Validation Report

Reference Number: PVR-474
Project Number: 33019-013
Loan Number: 1841
December 2016

Sri Lanka: Colombo Port Efficiency and Expansion Project

Independent Evaluation Department
Asian Development Bank
ABBREVIATIONS

ADB – Asian Development Bank
BOT – build–operate–transfer
HIW – harbor infrastructure works
JCT – Jaya Container Terminal
MSC – main services consultant
PCR – project completion report
PMU – project management unit
POE – panel of experts
PPP – public-private partnership
RRP – report and recommendation of the President
SAGT – South Asia Gateway Terminal
SCT – South Container Terminal
SHDP – South Harbor Development Project
SLPA – Sri Lanka Ports Authority
TA – technical assistance

NOTE

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

Key Words

adb, asian development bank, build-operate-transfer, colombo, harbor, harbor infrastructure works, lessons, performance evaluation, port, project completion report, sri lanka, transport, validation

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of IED management, there were no conflicts of interest of the persons preparing, reviewing, or approving this report. The final ratings are the ratings of IED and may or may not coincide with those originally proposed by the consultants engaged for this report.

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, IED does not intend to make any judgments as to the legal or other status of any territory or area.
I. PROJECT DESCRIPTION

A. Rationale

1. Efficient ports add value to supply chains and help to attract industries and enterprises that support economic growth over the longer term. As one of the main deepwater ports near the Indian subcontinent, Colombo Port has historically played a pivotal role, especially as a point of transshipment for smaller ports in South Asia. Large container carriers usually avoid calling on the Indian, Pakistan, and Bangladesh ports because they do not have sufficient depth and adequate port facilities to handle such vessels. Ancillary marine services, which are vital for the shipping trade, are also not well developed in these ports.
2. Despite these opportunities, the development of Colombo Port did not keep pace with economic growth in the region during the 1980s and 1990s due to lack of new investments, lagging institutional reforms, and poor efficiency. Colombo port operated as a state-owned enterprise managed by the public sector. More efficient and well-equipped international ports were emerging around the region and threatened to take away business. Private sector corporations elsewhere were operating ports more efficiently under concession agreements, although these ports continued to remain publicly-owned assets. This is the so-called landlord model, where the port infrastructure is state owned, but its operation is managed by the private sector that pays a fee to the government for the use of the port facility. It was envisaged that an expanded Colombo port adopting this model, would benefit not only the Sri Lankan economy but also the broader regional economy given its strategic location between Middle East and Southeast Asian shipping hubs.

3. An Asian Development Bank (ADB) technical assistance project in 1999\(^1\) performed the initial review for the Colombo Port expansion, studied the feasibility of the South Harbor Development Project (SHDP), and identified the policy and institutional reforms needed to run it competitively. Encouraged by the findings, ADB provided a follow-on technical assistance (TA) loan in 2001 to identify reforms and undertake detailed project preparation.\(^2\)

B. Expected Impact, Outcome, and Outputs

4. The expected impact of the TA loan was to help the government realize the potential of the Colombo Port, which could be a major port in South Asia. The envisaged project outcome was to create an environment that would allow (i) expanding private sector participation in the port sector, (ii) commercialization of port operations run by the public sector to improve efficiency, and (iii) adoption of a strategic approach to enlarge the Colombo Port and maximize its private sector funding.

5. The project had two major expected outputs: (i) port sector’s policy, institutional, and regulatory issues addressed; and (ii) project preparation for the SHDP undertaken. The policy, institutional, and regulatory outputs were divided into three components: (i) provide consulting services to revise the Sri Lanka Ports Authority (SLPA) Act to include the use of private sector concessions, and to prepare the necessary documentation for establishing a competition regulator; (ii) increase the efficiency of existing container terminal facilities of SLPA at the Jaya Container Terminal (JCT); and (iii) prepare the enabling regulations for establishing dedicated facilities for international trade operations. The second of the two major outputs relates to the preparation of the SHDP.

