



Major Change in Scope

Project Number: 26522
February 2008

Sri Lanka: Southern Transport Development Project

CURRENCY EQUIVALENTS

(as of 13 February 2008)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0093
\$1.00	=	SLRs108.05

ABBREVIATIONS

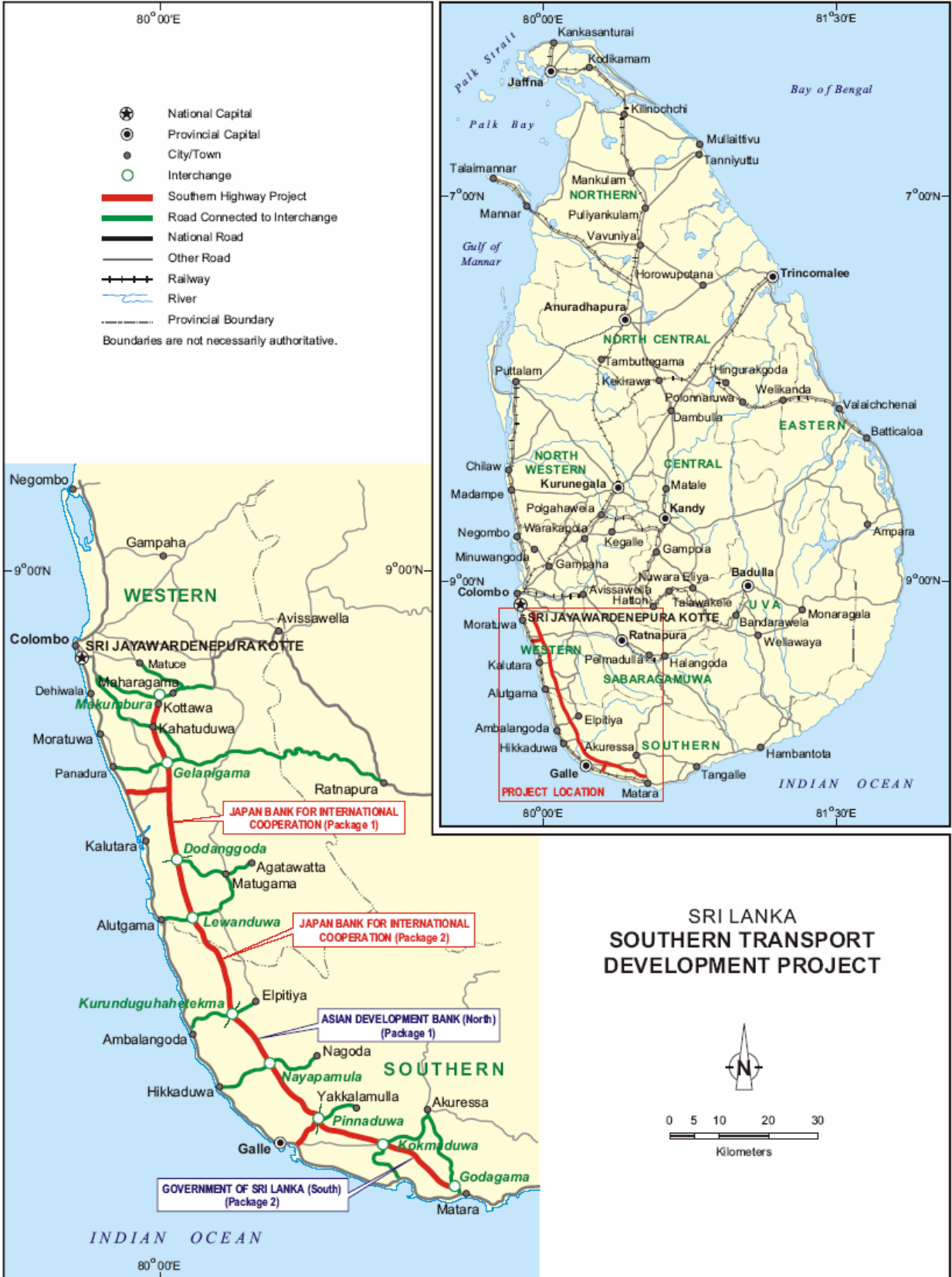
CEA	-	Central Environmental Authority
CRP	-	Compliance Review Panel
CT	-	Combined Trace
EIA	-	environmental impact assessment
EMP	-	environment management plan
ERD	-	External Resources Department
FT	-	Final Trace
JBIC	-	Japan Bank for International Cooperation
JICA	-	Japan International Cooperation Agency
MOTH	-	Ministry of Transport and Highways
NDF	-	Nordic Development Fund
NRSS	-	National Road Safety Secretariat
PCC	-	Project Coordinating Committee
RDA	-	Road Development Authority
RRP	-	Report and Recommendation of the President
RSC	-	Road Safety Component
Sida	-	Swedish International Development Cooperation Agency
SDR	-	special drawing rights
TA	-	technical assistance

