration RCDC was allowed to operate for a remarkably long time. In view of the complexity and the political economy contexts of these problems, ADB's project-cum-policy dialogue approach has not been effective with respect to creating a more efficient policy environment. The pending reform agenda is formidable, requiring attention to improvement of policies and sector institutions. Policy and institutional reforms require strong political will and country ownership, and externally-driven initiatives are highly unlikely to succeed.

66. Country ownership and political will for policy development and its associated reform agenda are requisites for which ADB assistance cannot serve as a substitute. Advancing policy and institutional changes in the country requires champions and coherent support from within the country. An important lesson for ADB is that policy initiatives can take a long time to materialize, and such initiatives require sustained support and long-term assistance. Externally imposed reforms, no matter how logical and reasoned they might have been, can encounter serious opposition in their implementation given the country's political economy contexts. A complex political and social structure, combined with civil strife, and a strong commitment to a welfare state, has made it difficult for many successive governments to push through unpopular but necessary decisions for structural change.[44] Economic and financial analyses (that illustrate the costs of not reforming) alone does not provide a sufficient basis for the required changes to take place. Change processes and management of change include the necessity for understanding the reasons for resistance and support, and ways for overcoming impediments.

67. At the project level, appropriate lessons need to be drawn from the consistent efficiency losses that had been incurred by almost all ADB loan-financed projects in the transport sector. Most of the losses were attributable to implementation delays that, in turn, had a variety of underlying causes. The capacity of institutions to plan and implement projects has declined over the years. RDA in the mid 1980s was created with the prospect of being autonomous, more flexible and able to attract and retain qualified staff. This expectation has not materialized as evidenced by the departure of many qualified staff without appropriate replacements. Without an improvement in the incentive and reward system, recruitment and retention of qualified staff will be difficult. The capacity of institutions depends on their organizational arrangements, operating systems, and available resources, including human resources. There are significant risks facing the absorptive capacity of executing agencies. The current load of projects being implemented in parallel has overstretched the existing capacity of executing and implementing agencies. Options and choices for project implementation units should be considered carefully to avoid any disconnect between project implementation and the overall roles and functions of the executing agency. ADB should encourage the use of project implementation units that

---

[44] ADB. 2006. *Asian Development Outlook: Sri Lanka*. Manila.

are staffed fully by the executing and implementing agencies themselves.[45] In cases where externally staffed project implementation units are considered more efficient, the risk that they would undermine the executing agency's roles and project management capacity needs to be assessed as a standard practice and mitigated. While measures through the road project preparatory facility are aimed at increasing the preparedness of investment projects by accelerating project preparation at the preconstruction stage, consideration should also be given to the implications of the investment pipeline on institutional capacity and resources to avoid bottlenecks in implementation.

G. Future Challenges and Opportunities

68. The efficiency of Sri Lanka's transport sector is impeded by a variety of constraints that include institutions, policies, and the delivery of infrastructure and services. Sri Lanka depends on foreign trade to some extent, and in the context of the global economy, transport efficiency and competitiveness matter. Globalization of trade has risen not only from the liberalization of trade, but also from major advances in communications, transport, and storage technologies. These advances center on the management of logistics to achieve cost savings in inventory and working capital and to respond more rapidly to customer demand.[46] Just-in-time delivery of products has become the norm in many countries. Without exception to Sri Lanka, movement of people, and transportation of factors of production, semi-finished goods, and manufactured products will require efficient transport services. The country needs greater transport connectivity to effectively link rural areas with national roads and urban areas.

69. There are several interrelated challenges facing the transport sector: (i) fragmented planning and policy formulation responsibilities with multiple ministries and agencies; (ii) poor intercity and urban mobility; (iii) the need for innovative financing schemes to afford the construction of intercity expressways in strategic transport corridors; (iv) the complex railway sector problems that need to be addressed to arrest the vicious circle in which the railway sector has been trapped over a long time; and (v) current institutional and governance constraints that impede efficient delivery of transport infrastructure and services.

70. Development challenges offer opportunities for institutional reorganization, restructuring, and streamlining, including review of overall mandates, roles, and functions of existing institutions for repositioning. Efficiency gains would accrue not only from a leaner administration, but more importantly from consistent policies that keep overall economic and social concerns in view, instead of accommodating the narrow interests of subsectors and their institutions. Specifically, consolidation of decision and policy making would help to address intermodal transport issues that have become increasingly important. However, the political contexts of democratic Sri Lanka, and the experience to date with the creation of ministries and agencies to accommodate political objectives of successive governments, indicate that the consolidation of institutions into a single transport ministry will be a formidable task that cannot be accomplished without strong political will. The cabinet reshuffle that took place on 28 January 2007 has increased the number of ministries involved in the transport sector. This will bring new challenges to the transport sector in terms of intermodal issues, integration of planning, and implementation for more effective and efficient transport sector.