C. Provision of Inputs

6. The total project cost was estimated at $14.40 million, comprising a foreign exchange component of $7.99 million (55%) and a local currency component of $6.41 million (45%). An ADB loan of $10.00 million was to finance 69.4% of the total cost, with the remaining $4.40 million to be provided by the Government of Sri Lanka. The loan covered the entire foreign exchange cost and part of the local currency cost. Approved on 27 September 2001, the project was to be implemented over 19 months and expected to be completed by 31 August 2003. However, the TA loan was closed in 16 November 2009, after more than 6 years.


7. Upon completion, the actual project cost was $11.9 million or 17.1% lower than estimated at appraisal. There was a marginal increase of $0.3 million in the foreign exchange cost, but a decrease in the local cost of $2.7 million. The decrease in project cost was due to the lower cost of equipment, numerical model simulation (including surveys and investigations), report and communication, staff remuneration, and taxes and duties. The actual loan amount utilized was $8.6 million (or 86% of the approved loan amount). 3

8. At appraisal, it was estimated that approximately 463 person-months of consulting services would be required. These comprised 285 person-months of international and 178 person-months of domestic consultants. At project completion, the main services consultant (MSC) provided 290 person-months of international and 250 person-months of domestic consultant inputs. In addition, three individual consultants were contracted as a panel of experts (POE) on port commercial management, offshore and maritime structural engineering, and container terminal operations for 4 person-months, with intermittent inputs spread over 6 months.

D. Implementation Arrangements

9. At appraisal, the Ministry of Port Development and Development of the South was the project’s executing agency. A steering committee was to be established to give overall guidance for the TA activities. However, the overseeing ministry experienced changes. At the time the loan agreement was signed, the SLPA was placed under the Ministry of Ports, Shipping and Fisheries. This ministry was then restructured as the Ministry of Port Development and Shipping, which became the executing agency. A project management unit (PMU) was set up and was responsible for the supervision of the MSC, engagement of the POE, coordination with the steering committee and tripartite meetings, and certification of withdrawal applications. The steering committee was established in September 2002, comprising representatives from the Ministry of Port Development and Shipping, SLPA, Department of External Resources, Board of Investment of Sri Lanka, Bureau of Infrastructure and Investment, Japan Bank for International Cooperation (JBIC) and ADB.

10. Of the 25 loan covenants, 21 were complied with, two were partially complied with, and two were not complied with. Those not complied with were the (i) full corporatization and labor rationalization of JCT, (ii) establishment of the port regulator, and (iii) application for International Organization for Standardization (ISO) 9002 compliance by the SLPA.

11. The MSC completed most of its outputs but progress in preparing bid documents for the harbor infrastructure works (HIW) and the build–operate–transfer (BOT) component was protracted, largely because financing could not be finalized on time. To save on consultancy resources and with ADB approval, the MSC had to be suspended from September 2005 and remobilized in July 2006 to finalize bid documents for public sector and private sector components. The contract was again extended on two subsequent occasions to (i) complete the bid documents for the public sector funding component, and (ii) assist the government in completing the procurement process for the BOT concession. The engagement of POE also exceeded the expected 4 months for the same reasons but the experts’ nonavailability for further services resulted in the termination of the POE contract.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

12. The project completion report (PCR) rated the project relevant. It stated that the project assisted the government in developing additional capacity and facilities at the Colombo Port to relieve long-term capacity constraints. The expansion was in accordance with the National Port and Shipping Policy of 1997, which envisioned the Colombo Port to comprise container handling facilities under a build–own–operate or BOT arrangement, and to achieve improved port productivity and efficiency.

13. The PCR noted that the project was also aligned with government’s policy and strategies as stated in (i) the government’s 2002 policy document “Regaining Sri Lanka;” (ii) the government’s Mahinda Chintana national policy on developing the main ports of the country to facilitate increasing export and import trade, and encourage public-private partnerships (PPPs) for new investment in the ports sector; and (iii) in the SLPA’s “Vision 2020: Logistics Excellence in the Silk Route.”