NOTE

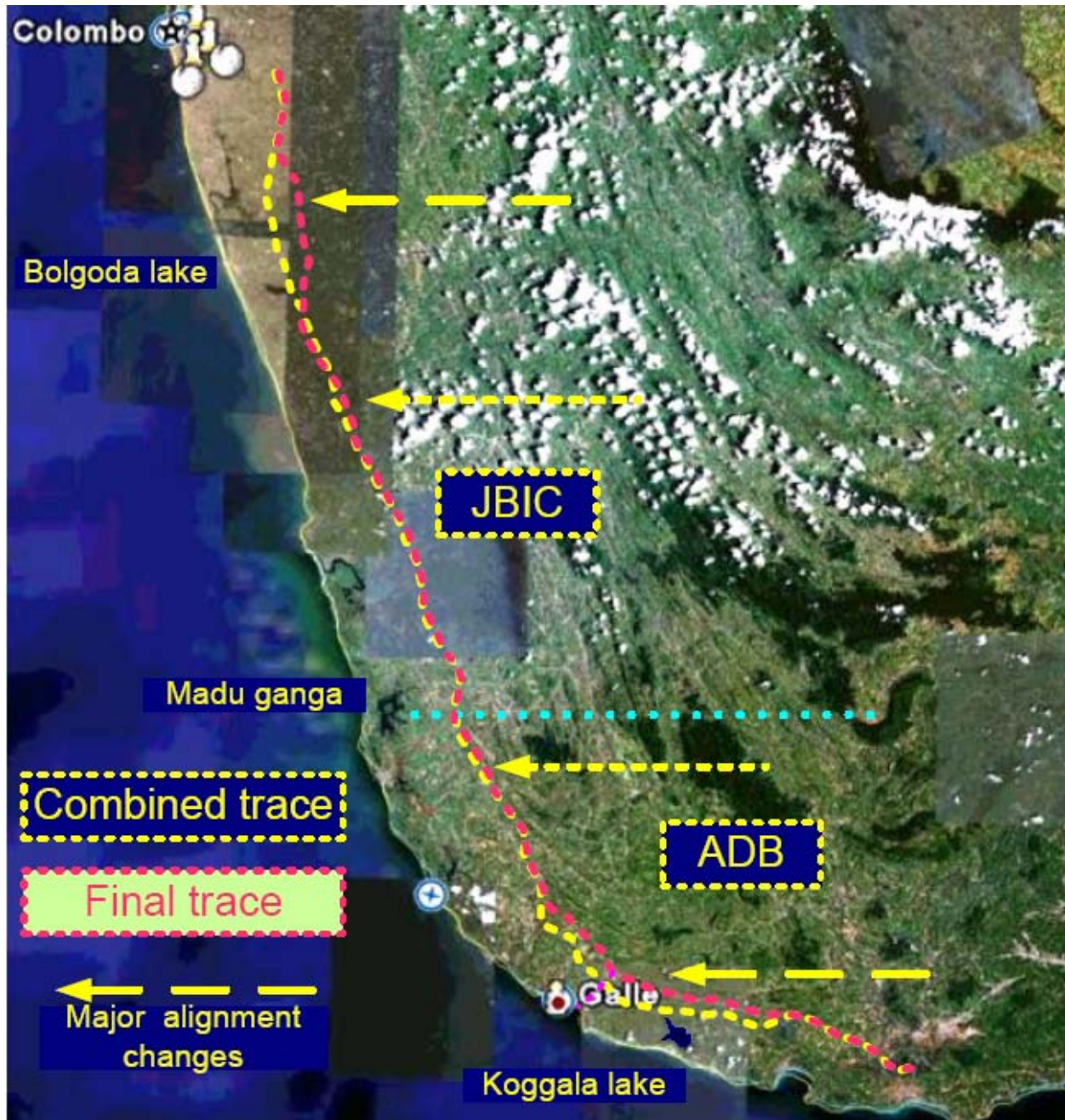
In this report, "\$" refers to US dollars

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SRI LANKA
SOUTHERN TRANSPORT DEVELOPMENT PROJECT
Change in Alignment



08-0481b HR

Source: ADB. 2007. *Summary Environmental Impact Assessment, Sri Lanka, Southern Transport Development Project (Supplementary Financing Loan and Technical Assistance Grant)*. Manila.

I. INTRODUCTION

1. On 25 November 1999, the Asian Development Bank (ADB) approved the loan for the Southern Transport Development Project (STDP)¹ from its Special Funds resources for SDR64,856,000 (or \$90 million at the time of loan signing, and currently \$96.4 million). The Loan and Project agreements were signed on 16 December 1999 and became effective on 30 October 2002.² The loan closing date was 31 December 2006. The Project is now expected to be completed by the end of September 2009.

2. The Japan Bank for International Cooperation (JBIC) is financing (equivalent \$120 million) a section of the highway. The Nordic Development Fund (NDF) is financing (equivalent \$6.7 million) the management services and road safety consultants, and procurement of road safety equipment; and the Swedish International Development Cooperation Agency (SIDA) is financing (equivalent \$1.0 million) the local component of the consulting services for road safety.

3. This Board paper describes the change in scope arising from the changes in the highway's original alignment at different points that occurred in 2000. The change in alignment was suggested by the Central Environmental Authority (CEA) of Sri Lanka as part of its conditions in issuing the environmental clearance based on the environment impact assessment undertaken in 1999 (EIA 1999).

4. The change in alignment as recommended by CEA was to avoid environmentally sensitive areas. The overall purpose of the Project remains the same as was approved by the Board. The shift in alignment of the highway materially affected the scope of the Project, as it involved a new set of stakeholders and changes in the distribution of project benefits and impacts, thereby qualifying the shift as a major change in scope under para. 6 of Project Administration Instructions (PAI) 5.04. However, the approved Resettlement Implementation Plan (RIP) 2002 was formulated on the basis of the final alignment.

5. The approval for change in scope is also requested to comply with the Compliance Review Panel's (CRP) recommendation in para. 268(vi) of the Final Report dated 22 June 2005, para. 31 of its Annual Monitoring Report dated 11 July 2006, and para. 30 of its Annual Monitoring Report dated 27 December 2007.

II. BACKGROUND

6. The primary objectives of the Project are to (i) facilitate and act as catalyst for, development in the economically deprived southern region of the country, by constructing a new highway linking Colombo with Galle (the southern provincial capital) and Matara; and (ii) produce a sustainable and quantifiable reduction in the country's very high road accident rates. The secondary objective of the Project is to reduce poverty within the immediate project area (where more than 30% of the population is classified as poor) and in the southern areas of the country generally. The project framework contained in the Report and Recommendation to the President (RRP) is in Appendix 1.

