

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA67624

Project Name	Transport Connectivity and Asset Management Project (P132833)
Region	SOUTH ASIA
Country	Sri Lanka
Sector(s)	Rural and Inter-Urban Roads and Highways (90%), General transportation sector (10%)
Theme(s)	Other rural development (50%), Other urban development (50%)
Lending Instrument	Specific Investment Loan
Project ID	P132833
Borrower(s)	Democratic Socialist Republic of Sri Lanka
Implementing Agency	Roads Development Authority
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	04-May-2016
Date PID Approved/Disclosed	24-Feb-2016
Estimated Date of Appraisal Completion	04-Mar-2016
Estimated Date of Board Approval	09-May-2016
Appraisal Review Decision (from Decision Note)	The task team was advised to proceed with the project appraisal subject to disclosure of the safeguard documents.
Other Decision	<ol style="list-style-type: none"> 1. The task team was advised to take appropriate actions for seeking RVP approval for the use of Bank financing for the payment of compensation for land acquisition and resettlement to improve road safety outcomes. 2. Provision of retroactive financing to be accommodated within the Financing Agreement. 3. The results indicator "Number of national roads contracted on DBMOT and its variant" to be included as an intermediate indicator and "Investments selected through the Road Asset Management System" be used as an outcome indicator.

I. Project Context

Country Context

1. Sri Lanka is a lower middle-income country with a total population of 20.7 million people. Following 30 years of civil war that ended in 2009, Sri Lanka's economy grew at an average 6.7 percent during 2010-2014, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth. Sri Lanka's economy is also transitioning from a previously predominantly rural-based economy towards a more urbanized economy oriented around

manufacturing and services. In 2014, the service sector accounted for 63.1 percent of GDP, followed by manufacturing (28.9 percent), and agriculture (8.0 percent). Per capita Gross Domestic Product (GDP) reached US\$ 3,811 in 2014. The Government envisions promoting a globally competitive, export-led economy with an emphasis on inclusion and reaching a per capita GDP of US\$ 7,000 by 2020.

2. Sri Lanka has also made significant progress in its socio-economic development. High growth has translated into shared prosperity with national poverty headcount ratio declining from 15.3 percent in 2006/07 to 6.7 percent in 2012/13. Extreme poverty is rare; however, a large share of the population subsists on little more than the extreme poverty line. The country has comfortably surpassed most of the MDG targets set for 2015 and was ranked 73rd in Human Development Index in 2014.

3. The newly elected government presented its economic policy statement to the parliament in November 2015. This policy statement identified generating one million job opportunities, enhancing income levels, developing rural economies, creating a wide and a strong middle class as key policy priorities. It proposed consolidation of fiscal operations through raising revenue and reducing the fiscal deficit to 3.5 percent of GDP by 2020.

4. Recognizing the importance of infrastructure for reconciliation, growth and development, the GOSL has invested heavily in the development, rehabilitation and modernization of infrastructure, especially in roads, ports, airports, energy and urban sectors. These investments, on average, accounted for approximately 4.0 percent of the GDP over the period from 2010 to 2014. The fiscal budget plans to increase the public investment on infrastructure to 5.3 percent of GDP for 2016. It also proposes to issue guidelines for Private Public Partnerships (PPPs) till a comprehensive regulatory framework is developed.

Sectoral and institutional Context

5. GOSL aims to connect rural areas to markets, create employment and provide associated services, and through increased connectivity, allow the 80 percent of Sri Lanka's population that live in rural areas to better capitalize on the emerging economic opportunities. GOSL also aims to create a high mobility inter regional network of expressways for movement of people and goods. GOSL has also intensified its plans to develop adequate road sector institutions as well as the contracting industry to operationalize this strategy. This strategy also resonates well with the Bank's Transport Sector Strategy Note of 2012.

6. Sri Lanka's road network is extremely dense and the predominant mode of transport, carrying 95 percent of the passenger traffic and 98 percent of the freight. The road network is classified as: national, provincial and rural, based on ownership and management responsibility.