14. The project was part of the transport sector development strategy in the ADB country strategy and program update for Sri Lanka, which intended to make the Colombo Port internationally competitive and to maximize private sector financing in its expansion. The current ADB country partnership strategy for Sri Lanka continues to assist Sri Lanka’s ports, with their potential for promoting regional cooperation, trade, and tourism. In this sense, the project continued to remain relevant despite running longer than anticipated.

15. The project design was ambitious especially on policy, institutional, and regulatory issues. Previous World Bank involvement had tried to restructure the port sector but had not succeeded, so there were reasons for ADB to be more cautious (report and recommendation of the President [RRP], para. 11). The government’s lack of commitment to reforms prevented the implementation of the project’s main outputs. The uncertainty in the financing of the HIW project stretched the TA design and delayed the project. Notwithstanding, the provision of a TA loan was an appropriate step for designing the port extension and attracting a private operator through a PPP modality. Overall, this validation assesses the project relevant.

B. Effectiveness in Achieving Project Outcomes and Outputs

16. The PCR rated the project less than effective. As the PCR pointed out, the project was intended to assist the government to (i) expand private sector participation in the port sector, (ii) commercialize public sector operations to improve efficiency, and (iii) adopt a strategic approach to enlarge the Colombo Port and maximize private sector funding. However, the project’s main outcomes were not achieved within the time envisaged.

17. Some of the envisaged outputs were not achieved and the alternatives implemented were not in accordance with the project design (PCR, para. 11). The recommendation to fully corporatize the JCT was not fully implemented due to the labor union’s apprehension at the

---

6 See http://portcom.slpa.lk/news_events_13031.asp
possible layoffs that would occur. In this case, ADB and the government agreed that JCT would put in place an action plan and implement measures to enhance its operational efficiency. A voluntary retirement scheme was implemented, but it achieved less than the desired outcome for labor rationalization. On the JCT corporatization, only a shell corporation was established, not the full-fledged commercialization that was intended. The implementation of the corporatization was flawed.

18. The South Asia Gateway Terminal (SAGT), a competitor to JCT, forced JCT to improve its operating efficiency resulting in (i) improved average turnaround time for container ships by 30%—from 23.1 hours in 2001 to 16.0 hours in 2005, and (ii) improved average waiting times per ship by 77%—from 3.6 hours in 2001 to 0.8 hours in 2005. The SAGT and JCT performed at similar levels of operational crane productivity of 23 moves per crane per hour by 2006. This was close to the industry average of 25–30 as of appraisal. SLPA is also a shareholder in SAGT.

19. On the SHDP, not all outputs were achieved and some were substantially delayed. The delayed outputs were (i) the plan to develop SHDP using the landlord model, (ii) the BOT concession documents for the private sector component of the South Container Terminal (SCT), (iii) the plan to assist the government in the procurement process leading to the successful award of the BOT concession, (iv) the completion and approval of the detailed engineering design and bidding documents for the public sector portion, and (v) having the environmental clearance for SHDP in December 2005. The output for the private sector component of the SCT was not achieved as this was not fully implemented.

20. Overall, the project had a mixed performance and failed to achieve the policy and institutional reforms envisaged. However, it expedited the process for implementing the HIW and BOT projects that enabled the expansion of Colombo Port’s capacity, although these were delayed mostly due to the government’s indecisiveness. This, however, could be considered as the major output of the project. Since outcomes and outputs were achieved, this validation assesses the project effective.

