



# Country Operations Business Plan

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May 2015

Sri Lanka  
2015–2017

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 19 May 2015)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.00735
\$1.00	=	SLRs135.99

## ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CPS	–	country partnership strategy
PDA	–	project design advance
PPP	–	public–private partnership

## NOTE

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

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## **I. CONSISTENCY OF BUSINESS PLAN WITH COUNTRY PARTNERSHIP STRATEGY**

1. The country operations business plan (COBP), 2015–2017 of the Asian Development Bank (ADB) for Sri Lanka follows the strategic thrusts identified in the interim country partnership strategy (CPS), 2015–2016. The interim CPS addresses evolving development needs for inclusiveness of economic growth, which is consistent with the policy of the new government that started in January 2015, and includes the agriculture, natural resources, and rural development sectors in ADB's priority sectors for operation in Sri Lanka. Other strategic thrusts and priority sectors remain the same as those in the CPS 2012–2016,<sup>1</sup> i.e., focusing on three pillars: (i) promoting inclusive and sustainable economic growth, (ii) catalyzing private investment and enhancing the effectiveness of public investment, and (iii) supporting human resources and knowledge development. Under pillar 1, ADB operations in Sri Lanka will support infrastructure development focusing on energy, transport, urban development, water supply and sanitation, and irrigation. Under pillar 2, ADB continues to help institutionalize public–private partnerships (PPPs) and explore opportunities for transaction advisory services to structure PPPs. Pillar 3 focuses on human capital, which is identified as a critical constraint given growing demands for an educated, skilled labor force. The crosscutting themes of the interim CPS include climate change, gender, governance, and regional cooperation.

## **II. INDICATIVE RESOURCE PARAMETERS**

2. Sri Lanka's indicative resource allocation is \$1,062.2 million for 2015–2017, including \$398.2 million from the Asian Development Fund. The firm cumulative lending program is estimated at \$1,487.0 million, which is above the available ADB resource envelope for the COBP period. Over-programming is built in to address any unexpected shortfall in the firm program. The country team will explore cofinancing opportunities to increase the project scope(s), in consultation with the government. In addition, other resources will also be explored. The final country allocation of Asian Development Fund resources will be subject to available commitment authority and the outcome of the country performance assessment. The nonlending program, which includes \$4.0 million worth of technical assistance projects in 2015–2017, will be used to support implementation of infrastructure interventions and capacity development. Private investments will be catalyzed using ADB's nonsovereign lending and credit enhancement products.

## **III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS**

3. **Transport.** The first two tranches of the Integrated Road Investment Program were approved in 2014 and will continue to improve the connectivity of the road network. The third and fourth tranches are programmed for 2016 and after. The program will play a catalytic role for the sustainable development of rural areas and bring economic growth and social development to rural populations. It will (i) upgrade and maintain about 2,200 kilometers of rural access roads to an all-weather standard; (ii) rehabilitate and maintain about 400 kilometers of national roads; and (iii) improve the capacity of road agencies at the central, provincial, and local levels. The Expressway Connectivity Project is planned for 2017 to support the proposed Central Expressway. The Transport Project Preparatory Facility (technical assistance loan) has been added to the 2016 pipeline to support project readiness in the sector.

4. **Energy.** The COBP continues to focus on developing clean energy, enhancing the transmission system, and improving energy efficiency and regional cooperation. A project design advance (PDA) is included in 2016 for the Power Development and Interconnection Project (formerly the India–Sri Lanka Power Interconnection Project) programmed for 2018. The project will support the development of efficient power generation and the establishment of a

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<sup>1</sup> ADB. 2011. Country Partnership Strategy: Sri Lanka, 2012–2016. Manila.

high-voltage direct current interconnection line between Sri Lanka and India. The second tranche of the Green Power Development and Energy Efficiency Improvement Investment Program is scheduled for 2016.

5. **Education.** The COBP strengthens the human capital development efforts of Sri Lanka through skills development as well as science, technology, and innovation. Additional financing for the Skills Sector Enhancement Program is programmed for 2017 to (i) improve access, quality, and relevance by addressing the skills needs of employers in priority industry sectors; and (ii) improve the supply of skills needed to support key industry development and the transition to a knowledge economy. Harnessing science and technology to transform the economy into one that is more innovative and knowledge-based is another key to Sri Lanka's further development as a middle-income country. The Science and Technology Park Investment Project is included in the 2017 pipeline.