7. The national roads and the expressway network consist of 12,164 km and 160 km, respectively, and are managed by the Road Development Authority (RDA) under the Ministry of Higher Education and Highways. The RDA, established under an act of Parliament, is currently responsible for the planning and implementation of the national roads and expressway networks and is overseen by a Board of Directors. Day to day operation is managed by a Director General and 17 Directors. RDA has approximately 10,500 employees, including 615 engineers. About 58 percent of RDA's employees are laborers that are engaged in routine and periodic maintenance works. The

provincial network comprising of 15,530 km are being managed by the respective nine provincial councils and the 88,200 km rural roads are being owned and managed by 335 local authorities.

8. During 2005-2013, based on the National Road Sector Master Plan, RDA rehabilitated about 4,500 km of national roads and constructed a total of 160 km of new expressways. From 2009-2013, GOSL has provided US\$ 5.5 billion for the improvement of the national network and the development of the expressways. About 34 percent of the investment in road rehabilitation were financed by the Government's own resources. These efforts and investments contributed to an overall improvement of the national roads network, increasing the proportion of roads in good and fair condition from 48 percent to 65 percent.

9. Over the past decade, GOSL also implemented important reforms in the sector.

(i) Separation of owner and supplier of services: Over a decade ago, at the time of the Bank entering the transport sector, all capital works were carried out through a state-owned organizations. As GOSL closed these state-owned organization, an active private sector contracting industry developed. The rehabilitation of roads and the construction of the new roads are today carried out through domestic and international private contractors. The domestic construction industry is performing equally well as international contractors. Routine road maintenance and emergency works are addressed through in-house labor available within the RDA.

(ii) Road Maintenance Trust Fund (RMTF): The Road Maintenance Trust Fund (RMTF) was established within the Ministry of Highways, Ports and Shipping with the task of addressing the periodic and routine maintenance needs of the national network. The RMTF is managed by a Board of Trustees and assisted by a Secretariat that works closely with the RDA in setting work priorities. The RMTF is also responsible for the allocation of funds, as well as the monitoring and auditing of contracts that finance maintenance works. During 2005-2013, the budgetary allocation to road maintenance through RMTF increased from US\$13 million to US\$ 63 million.

10. Lack of maintenance: Since the end of the conflict, GOSL has primarily focused on rehabilitating the road network. The need for rehabilitation has been the result of many years of backlog in regular maintenance. However, the financing of regular maintenance continues to compete with the financing of network rehabilitation. Furthermore, the funding of road maintenance has usually been delayed primarily because of uncertainties in fund flow and because of increased pressure on the budget due to cost escalations in rehabilitations and new constructions. Continuous delays of maintenance works adversely impact the entire road network, causing losses in assets in principle. Based on the National Road Master Plan (2007-2017), the total funding requirement for periodic and routine maintenance during 2007 to 2013 was approximately LKR. 81 billion whereas only LKR 38 billion (or 47 percent of the needed resources) was available during the same period. Furthermore, as RDA capacity was directed to the rehabilitation of the provincial and rural networks, the budgetary allocations for the maintenance of the national network have generally been redirected to meet the rehabilitation demand of the other networks and not benefited regular maintenance in the national network.

11. Previous Bank Engagement: The Bank has supported the road sector through several projects , mainly in the rehabilitation of national, provincial, rural roads and bridges as well as through addressing climate resilience through increased safety measures for slope stabilization. Further, the on-going Road Sector Assistance Project under implementation by RDA has been transformational

in its attempts to address the backlog of maintenance due to years of neglect. In addition, during the long term partnership between the Bank and the RDA, the Bank has supported several institutional changes and reforms and financed the piloting of several initiatives to address adverse issues within the sector including development of the contract management capacity within the RDA.