---

9 This opposition was more prevalent among the more than 12,000 SLPA workers who were not assigned at JCT than among the 1,500 workers who actually worked at JCT. The reason for the opposition by the non-JCT workers was obvious, and from their terms, even rational. Over 60% of the SLPA revenues were generated by JCT. The fear was that if JCT were no longer an integral part of SLPA, these revenues would no longer be available to SLPA and, thus, their own job security and benefits were likely to be affected. The argument that SLPA would have access to JCT’s revenues because JCT was a wholly owned subsidiary of SLPA did not reassure the labor unions. This was because of the underlying fear that the JCT corporatization was merely a prelude to the full privatization of JCT to non-SLPA investors. This fear gained credibility because several previous studies commissioned by the government, had in fact advocated corporatization as a stepping stone to privatization. See http://lkyspp.nus.edu.sg/cag/wp-content/uploads/sites/5/2013/05/NATBMA_WP1132.pdf


11 In September 1999, a concession agreement was signed between the Government of Sri Lanka and a consortium of local and international establishments in shipping, commerce, and finance. The consortium, known as South Asia Gateway Terminal, took over the operation and management of the historic Queen Elizabeth Quay (QCT) in the Port of Colombo on 5 September 1999 through a 30-year BOT concession. This was the first modern private container terminal in Sri Lanka, completed in three phases in 2003. The phases led to the redevelopment of a berth at the QCT, which included reclamation, steel piling, reinforced concrete decking, new pavements, having reefer stacking areas, and electrical infrastructure, and introduced the most modern container handling systems. See https://www.sagt.com.lk/About_SAGT.aspx?MnuId=2
C. Efficiency of Resource Use in Achieving Outcomes and Outputs

21. The PCR rated the project efficient. It argued that project efficiency could not be measured by standard economic and financial analyses or against process efficiency, such as delays and changes in scope. This rating was given despite the fact that at appraisal, the project economic internal rate of return was estimated at 19.2% (RRP, paras. 34–36). This should have been reestimated during the TA but this was not done. This is a serious limitation of the PCR.

22. Substantial delays occurred during project implementation due to difficulties in securing sufficient funding for the HIW and changes in government policies. The project was completed 5 years and 8 months beyond the planned completion date (para. 6), while actual loan effectiveness was delayed by 3 months. MSC procurement was also delayed, taking more than 16 months instead of the envisaged 9 months mainly due to clarifications required from ADB during the technical evaluation stage (PCR, para. 44). Implementing the MSC terms of reference also took about 90 months, inclusive of the period when work was suspended, compared to the envisaged period of 21 months.

23. Project preparation for the SHDP was delayed as the government could not decide on the financing mix needed to reduce the risks and allay the apprehensions of some stakeholders, notably SLPA and labor unions. The first of several actions taken was on the new legal authority of SLPA to exercise its power to award BOT concession under Section 7(1) (a) of the SLPA Act. The second action was the adoption of financing option 3 where the public sector would undertake HIW as a public good for the project, and for the three container terminals to undergo individual concessions. The third action was when ADB agreed to specify only the first two (out of three terminals) in the competitive bidding, which left open the possibility that SLPA would be allowed in the future to have the third terminal—a second-best solution from SLPA management’s point of view—which helped assuage the management of this concern (footnote 10). While the process took much longer than expected and was inefficient, it illustrates the longer-term commitment needed by ADB to achieve the change—a shift from inefficient state-owned and state-run ports to more modern, efficient, and privately run operations. Nonetheless, given the substantial delays that occurred especially in the bidding for the concession, this validation assesses the project less than efficient.

D. Preliminary Assessment of Sustainability

24. The PCR rated the project likely sustainable. The PCR viewed the location of the Colombo Port strategic and could be developed as the primary transshipment hub for the Indian subcontinent regional container traffic. The planned new deepwater port would further enhance and ensure its continued role as a transshipment hub. Colombo Port’s improved efficiency and capacity to handle large vessels would be a significant advantage, given its proximity to the southern and coastal ports of South Asia. The construction of the SCT as a PPP would ensure that the concessionaire will properly maintain its facilities, given competition from the SAGT and JCT.