71. Investment requirements for intercity expressways and urban transport are large, and the public sector has limited capacity to finance these investments on its own. The Government has limited capacity to finance public investments. It needs to consider PPP options for financing future

---

[45] ADB. 2005. *Special Evaluation Study on Project Implementation Units*. Manila.
Available: http://www.adb.org/Documents/Reports/Evaluation/sst-reg-2005-02/ses-pius.asp

[46] Management of logistics includes purchasing, production, and marketing functions.

infrastructure investments. To date, ADB-supported initiatives to promote PPP in road development has generated limited success. TA initiatives (TA 4178-SRI) to develop a model PPP project for the Colombo-Katunayake Expressway did not materialize. This TA was intended to provide advice on (i) the requirements for private sector participation in expressways in terms of financing, constructing, operating, and maintaining; and (ii) the financial structures required to secure public and private sector investment. However, the general elections in Sri Lanka (April 2004) and subsequent policy events led to a reconsideration of the PPP project due to changes in the priority of the new government.[47] Nevertheless, ADB support for the promotion of PPP has continued. By March 2007, the Ministry of Highways and Road Development had requested ADB to support preparation of road rehabilitation with PPP arrangements. Promotion for greater awareness of PPP options for the transport sector should continue, and consensus on the relevance and application of PPP approaches needs to be reached among government agencies and stakeholders in Sri Lanka. For example, ADB policy dialogue with the Government has led to government acceptance to adopt the PPP approach for the Colombo Port Expansion Project. From the perspective of public finance, the involvement of the Ministry of Finance and Planning in identifying, planning and designing PPP arrangements is crucial. Ultimately, the Government will need to consider the overall feasibility and acceptability of the provision and contributions of public finance to the PPP modes of investments and operations. This includes considerations of the costs and terms of financing from both public and private sources. Further, the investment climate and the enabling environment for PPP investments will continue to influence the interest of the private sector in investing in the country.

72. Claiming any causality or attribution of effects in relation to individual ADB-financed TA initiatives is not warranted, given the long periods for the uptake of recommendations and the continuing presence of external assistance from development partners. Requirements for institutional preparedness for change, management of change, and the time needed to generate outcomes in the transport sector were underestimated in the context of the Sri Lankan political economy. Four things need to be recognized: (i) the long-term nature of capacity development; (ii) the relevance of TA sequencing; (iii) the importance of recognizing the requisites for change; and (iv) the need for continuous involvement long after TA is completed to ensure that knowledge is not lost, and appropriate follow-up actions are undertaken and harmonized with subsequent initiatives. To cope with the challenges ahead, the transport sector requires increased institutional capacities on a sustainable basis. When the operating environment is conducive for capacity development, TA initiatives should focus on this aspect with a clear capacity development framework and a long-term perspective. Institutional procedures and incentive systems need to be in place to retain qualified staff over longer periods.

[47] ADB. 2006. *Major Change in Scope: SRI: Capacity Building for Financial Management of Road Projects* (formerly Public-Private Partnership Expressway Project). Manila. ADB was informed on 12 May 2005 by the Government that ADB's support for the Colombo-Katunayake Expressway related investment component of the TA was no longer considered necessary. With a change of scope (January 2006), the remaining TA resources were diverted to capacity development for financial management of road projects.

