



# Technical Assistance Report

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Transaction Technical Assistance (TRTA)  
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## Democratic Socialist Republic of Sri Lanka: Supporting Trade Logistics Facilitation

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 3 September 2018)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0061946
\$1.00	=	SLRs161.43000

## ABBREVIATIONS

ADB	–	Asian Development Bank
ECTS	–	electronic cargo tracking system
OECD	–	Organisation for Economic Co-operation and Development
RMS	–	risk management system
SLCD	–	Sri Lanka Customs Department
TEU	–	twenty-foot equivalent unit

## NOTE

In this report, “\$” refers to United States dollars.

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## I. THE PROPOSED PROJECT

1. **Rationale.** Colombo port, located in the northwestern edge of the city, is virtually Sri Lanka's only international port, handling 5.7 million twenty-foot equivalent units (TEUs) of container cargo in 2016. About 1.3 million TEUs of containers were destined for and originated from Sri Lanka, which is 25% of total containers handled. This figure will double to 2.5 million TEUs in 2030 with Sri Lanka's economic growth.<sup>1</sup> The constrained site location would force the great majority of freight vehicles exiting and entering the port to pass only through the main gate on a four-lane, ground-level port access road.<sup>2</sup> The existing port access road leads to an intersection with Baseline Road, which is one of the busiest trunk roads in the city.<sup>3</sup> The cargo trucks, mostly through-traffic to and from areas outside Colombo city, have no choice but to use the intersection, causing serious traffic congestion.<sup>4</sup> The limited access route to the port, together with the national highway network radiating out from Colombo, creates an unnecessary concentration of through-traffic in the congested city.

2. The Japan International Cooperation Agency is providing ¥35 billion for the New Kelani Bridge Project, which will support the construction of a new bridge and elevated access road on the Kelani River. The proposed project will support the continuation of this elevated access road.

3. The proposed South Asia Subregional Economic Cooperation Port Access Elevated Highway Project will construct about 5.3 kilometers (km) of an elevated toll highway in Colombo between the NKB and the city center of Galle Face through the Colombo port premises, and support trade logistics facilitation to provide better logistics services for port users.<sup>5</sup> It will provide a direct link from the city center and the port to the Colombo–Katunayake Expressway via the NKB with a modern toll collection system, and then constitute a part of the expressway network of Sri Lanka.<sup>6</sup> The project will help alleviate traffic congestion in the densely populated areas around the international port, and also improve logistics connectivity between the international gateway and potential economic hinterland along the expressway network, thereby increasing economic efficiency and competitiveness of the country.

4. The project is aligned with the following impact: economic growth and regional trade and cooperation of the country facilitated. The project will have the following outcome: transport efficiency along the project road increased.<sup>7</sup> The project is estimated to cost \$360.2 million. The government has requested a regular loan of \$300 million from ADB's ordinary capital resources to help finance the project.

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<sup>1</sup> Asian Development Bank (ADB). 2016. [Technical Assistance to the Democratic Socialist Republic of Sri Lanka for National Port Master Plan](#). Manila.

<sup>2</sup> The number of heavy trucks using the port access road was estimated at about 2,700 per day in 2017, and it will exceed 5,000 in 2030.

<sup>3</sup> About 300 freight vehicles per hour pass through Main Gate No. 6 (both directions) on Baseline Road during the daytime.

<sup>4</sup> The traffic origin–destination survey in Colombo port shows that less than 10% of the containers originate from and are destined to Colombo municipal council.

<sup>5</sup> The project will construct a dedicated ramp to the port for port-related traffic.

<sup>6</sup> Japan International Cooperation Agency (JICA). 2014. [Ex-Ante Evaluation: New Bridge Construction Project over the Kelani River](#). JICA is financing the NKB.

<sup>7</sup> The design and monitoring framework is in Appendix 1 of the report and recommendation of the President.

## II. THE TECHNICAL ASSISTANCE

### A. Justification

5. An envisaged benefit of the proposed project is to alleviate traffic congestion within Colombo resulting from movement of port-related traffic and limited connectivity with the national highway network. However, current trade logistics procedures, such as lack of a modern risk management system and other modern customs tools, combined with insufficient use of automated systems, lead to queuing of cargo traffic at the port and may also hinder the proposed project from realizing the intended economic and social benefits. In addition, movement of cargo to and from the custom examination yards, which have poor access, contribute to the congestion.