25. The main focus of the project was to restructure the Colombo Port, enhance the role of the private sector, and make it internationally competitive in its operations. Associated critical reforms were identified in the loan agreement but these were not adhered to by the government. Major institutional reforms were not addressed as intended. The corporatization of the JCT was not achieved. The port productivity objectives and rationalization of the labor force were also not achieved as envisaged at appraisal. Further, the PCR did not calculate the financial internal rate of return to present justify the sustainability of efficient port operations. Nevertheless, a follow-
up project did extend the south harbor and attracted a private sector operator. Sri Lanka’s rating in the World Bank’s Logistics Performance Index from 2007–2014 also improved. This index monitors country performance in trade logistics, which includes indicators of port efficiency, customs and timing, among other things. On balance, this validation assesses the project likely sustainable, given the private sector’s commitment, under the PPP arrangement, to operate and maintain its facility in competition with the JCT and SAGT.

E. Impact

26. The PCR rated the project’s impact significant. It argued that the project was instrumental and contributed in ensuring readiness and smooth implementation of the ensuing investment loan, which enabled private sector investment to the SHDP. The construction of the SCT was implemented using a PPP arrangement. The new deepwater terminal facilities enable the Colombo Port to serve larger vessels, thus, increasing demand for transshipment and strengthening its strategic position in the European–Asian route plied by major shipping lines. The availability of fast and direct shipping services increased the attractiveness of Sri Lanka as a location of choice for new manufacturing or distribution centers and created a multiplier effect through the Colombo Port’s increased operation.

27. The PCR has no report on the environmental impact of the project. This validation notes that the project did not require any resettlement of people. It also notes that an environmental impact assessment was prepared for the SHDP and the environmental clearance was obtained in 2005. The PCR should have reported on the expected environmental impact and the requisite mitigating measures, if required. This validation assesses the project’s impact satisfactory.12

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

28. The PCR rated the performance of the borrower and the executing agency satisfactory. During implementation, the required PMU was set up by the executing agency to supervise the MSC. The PMU provided the necessary approvals and was responsible for day-to-day project management. The steering committee met 13 times and reviewed and approved the submissions of the consultants. The government provided adequate and timely counterpart funding.

29. This validation notes that, while the government was committed to implement SHDP using PPP, this took a long period of time. The SLPA was non-committal on the PPP option and was keen on protecting its interest as a market-controlling port operator. The SLPA, as the implementing agency, was itself an obstacle to enhanced private sector participation in port operations. Considering that the JCT was owned by SLPA, it was hesitant to pursue JCT’s full corporatization. SLPA superficially viewed the improved productivity of the JCT as matching that of the SAGT and international standards, and having already achieved the project objective, it saw little need for further pursuing JCT’s corporatization beyond that of a paper corporation (para. 17). Nonetheless, the project’s overall objective was achieved despite the delays. This validation assesses the performance of the borrower and executing agency satisfactory.

12 Beginning May 2016, IED adopts the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations on development impacts. In this terminology, a satisfactory rating coincides with the significant rating that was used before.
B. Performance of the Asian Development Bank

30. The PCR rated ADB performance *satisfactory*. Despite the implementation challenges, ADB stayed on course and dealt with emerging challenges throughout the project. It played a constructive role in the successful preparation of the ensuing loan. ADB approved the numerous extensions for the loan closing date to help the government decide, to secure sufficient funding for the ensuing project, and to procure the concessionaire for the additional private container terminal. ADB approved the suspension of the MSC in September 2005 for government to have additional time to make the final decision.

31. ADB ensured the prudent use of its loan, in spite of the numerous delays, extending project implementation by 5 years and 8 months. ADB, however, should have engaged the government more actively in a policy dialogue about the reforms, which were the objective of the project.

32. The project was administered from ADB headquarters, with ADB conducting project consultation and administration missions, including the inception mission, one special loan administration mission, and four regular reviews. Based on the findings, this validation assesses the performance of ADB *satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

33. The PCR assessed the project *successful* with core criteria ratings of *relevant, less than effective, efficient, and likely sustainable*. This validation noted that policy and institutional reforms were not implemented in full, as agreed upon with the government. This validation assesses the project *relevant, effective* (despite shortcomings in the policy and institutional aspects, it was able to expedite the major output of implementing the HIW and BOT components), *less than efficient* (for failing to undertake economic analysis at completion and for delays in implementation), and *likely sustainable*. Overall, this validation rates the project *successful*.