POSITIONING/COHERENCE OF ASIAN DEVELOPMENT BANK'S TRANSPORT SECTOR STRATEGIES IN SRI LANKA

Positioning Criteria	1988 Country Strategy	CAPE Period		
		1993–1997 Country Strategy	**1998–2003 Country Strategy**	**2004–2008 Country Strategy**
Basis for the sector strategy	• The formulation of the sector strategy was guided by the Special Aid Group meeting for Sri Lanka in 1987, which mainly focused on the reconstruction and rehabilitation program of the Government.	• Strategy for the sector was principally shaped by ADB's coordination with major development partners. • Lessons from evaluation studies were used to some extent in the transport sector.	• The formulation of the strategy employed ETSW and drew from studies by development partners (Transport Sector Strategy Study by the World Bank and UNDP in 1996), evaluation studies of ADB's Operations Evaluation Department, workshops and bilateral discussions, and forums with other development agencies.	• The sector strategy was based on ETSW, poverty assessments, policy dialogues, consultations with stakeholders, and coordination meetings with other development agencies.
Government absorptive capacity and ownership	• The strategy recognized the Government's budgetary constraints, which could potentially limit the availability of counterpart funding for ADB-funded projects. • The strategy also acknowledged the institutional and human resource constraints that might inhibit the effective implementation of projects, and limited sector capacity to absorb development assistance. • Ownership of reform agenda in the transport sector was not directly addressed in the strategy.	• The 1993 strategy recognized obstacles presented by the country's current account deficit, savings-investment gap, and budget deficit which affected Sri Lanka's capacity for public investments. • Ownership of the sector agenda was not directly addressed in the strategy.	• The strategy recognized the limited absorptive capacity of the country and sector institutions. In view of the country's external debt and goal of trimming the fiscal deficit, and the security and conflict situations (North and East) which was seen as a major risk in the implementation of the sector strategy, the overall country strategy suggested caution. • The strategy, as a whole, was prepared in close cooperation with a government focal point group. Consultations were done through workshops with government and non-government	• The 2004 strategy acknowledged that capital contributions to development projects from domestic government revenue would be limited. Thus, the crucial role of external financing was considered critical in the funding of physical infrastructures and also in support for institutional and policy reform. • Ownership of the overall development plan was demonstrated in the process of country strategy and program preparation. Accountability and ownership was

Positioning Criteria	1988 Country Strategy	CAPE Period 1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
			representatives, and through discussions.	established through consultations, dialogues, fora, and agreements leading to the formulation of the CSP.
ADB's comparative advantage in the sector and harmonization of sector strategies with other development partners	• There was no direct reference to ADB's comparative advantage in the transport sector. • In terms of aid coordination, the strategy underscored close liaison with World Bank and IMF both at the macro and sector and project levels.	• The 1993 strategy emphasized ADB's comparative advantage in physical infrastructure. • Japan (through OECF) has emerged then as a major donor in the road sector. ADB liaised closely with OECF to maximize coordination of their respective initiatives and to explore cofinancing activities. • The strategy recognized the potential leading role that ADB could play in policy formulation, institutional strengthening, and improvements in the capacity and efficiency of both primary and secondary roads.	• The strategy highlighted ADB's extensive involvement in the sector since 1985. • Given the gradual withdrawal of the World Bank in the mid-1990s from lending and policy dialogue at the sector level, and the differing focus of bilateral funding agencies on the investment components of transport projects, ADB then became the lead agency engaged in policy dialogue in the sector. • Among the bilateral funding agencies, the strategy identified Japan as a potential and significant partner for cofinancing or parallel financing operations, which could provide greater leverage to ADB's policy dialogue.	• The strategy recognized ADB's leadership in the transport sector, particularly as the largest funding agency to the road sector in Sri Lanka. • ADB's presence in policy dialogues, and its provision of advisory technical assistance have paved the way for the formulation of policies and development framework for the sector (i.e., national road policy) • The strategy stressed the importance of aid coordination with other major funding agencies, with regard to their geographic coverage and scope to avoid duplication of efforts and to maximize the impact of external assistance.
Focus/selectivity and synergies:				
(i) Issues/challenges addressed	• The overall strategy highlighted the problem of financing and	• The strategy recognized that Sri Lanka's physical	• The strategy identified key issues in the sector including (i) low cost	**Roads and Road Transport** • The strategy identified the critical needs in the sector

Positioning Criteria	1988 Country Strategy	CAPE Period		
		1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
	implementation of the program for reconstructing and rehabilitating economic and social infrastructure in the North and East following the signing of the Indo-Sri Lanka peace accord in 1987. • Main issues identified were poor condition of the road network, particularly in the conflict-affected areas, and the poor performance of sector institutions.	infrastructure was inadequate and its management weak. • In the road sector, areas outside of Greater Colombo suffer from poor serviceability which deters potential growth of economic activities. • Poor management has played a major role in the delayed construction and inadequate maintenance of Sri Lanka's roads and other physical infrastructures. Attention was needed for improving the efficiency of existing capacity. • Private sector participation in road maintenance would be explored, as well as the establishment of regulatory mechanisms to oversee private sector involvement.	recovery for roads, (ii) the frail financial position of bus transport services, and (iii) large investment requirements. • Meanwhile, telecommunications was considered to be in need of expansion. • Container-handling capacity in the port of Colombo was recognized to be needing expansion in view of the rapid expansion of transshipment services, resulting in increased average vessel waiting and berth times.	including (i) sufficient road maintenance; (ii) improvement and rehabilitation of deteriorated roads; (iii) construction of expressways connecting major cities to accelerate economic growth; (iv) improvement of bus transport services; (v) development of nationwide road network master plan to define the most efficient core network, and to assess the nationwide needs on road investment; and (vi) private sector participation in designing, constructing, operating, and maintaining the road network. **Ports** • Major development challenges for ports include (i) low labor efficiency and productivity at the Colombo Port, (ii) slow bureaucratic procedures not just at the port authority but also at customs, (iii) lack of infrastructure capacity at Colombo Port, and (iv) limited participation of the private sector.