¹ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Democratic Socialist Republic of Sri Lanka for the Southern Transport Development Project*. Manila (Loan 1711-SRI).

² After five extensions to enable the Government to fulfill the conditions for loan effectiveness, mainly the land acquisition and resettlement-related conditions.

A. Scope of the Project

1. Southern Highway Component

7. **Civil Works.** The Project covers the construction of the main alignment for the highway consisting two-lane high-capacity, limited-access highway from Kottawa to Matara, and the construction of an access road connecting the highway with Highway A2 close to Galle City. ADB has financed the southern section (Kurundugahahetekma–Matara) of the main alignment and the access road to Galle City (ADB-financed section). The remaining portion or the northern part of the highway (Kottawa–Kurundugahahetekma) has been financed by JBIC.

8. **Consulting Services.** ADB has financed the construction supervision consultant for the civil works in the ADB-financed section which include design review and monitoring environmental and social impacts. JBIC has financed similar consulting services for the JBIC-financed section of the highway. NDF has financed a management consultant for overall project implementation.

2. Road Safety Component

9. **Civil Works.** ADB has financed the civil works for reducing safety hazards at specific locations as a pilot model on how to prioritize ‘black spot’ location and how to manage the black spots. The specific locations were selected and civil works were designed by the road safety component consulting services.

10. **Consulting Services.** The road safety component consists of (i) formulating and implementing an action plan to reduce road accidents; (ii) actions to operate high-speed and access-controlled highway; and (iii) purchasing road safety equipment. NDF financed the road safety consulting services. SIDA financed the implementation of the road safety action plan and capacity building, and undertaking of a road safety audit.

11. **Equipment.** The NDF financed the provision of equipment required for activities under the road safety component.

B. Original Cost Estimates and Financing Plan

12. The total cost of the Project was \$295.9 million equivalent. The total cost of the ADB-financed component was estimated at \$132.4 million equivalent.³ ADB has provided, from its Special Funds resources, a loan of SDR64,856,000 (\$90.0 million at the time of loan signing) to finance about 30.4% of the total cost. The loan maturity is 32 years, including a grace period of 8 years, and an annual interest rate of 1% during the grace period and 1.5% thereafter. SIDA provided a grant of \$1.0 million equivalent for the road safety component, and NDF provided a grant of \$6.7 million equivalent for financing management consultant services, the road safety component, and road safety equipment. The Government has financed the remaining 26.2% of the project cost, or about \$37.4 million equivalent. The original cost estimates and financing plan of the ADB-financed component are given in Table 1.

³ The estimated cost of the JBIC-financed component was \$163.6 million, for which JBIC has provided a loan of \$120 million equivalent.

**Table 1: ADB-Financed Component
Original Cost Estimates and Financing Plan^a**
(\$ million)

	Total	ADB	NDF	SIDA	Govt.
1. Base Cost					
a. Land/Resettlement	7.6				7.6
b. Civil Works					
Southern Highway	70.4	57.0			13.4
Road Safety	2.6	2.1			0.5
c. Consulting Services					
Construction Supervision	5.3	5.3			
Management Consultant	2.2		2.2		
Road Safety	3.4		2.4	1.0	
d. Equipment – Road Safety	2.1		2.1		
e. Incremental Expenditure	0.5	0.5			
Subtotal (1)	94.1	64.9	6.7	1.0	21.5
2. Contingencies					
a. Physical ^b	8.4	6.7			1.7
b. Price ^c	27.0	15.5			11.5
Subtotal (2)	35.4	22.2			13.2
3. Interest During Construction	2.9	2.9			
Total^d	132.4	90	6.7	1	34.7
Percentage	100.0%	68.0%	5.0%	0.8%	26.2%

ADB = Asian Development Bank, NDF = Nordic Development Fund, SIDA = Swedish International Development Cooperation Agency

^a In December 1998 prices (exchange rate used: \$1 = SLRs71.3).

^b At 10% of base price, excluding land, resettlement, and incremental expenditure.

^c At 2.4% annually for foreign exchange and 10.0% annually for local currency costs.

^d Including customs duties and taxes of about 14% of total project cost.

Source: Loan 1711-SRI: Southern Transport Development Project RRP.

C. Progress Status of Project Implementation

13. **Southern Highway Component.** The contract for the ADB-financed section of the highway was awarded as a single package on 3 January 2003, with the original contract price of SLRs8.7 billion (\$87 million equivalent) and completion period of 40 months until 25 April 2006, which has been extended to 22 February 2008.⁴ The civil works cover (i) the main alignment of 59.6 km of the expressway and 5.6 km of the Galle access highway; (ii) 642 pipe culverts and 63 box culverts; and (iii) 22 bridges including 4 major bridges.

14. There has been a significant delay in project implementation arising from (i) the delays in handing over of sites to the contractor because of difficulties in land acquisition, resettlement of affected persons, and associated litigations; (ii) delays in obtaining government clearances such as environmental clearances for rock blasting; (iii) inadequate resources mobilized by the

⁴ The Contract has since been restructured and the revised contract completion date is 30 September 2009. The restructured contract is being processed separately under a supplementary loan. The restructured contract covers 30 Km of 4-lanes from Kurundugahahetekma (Km 1+500) to Pinnaduwa (km30+800) and Galle port access road.

Contractor; and (iv) the presence of large amount of soft and unsuitable soil material in the alignment. These issues were highlighted in the midterm review of the Project, conducted in August 2006 and the Borrower is assisting the Contractor to resolve these issues. To further strengthen environmental monitoring and implementation of mitigation measures, the construction supervision consultants engaged an international environmental specialist in addition to the national specialist. Also the CEA monitoring committee comprising several stakeholders meets regularly to resolve ongoing environmental issues. As of end-October 2007, the overall progress of the ADB-financed section was at 71%⁵.