6. A comparison of Sri Lanka's performance on various indicators of trade facilitation shows that while it performs well compared with some of the countries in the region, it lags behind some of the Southeast Asian economies. Sri Lanka's average score on the Organisation for Economic Cooperation and Development's (OECD) Trade Facilitation Indicators is 0.99 compared with 0.78 for Bangladesh, 0.59 for Bhutan, 1.25 for India, 0.70 for Maldives, and 0.69 for Nepal in South Asia; and 1.13 for Indonesia, 1.27 for Malaysia, 1.75 for Singapore, 1.38 for Thailand, and 1.36 for Viet Nam in Southeast Asia.<sup>8</sup>

7. In recent years, the Sri Lanka Customs Department (SLCD) has introduced several measures such as risk management, a green lane program, and post-clearance audit to improve cargo clearance efficiency. However, these measures have not yielded the desired benefits as they have been implemented in a limited manner (and have not been given full effect in their implementation). As an example, risk management has been introduced, but the risk rules are written in such a manner that 80% of the consignments are targeted. Stakeholder consultations and an analysis of the situation indicate several areas that constrain efficiency gains in the customs sector, which include (i) inadequate use of modern customs tools, (ii) excessive documentation, (iii) insufficient use of automated systems, (iv) lack of a national single window and inadequate cooperation among border agencies, (v) absence of a port facilitation system, (vi) the need to improve the inland cargo clearance system, (vii) on-the-ground issues that slow down cargo movement, (viii) ill-equipped custom laboratories, and (ix) inadequate capacity.<sup>9</sup>

8. Consequently, the following activities need to be prioritized to realize the intended economic and social benefits of the proposed project: (i) improvements in risk management and development of a plan for a coordinated risk management system, and (ii) improvements in the inland cargo clearance system with the development of a new customs inspection facility at a different location and the use of an electronic cargo tracking system (ECTS) to secure the cargo during transit.<sup>10</sup>

9. **Risk management system.** A risk management system (RMS) is an important tool that can help Sri Lanka in facilitating legitimate trade while focusing on the areas posing higher risk,

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<sup>8</sup> OECD. [Data visualization for key OECD data](#) (accessed 14 May 2018). OECD's Trade Facilitation Indicators map into the various sections of the World Trade Organization's Trade Facilitation Agreement and were constructed to monitor the progress in implementation of the Trade Facilitation Agreement. Trade facilitation indicators range from a minimum of 0 to a maximum of 2.

<sup>9</sup> Please see detailed sector background (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

<sup>10</sup> An ECTS will enable regulatory authorities to track the movement of vehicles, cargo, and containers as well as the integrity of seals applied on the trucks or containers, in real time, to alleviate concerns on cargo and revenue security and provide complete shipment visibility for efficient management of operations.

and allocating resources efficiently. The SLCD has implemented an RMS using ASYCUDA World. However, the risk rules lead to a relatively high physical inspection rate—in 2015, about 77% of the customs declarations were taken up for examination. The inspection rate is also high since the other cross-border regulatory agencies check the consignments (such as quarantine and food safety). There is no concerted effort to coordinate inspections to minimize inconvenience to trade. The export consignments are also subject to a significant level of checks. There is, thus, a need to revisit the design of the risk assessment framework, standard operating procedures, monitoring and review mechanisms, and organizational resources. The TA will facilitate studies to review the current RMS in Sri Lanka, including the risk profiling and targeting criteria and its effectiveness, and recommend a suitable framework, standard operating procedures, monitoring and review mechanisms, better coordination among all relevant regulatory agencies in managing risk, and organizational resources to be applied to the management of risk.

10. **Inland cargo clearance system.** At present, there are multiple examination yards where the imported containers are transported for customs examination and clearance. Movement of cargo to and from these facilities along constrained routes contributes to congestion in Colombo. The SLCD allows movement of imported goods to customs bonded warehouses without payment of duty. Because of their non-duty-paid nature, the goods are moved under customs escorts from the port to the warehouses. The SLCD affixes seals on the containers for securing the cargo against any tampering or diversion while in transit. This system to move cargo to the custom examination facilities is not reliable. The seals are not tamper-proof and the devices do not help in live tracking of the vehicle movement or provide alerts on problems such as tampering or diversion. The integrity of seals is not known in transit, and they do not provide any shipment visibility. The TA will undertake a feasibility study for a new customs inspection facility and also conduct a study for the use of an ECTS to facilitate cargo movement. A trial run for the ECTS will also be carried out and a report will be prepared on the outcome.

11. The TA is not included in the country operations business plan, 2018–2020.<sup>11</sup> However, the proposed project, the South Asia Subregional Economic Cooperation Port Access Elevated Highway Project, is listed in the country operations business plan, 2018–2020 for approval in 2018. Support for improving the RMS and for developing a new customs inspection facility is in line with operational priorities identified under the South Asia Subregional Economic Cooperation Operational Plan’s strategic objective of enhancing trade facilitation.

## B. Outputs and Activities

12. The major outputs and activities are summarized in Table 1.<sup>12</sup>

**Table 1: Summary of Major Outputs and Activities**

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Output 1: Diagnostic studies on risk management system prepared and capacity building to improve risk management practices conducted	December 2019	1.1 Awareness raising training workshop for key stakeholders conducted by April 2019 1.2 Capacity building workshop for SLCD conducted by August 2019

<sup>11</sup> ADB. 2017. *Country Operations Business Plan: Sri Lanka, 2018–2020*. Manila.

<sup>12</sup> Output 3 of the SASEC Port Access Elevated Highway Project, i.e., support for trade logistics facilitation provided, will be delivered by the TA.