6. **Water supply and sanitation and urban.** The Greater Colombo Water and Wastewater Management Improvement Investment Program tranche 1 (approved in 2012) and tranche 2 (approved in 2013) both focus on water supply. These tranches aim to reduce nonrevenue water losses covering the whole of Colombo, with the goal of reducing losses from 48% to about 18% in critical areas, and to about 20% elsewhere after project completion. Tranche 3 focuses on wastewater and is planned for management approval in 2015. A PDA is planned in 2016 for the Water Supply and Sanitation Investment Project. The Urban Development Project (scheduled for 2018) will adopt an integrated urban development approach. A PDA for this project is planned in 2016. Additional financing for the Jaffna Kilinochchi Water Supply Project has been added in the 2016 pipeline.

7. **Irrigation and water resource management.** In response to the government's priority of improving river basin management, an integrated Mahaweli Water Security Investment Program was included in the pipeline for 2015. The second tranche of this program is on standby for 2016 and will be firm in 2017. Tranche 3 is on standby for 2017 and is a firm project in 2018. This program will assist the government to complete outstanding water conveyance investments under the Mahaweli Development Program. Completion of the Mahaweli Development Program is a key priority of the government and will maximize the productivity of Mahaweli River Basin water resources by transferring available water to Sri Lanka's northern dry zone areas for irrigation, drinking, and commercial purposes. This will accelerate local and national economic growth.

8. **Private sector development.** In the absence of a PPP framework, ADB will adopt a project-based approach to mainstreaming PPPs in infrastructure projects. PPP pilot projects are included in tranches under the Greater Colombo Water and Wastewater Management Improvement Investment Program, Green Power Development and Energy Efficiency Improvement Investment Program, and Skills Sector Enhancement Program. ADB's Private Sector Operations Department will support finance sector development by providing loans, equity investments, or guarantees for banks, nonbanks, or corporations to expand activities in targeted areas. In addition, ADB's Trade Finance Program will continue to fill market gaps in trade finance by providing guarantees and loans, and mobilizing private sector capital and/or involvement in Sri Lanka. ADB's Private Sector Operations Department will also explore direct support to private sector and PPP projects in infrastructure, education, agribusiness, and other sectors that can make a large contribution to the country's development through direct lending and/or equity investment. ADB may also provide transaction advisory services to structure PPP projects as needed.



## INDICATIVE ASSISTANCE PIPELINE

Table A1: Lending and Grant Products, 2015–2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change <sup>a</sup>	Division	Year of PPTA/ PDA	Cost (\$ million)						
						Total	OCR	ADB		Total	Gov't	Co-finance
								ADF				
								Loans	Grants			
<b>2015 Firm</b>												
Greater Colombo Water and Wastewater Management Improvement Investment Program (tranche 3)	WUS	TI-M	IEG, ESG, GEM	SAUW		168.0	123.0	5.0	0.0	128.0	0.0	40.0 (EIB)
Mahaweli Water Security Investment Program (tranche 1)	ANR	TI-G	IEG, ESG, GEM, KNS	SAER	2014	150.0	76.0	74.0	0.0	150.0	0.0	0.0
<b>Total</b>						<b>318.0</b>	<b>199.0</b>	<b>79.0</b>	<b>0.0</b>	<b>278.0</b>	<b>0.0</b>	<b>40.0</b>
<b>2015 Standby</b>												
Integrated Road Investment Program (tranche 3)	TRA		IEG, ESG, PSD, GCD	SATC		200.0	175.0	25.0	0.0	200.0	0.0	0.0
Jaffna Kilinochchi Water Supply Project – Additional Financing	WUS	TI-G	IEG, ESG, GEM	SLRM		250.0	83.0	97.0	0.0	180.0	0.0	70.0
Preparing Power Development and Interconnection Project – PDA <sup>b</sup>	ENE		IEG, RCI, KNS	SAEN		7.0	7.0	0.0	0.0	7.0	0.0	0.0
Preparing Urban Development Project – PDA <sup>c</sup>	WUS		IEG, ESG, GEM	SAUW		3.0	3.0	0.0	0.0	3.0	0.0	0.0
<b>Total</b>						<b>450.0</b>	<b>258.0</b>	<b>122.0</b>	<b>0.0</b>	<b>380.0</b>	<b>0.0</b>	<b>70.0</b>
<b>2016 Firm</b>												
Integrated Road Investment Program (tranche 3)	TRA		IEG, PSD, GCD	SATC	2014	200.0	175.0	25.0	0.0	200.0	0.0	0.0