12. Donor Coordination: There has been systematic and continuous coordination amongst Asian Development Bank (ADB), Japanese International Corporation Agency (JICA) and the Bank in providing support to the road sector which commenced with the entry of the Bank in 2005. In order to formalize the coordinated support amongst the three institutions, a sector framework agreement was signed in 2004, describing the functions and responsibilities of each partner in the overall support to the sector. ADB has been entrusted with the responsibility of restructuring of RDA while JICA's support has been directed towards the capacity building of the private contractors. Bank's support has focused on the implementation of a sustainable arrangement for financing and management of rehabilitation and maintenance of the national road network. In 2008, the three development partners also coordinated in financing a program of US\$ 266 million for the development of 970 km of the provincial road network. The proposed project is also being prepared within a backdrop of extremely strong coordination with ADB.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to strengthen the Road Development Authority's (RDA) capacity for asset management and improve the road service delivery on the selected corridor. The selected corridor means the road section from Ja-Ela to Chilaw on National Highway A003 in Sri Lanka.

III. Project Description

Component Name

Component 1: Institutional Strengthening and Capacity Building for Asset Management

Comments (optional)

This component would finance activities to support the RDA in institutionalizing the use of DBMOT/OPRC and implement institutional and system changes necessary to sustain and expand the use of DBMOT/OPRC in the RDA and in the construction industry.

Component Name

Component 2: Piloting the Implementation of Road Asset Management Principles

Comments (optional)

This component will finance the Design-Build-Maintain-Operate and Transfer (DBMOT) contract for the approximately 58 km along the Ja-Ela to Chilaw section of the A003 corridor. The contract will incorporate all interventions needed during a nine-year period, including road upgrading, rehabilitation, sealing and patching, repaving, drainage structures, widening in selected stretches, sidewalks and all maintenance requirements to achieve a prescribed level of service of the road. The design features will include enhanced road safety, automated traffic management as well as infrastructure demanded by urban population and also widening at certain identified locations to ensure safety.

IV. Financing (in USD Million)

Total Project Cost:	125.00	Total Bank Financing:	125.00
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Financing Gap:	0.00	
For Loans/Credits/Others		Amount
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		125.00
Total		125.00

V. Implementation

13. Institutional and Implementation Arrangements: The Ministry of Higher Education and Highways (MHEH) will be the executing agency overseeing the project whilst the project will be implemented by RDA through the Project Management Unit (PMU) that has already implemented the first Bank project in National Roads - the "Road Sector Assistance project" - for over 10 years and is also currently implementing the RDA component of the Bank financed Climate Resilience Improvement Project (CRIP).

14. The PMU is headed by a Project Director reporting to the Secretary, MHEH and supported by a Deputy Project Director and several project engineers. Dedicated staff are available for financial management and environmental/social safeguards. The procurement specialist is being shared between the ADB and the Bank projects for effective transfer of skills. The project will be supervised by a Monitoring Consultant that will report to the project director.

15. As the PMU has been implementing the previous Bank financed project, a well-functioning financial management information system and adequate controls are in place to monitor and manage the proceeds of the credit. The Project will open a new designated account for disbursement of funds.

16. There is a dedicated Environmental and Social Division (ESD) in RDA that is faced with a high volume of work. Therefore the PMU will continue to use the environmental/social Specialist within the PMU who will complement these skills in the monitoring of the project.

17. Results Monitoring and Evaluation: The overall Monitoring of the project will be carried out by the MHEH through the Steering Committee on a monthly basis. The Project Steering Committee, chaired by the Secretary of MHEH with participation of the Chairman, Director General and other senior members of the RDA as well as the Ministry of Finance, Ministry of Policy planning will review the progress of the implementation of the project.

18. The overall monitoring of the DBMOT contracts will be carried out by the Monitoring Consultants. The MC will be responsible for collating the information related to the civil work contract and will share the information collected with RDA through a mutually agreed standardized reporting system for further monitoring by RDA. The reporting system will highlight the project status and critical issues affecting the overall progress of the work.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	

Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)**VII. Contact point****World Bank**

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