Overall Ratings

<table>
<thead>
<tr>
<th>Criteria</th>
<th>PCR</th>
<th>IED Review</th>
<th>Reason for Disagreement and/or Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance</td>
<td>Relevant</td>
<td>Relevant</td>
<td></td>
</tr>
<tr>
<td>Effectiveness in achieving outcome</td>
<td>Less than effective</td>
<td>Effective</td>
<td>The TA loan succeeded in expediting the implementation of the HIW and BOT components, as intended. Despite shortcomings in policy and institutional aspects, the more important output of improving port operations in line with international standards was achieved (paras. 16–20).</td>
</tr>
<tr>
<td>Efficiency in achieving outcome and outputs</td>
<td>Efficient</td>
<td>Less than efficient</td>
<td>No economic analysis was undertaken. The project also experienced substantial delays (paras. 22–23).</td>
</tr>
<tr>
<td>Preliminary assessment of sustainability</td>
<td>Likely to be sustainable</td>
<td>Likely sustainable</td>
<td></td>
</tr>
<tr>
<td>Overall assessment</td>
<td>Successful</td>
<td>Successful</td>
<td></td>
</tr>
</tbody>
</table>
### Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>PCR</th>
<th>IED Review</th>
<th>Reason for Disagreement and/or Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
<td>Significant</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Borrower and executing agency</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Performance of ADB</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Quality of PCR</td>
<td>Less than satisfactory</td>
<td>Refer to para. 37.</td>
<td></td>
</tr>
</tbody>
</table>

**ADB = Asian Development Bank, BOT = build–operate–transfer, HIW = harbor infrastructure works, IED = Independent Evaluation Department, PCR = project completion report, TA = technical assistance.**

Note: This report uses the ratings terminology of the April 2016 Guidelines for the Evaluation of Public Sector Operations.

Source: ADB Independent Evaluation Department.

### B. Lessons

34. The two project components—addressing port sector policy, institutional, and regulatory issues; and preparing the technical and economic feasibility study for the SHDP—were combined into one consultancy contract. Of the total 288 person-months, 12 person-months (less than 5%) were directly allocated for JCT business reorganization and corporatization. The bulk (225 person-months) was allocated for PPP and/or engineering works or what could also be considered as PPP transactional services. It may have been better to have two separate consultancy contracts given the imbalance in the consultancy services requirements. This would have ensured adequate attention to the JCT corporatization, including policy and regulatory issues, and the SHDP.

### C. Recommendations for Follow-Up

35. As stated in the PCR, there was no need for future monitoring as the project design was successfully implemented under Loan 2319. This validation suggests maintaining active engagement with SLPA to assess port operations, including the envisaged volume increase, and to maintain dialogue on the needed reforms moving forward.

### V. OTHER CONSIDERATIONS AND FOLLOW-UP

#### A. Monitoring and Evaluation Design, Implementation, and Utilization

36. The project did not envisage the installation and operation of a project performance monitoring system. Instead, it relied on annual information provided by the SLPA and private port concessionaires.

#### B. Comments on Project Completion Report Quality

37. The discussions and analyses in the PCR were deficient as these did not provide detailed information on why certain outputs were not achieved as planned. On the port sector’s policy, institutional, and regulatory issues, the PCR could have provided a comprehensive discussion on why alternatives rather than the envisaged outputs were implemented, particularly on the port regulator and JCT corporatization. On the SHDP, the reasons for the government’s delay in deciding on the PPP option and financing issues would have provided basis for the substantial implementation delays that ensued. This validation notes that the policy analysis paper presented in the National University of Singapore (footnotes 9 and 10) gave useful...
findings that should have been included in the PCR. For these reasons, this validation finds PCR quality less than satisfactory.

C. Data Sources for Validation


D. Recommendation for Independent Evaluation Department Follow-Up

39. The PCR recommended that the project performance evaluation report be done in 2020 or later when all three container terminals are in full operation. This validation concurs with this PCR recommendation.