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change <sup>a</sup>	Division	Year of PPTA/ PDA	Cost (\$ million)						
						Total	ADB				Gov't	Co-finance
							OCR	ADF		Total		
								Loans	Grants			
Jaffna Kilinochchi Water Supply Project (additional financing)	WUS	TI-G	IEG, ESG, GEM	SLRM		250.0	83.0	97.0	0.0	180.0	0.0	70.0
Green Power Development and Energy Efficiency Improvement Investment Program (tranche 2)	ENE		IEG, ESG, KNS	SAEN	2014	180.0	150.0	0.0	0.0	150.0	0.0	30.0 (tbd)
Transport Project Preparatory Facility (TA loan)	TRA		IEG, ESG, PSD, GCD	SATC		15.0	0.0	15.0	0.0	15.0	0.0	0.0
Preparing Power Development and Interconnection Project–PDA <sup>b</sup>	ENE		IEG, RCI, KNS	SAEN		7.0	7.0	0.0	0.0	7.0	0.0	0.0
Preparing Urban Development Project – PDA <sup>c</sup>	WUS		IEG, ESG, GEM	SAUW		3.0	3.0	0.0	0.0	3.0	0.0	0.0
Preparing Water Supply and Sanitation Investment Project – PDA <sup>d</sup>	WUS		IEG, ESG, GEM	SAUW		4.0	0.0	4.0	0.0	4.0	0.0	0.0
Total						645.0	408.0	137.0	0.0	545.0	0.0	100.0
2016 Standby												
Skills Sector Enhancement Program (additional financing)	EDU		IEG, GEM, PSD, KNS, PAR	SAHS	2015	100.0	30.0	70.0	0.0	100.0	0.0	0.0
Mahaweli Water Security Investment Program (tranche 2)	ANR	TI-G	IEG, ESG, GEM, GCD, KNS, PAR	SAER	2015	300.0	80.0	50.0	0.0	130.0	0.0	170.0 (tbd)
Expressway Connectivity Investment Program (tranche 1)	TRA		IEG, PSD, GCD	SATC		200.0	200.0	0.0	0.0	200.0	0.0	0.0

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change <sup>a</sup>	Division	Year of PPTA/ PDA	Cost (\$ million)						
						Total	ADB			Total	Gov't	Co-finance
							OCR	ADF				
								Loans	Grants			
Total						600.0	310.0	120.0	0.0	430.0	0.0	170.0
2017 Firm												
Skills Sector Enhancement Program (additional financing)	EDU		IEG, GEM, PSD, KNS, PAR	SAHS	2015	100.0	30.0	70.0	0.0	100.0	0.0	0.0
Greater Colombo Water and Wastewater Management Improvement (additional financing)	WUS			SAUW		215.0	180.0	0.0	0.0	180.0	0.0	35.0
Mahaweli Water Security Investment Program (tranche 2)	ANR	TI-G	IEG, ESG, GEM, GCD, KNS, PAR	SAER	2015	244.0	80.0	50.0	0.0	130.0	0.0	114.0 (tbd)
Expressway Connectivity Investment Program (tranche 1)	TRA		IEG, ESG, PSD, GCD	SATC	2015	200.0	200.0	0.0	0.0	200.0	0.0	0.0
Science and Technology Park Investment Project	EDU		IEG, GEM, PSD, GCS, KNS, PAR	SAHS		40.0	0.0	40.0	0.0	40.0	0.0	0.0
Total						799.0	490.0	160.0	0.0	650.0	0.0	149.0
2017 Standby												
Mahaweli Water Security Investment Program (tranche 3)	ANR	TI-G	IEG, ESG, GEM, GCD, KNS, PAR	SAER	2015	173.0	106.0	67.0	0.0	173.0	0.0	0.0
Integrated Road Investment Program (tranche 4)	TRA		IEG, PSD, GCD	SATC	2014	150.0	150.0	0.0	0.0	150.0	0.0	0.0
Railway Sector Project 1	TRA		IEG, PSD, GCD	SATC		300.0	300.0	0.0	0.0	300.0	0.0	0.0
Urban Development Project <sup>e</sup>	WUS			SAUW		103.0	103.0	0.0	0.0	103.0	0.0	0.0