Major Outputs	Delivery Dates	Key Activities with Milestones
		1.3 First draft report on cross-border compliance environment prepared and submitted by August 2019 1.4 First draft report on risk management and standard operating procedure for risk management prepared and submitted by August 2019 1.5 Final draft report on cross-border compliance environment in Sri Lanka prepared and submitted by December 2019 1.6 Final draft report on risk management and standard operating procedure for risk management prepared and submitted by December 2019
2. Output 2: A feasibility study for a new customs inspection facility prepared	March 2020	2.1 FPR prepared by August 2019 2.2 First workshop to discuss FPR held by September 2019 2.3 Second workshop to discuss the findings of the feasibility study held by January 2020 2.4 Final report prepared and submitted by March 2020
3. Output 3: Technical design and business case for an electronic cargo tracking system developed	October 2020	3.1 Final draft report on the implementation of an ECTS in Sri Lanka, including technical design prepared and submitted by March 2020 3.2 Final draft report on the business case for ECTS prepared and submitted by May 2020 3.3 Trial run for use of ECTS for moving consignment to and from Colombo port held by July 2020 3.4 A report on the outcome of the trial run for ECTS prepared and submitted by October 2020

ECTS = electronic cargo tracking system, FPR = first phase report, SLCD = Sri Lanka Customs Department.  
 Source: Asian Development Bank.

### C. Cost and Financing

13. The TA is estimated to cost \$1,437,500, of which \$1,250,000 will be financed on a grant basis by the Japan Fund for Poverty Reduction and administered by ADB. The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of office space, counterpart staff, and other in-kind contributions.

14. Eligible expenditures under the Japan Fund for Poverty Reduction include (i) consultant services; (ii) nonconsultant costs for local training and workshops, minimal equipment such as computers, and operating costs essential to carry out the technical assistance, including rent of

vehicles, if justified; and (iii) knowledge partnership. Nonconsultant costs will be kept to a minimum.

15. The following are ineligible expenditures: (i) purchase of vehicles, (ii) salaries for civil servants, (iii) any foreign travel, (iv) scholarships or long internships, (v) detailed engineering design, (vi) civil works and other related expenses, and (vii) those under ADB's List of Ineligible Items (or Negative List) and Prohibited Investment Activities List.

#### D. Implementation Arrangements

16. ADB will administer the TA. The Sri Lanka Resident Mission will select, supervise, and evaluate consultants.

17. The implementation arrangements are summarized in Table 2.<sup>13</sup>

**Table 2: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	December 2018–November 2020		
Executing agency	Sri Lanka Customs Department		
Consultants	To be selected and engaged by ADB		
	Firm: quality- and cost-based selection	Customs inspection facility feasibility and preliminary design and business case for ECTS	\$685,945
	Individual consultant selection	International and national expertise, 17 person-months	\$223,200
Procurement	To be procured by consultants		
	Request for quotation	1 contract	\$60,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	The electronic seals and software to be used in the trial run will be handed over to the Sri Lanka Customs Department at the completion of the TA.		

ADB = Asian Development Bank, ECTS = electronic cargo tracking system, TA = technical assistance.  
Source: Asian Development Bank.

18. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.<sup>14</sup>

19. **Pilot testing of electronic cargo tracking system.** Pilot testing for the ECTS will be carried out in coordination with the SLCD. The SLCD will obtain the necessary permits and clearance and identify the pilot testing sites. The consultant will carry out the necessary studies, finalize the approach, and carry out pilot testing. The same consultant will procure the equipment and software for the ECTS following the request for quotation method. Subsequently, the

<sup>13</sup> Procurement Plan for Electronic Cargo Tracking System (accessible from the list of linked documents in Appendix 2).

<sup>14</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).



consultant will prepare a report on the outcome of the trial run of the ECTS. It is confirmed that the ECTS has no adverse environmental and/or social impacts (footnote 14). If the pilot testing is successful, the SLCD will adopt the ECTS for tracking movement of cargo to and from the port.

20. **ADB's procurement.** Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Amount
<b>Japan Fund for Poverty Reduction<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	597.40
ii. National consultants	186.36
b. Out-of-pocket expenditures	
i. International and local travel	125.38
ii. Office space rental and related facilities	5.00
iii. Miscellaneous administration and support costs	12.00
2. Surveys <sup>b</sup>	103.86
3. Training, seminars, and conferences	
a. Venue rental and related facilities	35.00
4. Pilot testing	
a. Goods (rental or purchase) <sup>c</sup>	60.00
5. Contingencies	125.00
<b>Total</b>	<b>1,250.00</b>

Note: The technical assistance (TA) is estimated to cost \$1,437,500, of which contributions from the Japan Fund for Poverty Reduction are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, and other in-kind contributions. The value of government contribution is estimated to account for 15% of the total TA cost.

<sup>a</sup> Administered by the Asian Development Bank.

<sup>b</sup> Includes surveys to collect relevant and necessary baseline data and information, origin–destination surveys for the traffic forecast, and a socioeconomic baseline survey.

<sup>c</sup> To purchase equipment and software needed for the trial run of the electronic cargo tracking system.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=50299-001-TA> Report - Supporting Trade Logistics Facilitation

1. Terms of Reference for Consultants
2. Procurement Plan for Pilot Testing of Electronic Cargo Tracking System