Positioning Criteria	1988 Country Strategy	CAPE Period 1993–1997 Country Strategy	CAPE Period 1998–2003 Country Strategy	CAPE Period 2004–2008 Country Strategy
(ii) Sector focus	• In view of the emphasis given to the reconstruction and rehabilitation program, sector intervention would be focused on the North and East. • In terms of the nature of intervention, more attention would be given to rehabilitation and maintenance rather than new construction and augmentation of capital assets such as roads. This element of the sector strategy was consistent with the policy direction of the Government at the time.	• In the area of physical infrastructure, the major strategic choice was not much concerned about the choice of subsector to support but on which areas of the country to focus. The strategy recognized that since Colombo was better served than other parts of the country, assistance and interventions would be focused on regions outside Colombo. The Southern region, which was underdeveloped and relatively isolated, was targeted as an area to consider for physical infrastructure development. • For the conflict-affected areas of North and East, though in obvious need of infrastructure rehabilitation, the risks associated with war damages did not warrant extensive investments in the region. • Issues that were considered important for policy dialogues included (i) project	• Strengthening sector policies and institutions, and involvement of all levels of the network in the roads sector received priority, given the importance of roads in linking the domestic economy and promoting the decentralization of economic opportunities. • The emphasis for ADB operations was on key corridors emanating from Colombo and on establishing modalities of operation and private sector involvement, such as contracts for construction and maintenance that can be replicated in sector activities financed by the Government and other funding agencies. • Given the role played by other bilateral and multilateral funding agencies, and the difficulties in promoting policy reforms, no direct involvement was envisaged for railways.	**Roads Sector** • The strategic thrust of sector operations in the medium term would be on the overall improvement in sector performance. ADB's assistance for reform processes would be provided in a comprehensive/ programmatic manner, based on an agreed medium- and long-term framework, to emphasize national ownership of reform processes. • ADB would explore possible PPP arrangements in developing expressways. • Considering the large amount of investment requirement in the medium term, there was a need to provide project preparatory facility to assist the Government in preparing projects ready to be financed by funding agencies, development partners as well as private investors. **Ports** • The strategy is to (i) enhance private sector

Positioning Criteria	1988 Country Strategy	CAPE Period 1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
		implementation efficiency, (ii) development of domestic contracting industry, (iii) enhancing the capacity of RDA, (iv) road maintenance, and (v) road safety.		development through promotion of an enabling environment for private sector activities, and (ii) facilitate private sector investment through PPP and direct investment in private companies.
(iii) Instruments used to address challenges	• For interventions in the transport sector, lending would continue to be a major instrument, along with continued coordination with other development partners involved in the sector. • There was no reference to any economic and sector work for the transport sector.	• In terms of operational modalities, the strategy enumerated program and sector lending, advisory TA, economic/sector work, and policy dialogues as important features of ADB's intervention in the medium-term, to be supported by appropriately directed project loans.	• Lending will continue to be a major instrument of ADB operations in the sector. There would be increasing sector loan modality in the case of investment projects to make it possible to design loans of adequate size and policy relevance. • Cofinancing would be pursued more aggressively in the sector to ensure critical mass of ADB operations. • Advisory TA projects at the sector level would continue to focus on strengthening policy and institutions and the legal and regulatory framework in sectors where ADB could play a lead role, such as roads. • The strategy also emphasized the need for more economic and sector work to assess the constraints to private sector development and involvement in	• As a large number of projects in the road sector are to be financed, ADB would assist by financing a part of the required investment through sector loan modality. The sector and programmatic approach was envisioned to bring together ADB's interventions for the road sector, creating an opportunity to link the financing of successive projects to the implementation of a common medium-term reform agenda. Continuing policy dialogue and assistance in creating a sustainable road maintenance financing mechanism and private sector participation were also seen as important keys toward sustainable road sector development.