15. The JBIC-financed section comprised two packages. The contract for package 1, from Colombo (Kottawa) to Dodangoda (34.9 km), was awarded in August 2005 at the contract price of SLRs9.6 billion for a four-lane section, with completion period of 48 months until 18 September 2009. The contract for package 2, Dodangoda–Kurundugahahetekma (31.7 km), was awarded on 24 March 2006, valued at SLRs8.3 billion for a two-lane section, with a completion period of 48 months until 23 March 2010.⁶ As of December 2007, overall progress was 21% for package 1 and 9% for package 2.

16. **Road Safety Component.** The road safety consultants began their assignment in February 2002, and completed it in December 2005. They assisted RDA in strengthening the road safety institutions, conducting road safety audits, revising traffic laws and regulations, establishing emergency rescue services, and identifying and designing rectification measures for accident black spots.

17. A Road Safety Unit at RDA and a National Road Safety Secretariat have been established. The latter coordinates the works of the National Council for Road Safety which coordinate the implementation of the National Road Safety Strategic Plan. The regulations for a Road Safety Fund are being finalized.

18. Black spot improvements were carried out at 20 spots under six packages on several ADB-financed roads. The physical works were completed in April 2007.

19. Computer equipment and software for an accident data system have been installed. Equipment for traffic police and equipment for vehicle inspection have yet to be procured and are expected to be complete by end-2008.

20. **Loan Covenants.** The Project is in substantial compliance with covenants in the Loan Agreement. Two loan covenants have not been complied with—the National Highways Act and the Motor Traffic Act, which were required to be enacted by 31 December 2001, have not been enacted. The delay was mostly due to institutional changes at the executive and legislative levels. Elections in 2002, 2004, and 2005 further delayed the processing of these two Acts.

21. Following Cabinet approval, the first draft of the National Highways Act was submitted to Parliament in July 2001. Due to the change of Government, the matter was not processed further. Subsequently, the National Highways Act was renamed as the Thoroughfares Act. The revised version, cleared by the legal draftsman, has been concurred by the attorney general. The Government will ensure that the proposed statute is submitted to Parliament by September 2008.

⁵ However, based on the restructured contract, the overall completion as of end December 2007 is 34.6%.

⁶ The Government has requested JBIC to provide another loan for financing the expansion of this section to four lanes.

22. The final draft of the Motor Traffic Act was submitted to the Law Commission for final review. Law Commission has given its concurrence, and the Ministry of Railway and Transport has requested the commissioner of motor traffic to review the draft to ensure that all salient features have been included. The draft statute has been submitted to the attorney general for concurrence prior to submission to the Cabinet for approval. The Government will ensure that this proposed statute is submitted to the Parliament by September 2008.

23. **Contract Awards and Disbursements.** All the contracts under the Project have been awarded. Contract awards for the ADB-financed section stood at \$91 million and disbursements amounted to \$83.4 million, as of 5 February 2008.

24. **Project Performance.** The overall project rating for implementation is unsatisfactory mainly due to cost overrun and delays, and that for development objectives is satisfactory. The project performance report is in Appendix 2.

25. **Compliance Review Panel.** Implementation of the southern highway has experienced difficulties related to ADB's social and environmental safeguards policy. In December 2004, the CRP registered a request for a compliance review of the Project. The CRP determined that the request was eligible, and the Board authorized the CRP to conduct the review. In June 2005, the CRP approved a course of action to bring the Project back to policy compliance. The first annual monitoring of the implementation of the CRP recommendations was carried out in June 2006, and its report was disclosed on 11 July 2006 and the second monitoring was carried out in November 2007 and was disclosed in December 2007. The Board Compliance Review Committee noted considerable progress in the implementation of the CRP's recommendations.

26. **Forecast Cost to Completion of Civil Works for Two Lanes (ADB Financing).** The total project cost of construction of the two-lane expressway of the ADB-financed section under the approved loan was estimated at \$132.4 million (Table 1). About \$ 72.9 million additional will be required to complete the works, excluding the increased cost of land acquisition and resettlement of \$36.6 million that have been paid by the Government. The reasons for the escalation of civil works cost are (i) undetermined geotechnical and other unanticipated physical conditions at the alignment; (ii) delays in handing over of the project sites to the Contractor; and (iii) delays in compensation payment and provision of resettlement assistance. The cost of the Project given in the RRP and the revised cost are in Appendix 3. The cost overrun is proposed to be financed through a supplementary loan that is being processed by ADB.

III. THE CHANGE IN SCOPE

27. The CRP approved course of action to bring the Project back to policy compliance, includes the recommendation to "determine whether or not there has been a change in scope in the Project as provided in PAI No. 5.04."

28. **Change in Alignment.** When the Board approved the Project in November 1999, the alignment of the highway, known as "Combined Trace" (CT), was not firmly determined, but assumed that the alignment will be located within a broad corridor 3–4 kilometers (km) wide. Para. 74 of the RRP that was presented to the Board indicated that the detailed design of the highway will take environmental considerations into account in selecting the final alignment, bridge locations, cross-section configuration, etc. On the basis of the EIA study for this highway in 1999, the CEA recommendation was to reroute the alignment to avoid the Koggala and Madu Ganga wetlands. Therefore, the highway alignment was changed and the current alignment is

known as the “Final Trace” (FT). The need for the change in scope arises from the physical changes in the alignment of the highway, introduced at different points to accommodate CEA’s recommendations. The change of alignment covers: (i) in the ADB-financed section, 16 km of the highway is common to both FT and CT; but for 44 km, FT and CT deviate from each other from 5 meters to 2.25 km, and (ii) in JBIC section, 3 km of the highway is common to FT and CT; but for 63.5 km, FT and CT deviate from each other from 40 meters to 3 km.