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change <sup>a</sup>	Division	Year of PPTA/ PDA	Cost (\$ million)						
						ADB					Gov't	Co-finance
						ADF						
						Total	OCR	Loans	Grants	Total		
Total						726.0	659.0	67.0	0.0	726.0	0.0	0.0

ADB = Asian Development Bank; ADF = Asian Development Fund; ANR = agriculture, natural resources, and rural development; EDU = education; EIB = European Infrastructure Bank; ENE = energy; ESG = environmentally sustainable growth; GCD = governance and capacity development; GEM = gender equity and mainstreaming; Gov't = government; IEG = inclusive economic growth; KNS = knowledge solutions; OCR = ordinary capital resources; PAR = partnerships; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; RCI = regional integration; SAEN = Energy Division; SAER = Environment, Natural Resources, and Agriculture Division; SAHS = Human and Social Development Division; SATC = Transport and Communications Division; SAUW = Urban Development and Water Division; SLRM = Sri Lanka Resident Mission; TBD = to be determined; TI-G = targeted intervention—geographic dimensions of inclusive growth; TI-M = targeted intervention—Millennium Development Goals; TRA = transport; WUS = water supply and other urban infrastructure and services.

<sup>a</sup> Strategic agendas are IEG, ESG, and/or RCI; drivers of change are GCD, GEM, KNS, PAR, and PSD.

<sup>b</sup> The PDA will be refinanced by the ensuing loan for Power Development and Interconnection Project scheduled beyond 2017. Therefore, the PDA amount is not included in the total figure.

<sup>c</sup> The PDA will be refinanced by the ensuing loan for Urban Development Project scheduled in 2017 standby pipeline for \$100 million. Therefore, the PDA amount is not included in the total figure.

<sup>d</sup> The PDA will be refinanced by the ensuing loan for Water Supply and Sanitation Investment Project scheduled beyond 2017. Therefore, the PDA amount is not included in the total figure.

<sup>e</sup> This is an ensuing loan of Urban Development Project PDA and the amount is reflected in the total figure.

Source: Asian Development Bank estimates.

**Table A2: Nonlending Products and Services, 2015–2017**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2015 Firm</b>								
Railway Sector Assessment	TRA	SATC	PATA	TASF	1,000			1,000
<b>Total</b>					<b>1,000</b>			<b>1,000</b>
<b>2015 Standby</b>								
Strengthening Public–Private Partnership Capacity in Board of Investment	PSM	SAPF/SLRM	CDTA	TASF	500			500
Economic Corridor Study		SLRM	PATA	TASF	1,500			1,500
<b>Total</b>					<b>2,000</b>			<b>2,000</b>
<b>2016 Firm</b>								
Strengthening Public–Private Partnership Capacity in Board of Investment	PSM	SAPF/SLRM	CDTA	TASF	500			500
Economic Corridor Study		SLRM	PATA	TASF	1,500			1,500
<b>Total</b>					<b>2,000</b>			<b>2,000</b>
<b>2017 Firm</b>								
Railway Institutional Strengthening	TRA	SATC	CDTA	TASF	1,000			1,000
<b>Total</b>					<b>1,000</b>			<b>1,000</b>

ADB = Asian Development Bank; CDTA = capacity development technical assistance; PATA = policy and advisory technical assistance; PSM = public sector management; SAPF = Public Management, Financial Sector, and Trade Division; SATC = Transport and Communications Division; SLRM = Sri Lanka Resident Mission; TRA = transport; TASF = Technical Assistance Special Fund.  
Source: Asian Development Bank estimates.