Positioning Criteria	1988 Country Strategy	CAPE Period		
		1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
			infrastructure and utilities.	
Coherence of issues, focus, and instruments	• The strategy was reasonably coherent although it was narrowly focused on physical improvements because of World Bank's predominance at the policy front.	• The strategy was well-positioned to address sector needs beyond physical rehabilitation of the sector's asset base. However, it was less coherent on how ADB could improve the policy environment in which the sector was functioning.	• Based on the analysis of key sector challenges, constraints, and aid harmonization efforts, the sector strategy was reasonably coherent in its choice of issues, sector focus, and instruments.	• On the basis of the analysis of the key challenges in the sector and identification of lessons from previous interventions and effects of ADB assistance, the sector strategy was considered coherent in terms of its choice of issues, sector focus, and instruments.
Long-term continuity of the sector strategy	• Continuity was not directly mentioned but the emphasis given on the inadequacy of physical infrastructures and the poor conditions of a large portion of the country's physical assets provided impetus for continued intervention in the transport sector.	• In the road sector, continuity was observed because roads were acknowledged as key to linking poor and isolated regions to major development centers, although continuing focus on geographic areas of planned interventions under the strategy was not directly addressed.	• The sector strategy proposed continuing intervention in light of ADB's comparative advantage in the sector and the analysis of the needs and challenges in the transport sector.	• The 2004 strategy stressed the large investment requirements in the sector as well as significant gaps in reforms and policy initiatives. ADB has been playing a dominant role in the provision of investments, policy dialogues, and TA. Hence, ADB's presence in the sector was regarded as likely to continue into the next strategy period.
Risk assessments and monitoring mechanisms to achieve the sector strategy's envisaged results	• Risks were identified on a macro-level but there was not sufficient evidence of analysis of risks at the sector level. • Monitoring mechanisms were not addressed in the	• Risks pertaining to macroeconomic conditions such as the country's current account deficit, inflation, and budget deficits were identified. No specific risks were	• The strategy identified risk factors for the country as a whole. It did not address risks that were specific to the transport sector. • Nevertheless, the strategy highlighted monitoring at two levels: (i) at the risk	• Several risks were identified for the country as a whole including (i) continued politicization of reform agenda, (ii) resurgence of civil conflict, (iii) occurrence of external shocks that could

Positioning Criteria	1988 Country Strategy	CAPE Period 1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
	strategy.	identified for the transport sector.	level, to allow adjustments to ADB operations when warranted by changing domestic or international circumstances to mitigate their negative impact or take advantage of the opportunities they create; and (ii) at the sector level, to focus on operations and improvements brought about by sector interventions. Country economic reviews and annual sector reviews were the primary monitoring mechanisms cited in the strategy. • The strategy for the transport sector emphasized that the strategy's success would be based on whether the proposed reforms would have been implemented, and that sector institutions would be adequately equipped with institutional, human, financial, and technical resources. It would also depend on the implementation performance of all ADB-financed transport development investments.	lead to dampened domestic economic conditions, (iv) possibility of failings internal to ADB which may reduce the impact and efficacy of the strategy, and (v) risk associated with the impact of proposed reforms on the poor which is considered unsettling. • These risks were identified for the whole strategy but no specific risks were identified for the sector. • The monitoring and evaluation of the achievements in the Government's poverty reduction strategy program was planned to be conducted through the process of an annual update of CSP. • Particular efforts would be made to assess in qualitative terms if not quantitative, the local impact of ADB's poverty-reduction projects. • At the sector level, several benchmarks would be used to monitor sector performance including the accomplishment of policy and institutional reform action plans; the extent of

Positioning Criteria	1988 Country Strategy	CAPE Period		
		1993–1997 Country Strategy	1998–2003 Country Strategy	2004–2008 Country Strategy
				private sector participation; as well as the improved road conditions, bus transport services, and road safety.
Overall Rating		**OEM Rating: S**	**OEM Rating: S**	**OEM Rating: S**

ADB = Asian Development Bank; CAPE = country assistance program evaluation; CSP = country strategy and program; ETSW = economic, thematic and sector work; HS = highly satisfactory; IMF = International Monetary Fund; OECF = Overseas Economic Cooperation Fund; OEM = Operations Evaluation Mission; PS = partly satisfactory; PPP = public-private partnership; RDA = Road Development Authority; S = satisfactory; TA = technical assistance; US = unsatisfactory; UNDP = United Nations Development Programme.

Note: HS = 3 points, PS = 2 points, S = 1 point, and U = 0 point. An equal weight is applied to each of the six criteria for positioning and coherence. The ratings are as follows: (i) HS > 2.5, (ii) 2.5 ≥ S ≥ 1.6, (iii) 1.6 > PS ≥ 0.6, and (iv) 0.6 > US.