29. These deviations impacted a group of households who were not counted and consulted originally as project-affected persons under the 1999 EIA consultations. However, they were consulted during the 2000 Environmental Finding Study, Social Impact Assessment Study and during the preparation of the 2002 Resettlement Implementation Plan (RIP).

30. The environmental and social safeguards screening in respect of the change in scope has been done in accordance with para. 12 of PAI 5.04. The Project falls in category A for environment. The summary of the supplementary environmental assessment study to the 1999 EIA together with the EIA for expansion of the carriageway from 2 lane to 4 lane was submitted to the Board and disclosed for public through ADB’s website on 19 April 2007. The Addendum to RIP was posted on ADB’s website on 17 July 2007. The Addendum was translated into local language and disclosed to affected people on 11 October 2007. The screening for indigenous people indicated that there are no indigenous peoples affected by the deviations. Actions are being taken to disclose reports on environment and social safeguards monitoring in accordance with ADB’s *Public Communications Policy* (2005).

31. **Environmental Impact Assessment.** To determine the extent of environmental impacts associated with the FT, at the request of ADB, the Government commissioned a supplementary environmental assessment. The supplementary environmental assessment study, as a supplement of the 1999 EIA, focused on assessing environmental impact related to the shift from the CT to the FT as well as the construction of the Galle access road. Therefore, the supplementary environmental assessment report has to be read in conjunction with the 1999 EIA. The finding of the study was submitted to RDA in September 2006. This supplementary environmental study found that (i) the environment of the FT and the Galle access road do not vary much from that of the CT; (ii) overall environmental impacts are more positive on the FT than on the CT (reduction in flooding and avoidance of biological sensitive areas); and (iii) other impacts associated with construction and operation will be similar to those predicted for the CT. Based on the supplementary environmental assessment, RDA updated the EMP of the project and submitted to CEA for its concurrence. The updated EMP was endorsed by CEA on 3 September 2007 and is now being implemented by the Project.

32. **Social Impacts.** The RIP of 1999 addressed resettlement impacts of the CT. The RIP approved in 2002 covers households affected by the FT. The amount of land acquired for the Project decreased from 1,100 hectares (ha) for CT to 1,085 ha for FT. The number of affected households that would need to be resettled increased from 816 to 1,370. An additional 34 households⁷ on the border of the right-of-way of the highway were relocated as a result of adjustments in the slope of cuts or embankments to ensure safety and prevent erosion. They have now been resettled by RDA. The number of commercial and other structures to be removed rose from 50 to 102 because of the change of the location of the highway from sparsely populated wetland areas to thickly populated rural and urban areas.

⁷ Thirty-two in the ADB-financed section, and 2 in the JBIC-financed section.

33. Land acquisition, compensation, and relocation of affected households have substantially been completed. Of the 1,370⁸ households displaced, 523 were relocated at 32 resettlement sites. Almost all resettlement sites, except one (Pemrockwatta), where provision of basic facilities has been completed are handed over to the local authorities. The others opted for self-relocation. RDA employed a non-government organization to implement an income restoration program for the benefit of the project-affected persons. The Management Consultants undertook independent monitoring of the resettlement activities including resettlement audits from 2003 until 2006. In 2006, an independent external monitoring agency was appointed to verify the quality and timeliness of compensation, land acquisition and resettlement committee allowance payments, and resettlement programs; and also to assess whether the Project has achieved the goals listed in the RIP (2002).

34. The independent external monitoring agency developed a comprehensive external monitoring framework to evaluate the impact of the Project on 400 sample households. The latest monitoring report submitted in June 2007 indicated that RDA has made a good effort to implement the RIP, and has modified some of the recommended practices listed in the RIP to take into account realities that were not known at the time of RIP preparation. The next report from the independent external monitoring agency is expected to be submitted by the end of 2008.

35. **Economic Analysis.** The economic analysis for this change in scope was not carried out. However, the economic analysis was carried out for expansion of the carriageway from 2 lane to 4 lane in the final alignment as part of the preparation of the supplementary loan for this project.

IV. ASSESSMENT

36. The change in scope does not in any way materially alter or fundamentally affect the Project's overall purpose as approved by the Board.

37. The overall impact of the Project to integrate the southern region into the country's economic mainstream and to improve access to economic and social opportunities for the residents of the southern region will be met upon completion of the STDP. However, the impact will be delayed due to the delay in completing the Project. The ADB-financed southern section is expected to be complete by September 2009⁹ according to the current work program of the Contractor, and the JBIC-financed northern section is expected to be complete by March 2010. Since the northern section of the Project will now be completed by March 2010, the impact will accrue from that time. The revised design and monitoring framework¹⁰ based on project changes is provided as Appendix 4. The cost overruns in the Project are proposed to be financed through a supplementary loan, which is being processed separately.

38. The approval of the change in scope will achieve compliance with CRP's recommendation under para. 268(vi) of its final report dated 22 June 2005, para. 31 of its Annual Monitoring Report dated 11 July 2006, and para. 30 of its Annual Monitoring Report dated 27 December 2007.

⁸ In addition, the project also affected (but not physically displaced) about 5,900 households who live by right-of-way. Their lost assets were compensated.

⁹ Based on the restructured contract.

¹⁰ Based on the supplementary loan financing being processed separately.

V. THE PRESIDENT'S RECOMMENDATION

39. The President recommends that the Board approve on a no-objection basis the major change in scope arising from the changes in the highway alignment fully described in para. 28 of this paper.

PROJECT FRAMEWORK (as in 1999 RRP)

PROJECT STRUCTURE/STRATEGY	INDICATORS OF ACHIEVEMENT	MEANS OF VERIFICATION	MAJOR ASSUMPTIONS/RISKS
<p>ULTIMATE GOALS:</p> <ul style="list-style-type: none"> • Integration of the Southern Region into the country's economic mainstream. • Improved access to economic and social opportunities for the residents of the Southern Region. • Reduced poverty in the immediate influence area of the project highway, and also in the wider influence area in the south and southeastern areas beyond the southern terminus of the highway. • Reduced traffic accidents on the country's highway network 	<ul style="list-style-type: none"> • After project completion, survey results detailing <ul style="list-style-type: none"> • volume of traffic using the new highway, in particular commercial traffic, and diversion of through traffic from the existing highway. • faster vehicle speeds and lower vehicle operating costs on the new highway. • increased economic activity in the Project's influence area. • fewer people classified as poor in the Project's influence area from about 33% (1995/96) to about 12% in 2010. • reduced vehicle and pedestrian accident rates on the new and existing highways. 	<ul style="list-style-type: none"> • During project construction, the Road Development Authority (RDA) collects baseline data, specifically vehicles using existing roads (classified traffic counts) and traffic accident statistics. • After project completion, RDA to continue to collect traffic data on the existing road, to determine diversion to the new highway, and to establish routine traffic count procedures for the new highway; the Ministry of Transport and Highways to monitor traffic accident statistics on the existing road and the new highway. • After project completion, the Government to monitor the impact of the new highway on economic development and poverty in the highway's influence area. 	<ul style="list-style-type: none"> • The Government and domestic private sector will use the new highway to bring investment into the Project's influence area. • Traffic will be diverted to the new highway • The Government will ensure passage of the Highways Act, to include provisions to control roadside development, vehicle access, road safety, etc. • RDA will be given, and will use, powers to control access, vehicle use, and inappropriate development within the new highway's right-of-way. • RDA will maintain the new highway appropriately. • The Government will improve its enforcement of traffic regulations.

<p>IMMEDIATE OBJECTIVES:</p> <ul style="list-style-type: none"> • Construct a new high-capacity, limited-access highway, 128 km, long, linking Colombo, Galle, and Matara, as the first stage of an ultimate four-lane express highway. • Strengthen road safety institutions, and safety features of the network. 	<ul style="list-style-type: none"> • Project construction completed by 31 July 2005 • Road safety black spot areas improved to reduce hazards • Road safety institutions functioning throughout the country 	<ul style="list-style-type: none"> • Project progress reports and loan disbursement performance • Routine project review missions • Audit reports • Project completion report 	<ul style="list-style-type: none"> • Contractors are competent • RDA makes right-of-way available when required by the contractors • RDA finalizes land acquisition and resettlement without protests from project-affected people
<p>OUTPUTS</p> <p>For the Asian Development Bank (ADB)-financed portion of the project highway:</p> <ul style="list-style-type: none"> • Civil works contracts, to construct about 60 km of the highway. • Consulting services contract for construction supervision, including social and environmental impact monitoring and mitigation. <p>For the JBIC-financed component of the highway construction:</p> <ul style="list-style-type: none"> • Civil works contracts to construct about 83 km of the project highway. • Consulting services contract for construction supervision, including social and environmental impact monitoring and mitigation. <p>For both JBIC-and ADB-financed portions of the project highway:</p> <ul style="list-style-type: none"> • Consulting services for management 	<ul style="list-style-type: none"> • Civil works contracts (ADB and Japan Bank for International Cooperation (JBIC)-financed components) signed by 31 May 2001. • Civil works commenced by 1 September 2001. • Civil works completed by 31 July 2005. • Consulting services contracts (ADB and JBIC-financed signed by March 2001. • Consulting services contract, for management services (Nordic Development Fund (NDF)-financed) signed by March 2001 	<ul style="list-style-type: none"> • Government's progress reports (before contracts are awarded) • Project progress reports (after management and supervision consultants mobilize) • Routine project review missions 	<ul style="list-style-type: none"> • Civil works procurement proceeds on schedule • Contractors perform (prequalification is a critical factor). • Consultants are appointed on schedule (finalizing the supervision contracts will be a condition to be met for ADB's approval of the related civil works contract).

<p>assistance, reform, etc.</p> <p>For the Road Safety Component:</p> <ul style="list-style-type: none"> • Civil works contracts for black spot improvements. • Vehicle inspection stations, surveillance equipment, vehicle and driving school license inspection systems, etc. • Strengthened road safety institutions (National Road Safety Secretariat, police, Road agencies, education agencies) 	<ul style="list-style-type: none"> • Civil works contracts awarded progressively from October 2001, and completed by June 2005 • First vehicle village in operation in 2002 		
<p>INPUTS</p> <ul style="list-style-type: none"> • Loan of \$90 million from the ADB's Special Fund resources • Loan of about \$120 million (preliminary) from JBIC • Loan of about \$6.7 million from NDF • Grant of \$1.0 million from the Swedish International Development Cooperation Agency. • Counterpart financing of about \$78 million. 	<ul style="list-style-type: none"> • ADB loan approved by 31 December 1999 and effective by 30 September 2000. • JBIC loan signed and effective by 30 September 2000 • Government budgets for: • 2000 includes \$8 million for land acquisition and resettlement. • 2001-2005 (5 years) provide for an average of \$16 million per year for Southern Highway and Road Safety Components' counterpart financing, and for residual land acquisition and resettlement. 	<ul style="list-style-type: none"> • Loan effectiveness conditions met (including effectiveness of JBIC and NDF loans) • Loan effectiveness conditions met • Government commits during loan processing to provide the budgets required for the Project. • Government advises ADB prior to the commencement of each budget year that it has made an appropriate provision for the Project in its budget for that year. 	<ul style="list-style-type: none"> • The Government will meet effectiveness conditions and comply with loan covenants, particularly those related to resettlement, the National Roads Policy, operation and maintenance, and the National Highways Act. • The Government will make the required counterpart budgets available when required.

UPDATED PROJECT PERFORMANCE REPORT

As of 31 Dec 2007

SERIAL NO : 3
DIVISION : SLRM
DEPARTMENT : SARD
PROJECT NO : 26522
STATUS : ACTIVE

(ALL AMOUNTS IN US\$ MILLION)

BASIC DATA

		PROJECT AT RISK	LAST:	CURR:	Project Classification			
		Impact and Outcome	: Yes	Yes	Poverty Intervention			
NAME		Implementation Progress (IP)	: S	S	Operational Priorities			
1711: SOUTHERN TRANSPORT DEVELOPMENT		Potential Problem (PP)	: PS	PS	PSD			
PROJECT		Override	: No	No	Themes			
			: No	No				
-----CLOSING-----								
LOAN NO(S)	APPROVAL	SIGNING	EFFECTIVITY	ORIGINAL	REVISED	ACTUAL	PHYSICAL	ELAPSED
1711-SRI(SF)	25 Nov 99	16 Dec 99	30 Oct 02	31 Dec 06	30 Jun 08	-	COMPLETION	LOAN PERIOD
							ORIG: Dec 05	ORIG: 114%
							REV: Feb 08	REV: 94%
PROJECT PROGRESS:		34.6%						
REVIEW MISSIONS:		LAST: 08-06-2007	ACTUAL DAYS (last 12 months):		3			
		NEXT:	PLANNED DAYS:					
EXECUTING	Road Development Authority							
AGENCIES:	Ministry of Transport and Highways							

FINANCING PLAN (LOAN)

PROJECT COST	FOREX	LOCAL	TOTAL	COUNTERPART FUNDS ADEQUATE	CURRENT VALUE OF BANK LOAN:	BALANCE AVAILABLE FOR COMMITMENT:
ADB LOAN	155.0	140.0	295.000	Yes	APPROVED : 90.000	3,730
JBIC (Prelim)	64.3	25.7	90.000		NET : 96.277	
NDF	84.7	35.3	120.000			
SIDA	5.2	1.5	6.700			
Government	0.8	0.2	1.000			
	0.0	78.2	78.200			

LOAN UTILIZATION

----- CUMULATIVE CONTRACT AWARDS -----				----- 2007 CONTRACT AWARDS -----					
	ADB	OTHERS	CUMULATIVE		1Q	2Q	3Q	4Q	TOTAL
Dec 06	87.748	0.000	CONTRACTS TO NET	PROJ	0.000	0.000	0.000	0.000	0.000
31 Dec 07	90.854	0.000	BANK LOAN(S): 94%	ACTUAL	0.000	0.000	3.106	0.000	3.106
Proj 07	87.748								
----- CUMULATIVE DISBURSEMENTS -----				----- 2007 DISBURSEMENTS -----					
	ADB	OTHERS	CUMULATIVE		1Q	2Q	3Q	4Q	TOTAL
Dec 06	62.230	0.000	DISBURSEMENTS	PROJ	4.980	4.380	5.650	5.800	20.810
31 Dec 07	81.261	0.000	TO NET BANK	ACTUAL	4.823	4.551	6.709	2.948	19.031
Proj 07	83.040		LOAN(S): 84%						

COVENANTS

	AUDITED PROJECT ACCOUNTS / DELAY	AGENCY FINANCIAL STATEMENTS / DELAY	SECTOR COVENANTS	ENVIRONMENTAL COVENANTS	SOCIAL COVENANTS	FINANCIAL COVENANTS	ECONOMIC COVENANTS
COMPLIANCE WITH COVENANTS:	S / 0.6 mos.	NR / - mos.	S	S	PS	S	-

MAJOR ISSUES/PROBLEMS (IP, Impact and Outcome, Covenants)

PROBLEM(S)	ACTION TAKEN/PROPOSED
Delay in Land Acquisition and Resettlement due to affected peoples' objections	Land Acquisition is now complete and compensation is almost complete except for few cases due to court cases. Income Restoration Program is being implemented.
Civil work progress is delayed due to the contractor's poor performance	The Contract has been restructured. The Contractor will now undertake 4-lane of civil works for 30 Km and Galle access road. The cost overrun and additional 2-lanes will be financed under the proposed supplementary loan.
Cost overrun	A supplementary loan is being processed to finance cost overrun. The
Halcrow, the Construction Supervision Consultants has been debarred	

Nissanka Salgado

Munawar Alam

PAU ASSISTANT

PROJECT SPECIALIST

ORIGINAL AND REVISED COST ESTIMATES FOR TWO-LANE
(\$ million)

	Original Cost Estimate as in RRP	Revised Cost Estimate
1. Base Cost		
a. Land/Resettlement	7.6	44.2 ^a
b. Civil Works		
Southern Highway	70.4	134.5
Road Safety	2.6	2.6
c. Consulting Services		
Construction Supervision	5.3	5.3
Management Consultant	2.2	3.5 ^b
Road Safety	3.4	3.4
d. Equipment – Road Safety	2.1	2.1
e. Incremental Expenditure	0.5	1.0
f. Environmental Management	-	1.6
Subtotal (1)	94.1	198.2
2. Contingencies		
a. Physical	8.4	11.3
b. Price	27.0	29.5
Subtotal (2)	35.4	40.8
3. Interest During Construction	2.9	2.9
Total	132.4	241.9

RRP = report and recommendation of the President

^a Financed by the Government.

^b Financed by the Nordic Development Fund.

Source: Loan 1711-SRI RRP and ADB estimates.

REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact Expansion of economic opportunities and improvement of socioeconomic conditions of the people in the southern region</p>	<ol style="list-style-type: none"> 1. Contribution of the southern region to the national economy will increase. The GDP of the Southern Province was growing at 3% and the growth rate at national level was 4.5% in 1999-2000. It is expected that the growth rate of Southern Province will be equal to the growth rate at the national level in 2013. 2. Rate of unemployment in the southern region will reduce from around 19% in 1999, and 9% in 2006 to be at least equal to the national unemployment rate in 2013. 3. Proportion of people in poverty in the Project area was 33% in 1996, and is expected to decline to 20% in 2013 	<ol style="list-style-type: none"> 1. Department of Census and Statistics 2. Department of Census and Statistics: Quarterly labor market surveys 	<p>Assumption: Economy remains stable and environment is conducive to economic growth.</p>
<p>Outcome 1. Operation of the highway</p> <p>2. Increased economic opportunities for residents in the southern region through efficient road connectivity with the capital city</p>	<p>Travel time between Colombo and Matara reduced from 4-5 hours to 1.5 -2.0 hours by 2010</p> <p>Fatal accident rate on A2 which is 360 per 1 million vehicles will be reduced at least by 10% in the first year operation of highway, and expected to continue to reduce in the following years to reach 50% by 2013.</p> <p>Membership of Board of Investments of industries and commercial enterprises continually increases</p> <p>Number of commercial establishments within 1.5 km of side of the highway</p>	<p>RDA (Planning Division) annual report</p> <p>Board of Investments reports</p> <p>UDA/local authority records</p>	<p>Assumption: The Motor Traffic Act and Thoroughfares Act will be enacted prior to operation of the highway.</p> <p>Assumption: MOHRD and UDA coordinate with each other to implement special zone development areas along the highway.</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
and other regions	continually increases Socioeconomic conditions of the four villages (Godagama, Kabaragala, Paraduwa, Yaddehimulla) used as the sampling baseline in 1999 will improve especially on access to health, education and social services, transportation, and employment.	Direct field survey during construction and operation of highway in close consultation with Department Census and Statistics	Assumption: Other resource inputs affecting the improvement of socioeconomic conditions of these four villages could be identified.
<p>Outputs</p> <p>1. A four-lane limited access highway from Kottawa to Matara and the Galle access road are operating.</p> <p>2. Interchange development area as a growth center</p> <p>3. Incomes, employment, and living conditions of affected households are restored or improved</p>	<p>Construction completed by 2010</p> <p>Basic road safety equipment in place by 2010. Around 100 staff for maintenance posts, rescue and emergency posts are assigned.</p> <p>By the first quarter of 2009:</p> <ul style="list-style-type: none"> • zoning and guidelines for zoning formulated, and • at least three interchange development plans as centers of growth completed. <p>By 2010: Emergency response booths/posts are available at each interchange. The rescue and emergency staff are assigned</p> <p>By 2009: The income restoration program is completed and all resettlement sites are handed over to local authorities by the first quarter of 2008.</p>	<p>RDA's project performance management system</p> <p>TA report UDA report</p> <p>RDA's project performance management system</p> <p>Memorandum of understanding between RDA and local authorities</p>	<p>Assumptions: The contractors perform satisfactorily without delaying the works to meet the agreed completion date.</p> <p>MOHRD and RDA are effective in leading the contractors to complete civil work construction as scheduled.</p> <p>Continue commitment on the counterpart budget</p> <p>Assumption: Effective coordination between MOHRD and UDA and supervision of the TA consultants ensures timely TA implementation.</p> <p>Assumption: Effective RDA supervision of implementation of the income restoration program and completion of construction. RDA provides all required basic infrastructure at remaining resettlement site.</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
4. Public awareness campaign on operation and use of the highway	At least 1 month prior to opening the highway: (i) a leaflet on what to do and not to do on the highway is distributed to the public, and (ii) wide media information campaign is conducted.	Brochure/leaflet about operation of highway available for the public	Assumption: Coordination between RDA and MOT for administrative regulation of transport sector is effective.
Activities with Milestones			Inputs (\$'000)
<p>1. Civil works</p> <p>1.1. Package 1: Contract variation completed and approved by ADB January 2008 Construction completed by September 2009</p> <p>1.2. Package 2: Construction completed by third quarter 2010</p> <p>2. Consultants</p> <p>2.1 Construction supervision consultant: package 1 in place by March 2008</p> <p>2.2. Management consultant: phase 2 in place by January 2009</p> <p>3. Technical assistance</p> <p>TA commenced by June 2008 and completed by May 2009</p> <p>4. Supporting facilities and others</p> <p>4.1 Interchange development plan approved by UDA, third quarter 2009</p> <p>4.2 Income restoration program completed by 2009</p> <p>4.3 Hand over 32 resettlement sites to local authorities by second quarter 2008</p> <p>4.4. Construction of emergency response booth completed by the end of 2010</p> <p>4.5 Leaflet for operating the highway distributed or submitted to the public starting fourth quarter 2009</p>			<p>1.1. The Government: \$89.1 million, and ADB loan: \$90 million</p> <p>1.2. The Government will provide \$ 99.20 million</p> <p>2.1. ADB loan: \$8 million</p> <p>2.2. the Government will provide \$1.5 million and ADB loan: \$1.3 million</p> <p>3. ADB TA grant: \$300,000 and Government contribution: \$75,000 in kind</p>

ADB = Asian Development Bank, GDP = gross domestic product, MOHRD = Ministry of Highways and Road Authority, MOT = Ministry of Transport, RDA = Road Development Authority, TA = technical assistance, UDA = Urban Development Authority.