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WASHINGTON, December 15, 2005 - The World Bank today approved a US\$160 million package of assistance from the International Development Association (IDA) to Sri Lanka, of which a US\$100 million credit will finance development of the national road network, and a US\$60 million grant will support the education system.

Years of poor maintenance have resulted in a degraded road network across the island nation. The Road Sector Assistance Project will help lower transportation cost by ensuring an efficient national road system that serves the needs of all Sri Lankans. It will improve 620 km of national roads and reduce national highways in poor condition from 52 percent in 2005 to 35 percent in 2010. Sri Lanka has among the highest density of rural roads in the developing world, and the project will support innovative pilot schemes for rural roads maintenance in three provinces. In addition, the Government of Sri Lanka will increase annual maintenance expenditure from a projected US\$13 million in 2005, to US\$30 million in 2006, and US\$46 million in 2010.

"The road network is a vital component for the movement of people and goods and as such, plays an important role in integrating the country, facilitating economic growth, and ultimately reducing poverty," said Isabel Chatterton, team leader for the Road Sector Assistance Project. "Years of poor maintenance have resulted in low travel speeds and poor service levels, hindering the spread of economic activities and development outside the Colombo Metropolitan Area. This project aims to support the Government's commitment to reverse that situation."

The project-closely coordinated with the Asian Development Bank (ADB) and Japan Bank for International Cooperation (JBIC)-signals the Bank's re-engagement in the transport sector after more than a decade in support of a number of key sectoral reforms, including establishment of a Road Maintenance Trust Fund which is a financing mechanism to manage budgetary allocations to national and provincial roads.

The Education Sector Operation is the first Sector Wide Programmatic (SWAp) [1] operation in Sri Lanka, and will directly support the education budget of the country. It aims to promote equitable access to basic education; increase learning levels and hone practical skills needed in the workforce; enhance efficiency and equity of resource allocation and distribution; and strengthen the quality of the education system. It will have strong focus on equity, with particular emphasis on increasing access to basic and secondary education among the poorest and most disadvantaged groups and regions in the country. Participation in basic education is only at 81 percent, and needs to be raised substantially to achieve the target of universal completion.

The project supports an education sector expenditure framework that starts from individual school plans and introduces schools-based management. The resources provided through the grant are explicitly linked to performance. Provinces that show good progress in areas such as grade cycle enrolment, completion rates, and learning achievements, will be rewarded with increased allocations in future years.

It will benefit around 550,000 mostly poor children who fail to complete basic education; roughly 4 million students in basic and secondary education in 10,000 public schools; and about 210,000 principals, teachers, and school administrators.

"A high performing education system will improve human capital accumulation, with beneficial effects on growth, human development and poverty reduction," said Harsha Aturupane, Senior Education Economist in the Bank's Colombo Office.

The Country Assistance Strategy (CAS) Progress Report [2] for Sri Lanka was also discussed by the Board today. The Progress Report reviews developments in the country since the Bank Group last formulated a Country Assistance Strategy in 2003. The FY2003-2006 CAS was designed around three central themes: Peace, Growth, and Equity. It identified peace and restoration of domestic security as the basis for the future of the Sri Lankan economy.

"Since the CAS was presented much has happened in Sri Lanka," said Peter Harrold, Country Director for Sri Lanka. "The devastating tsunami left behind widespread destruction and loss of life, the peace process has stalled, and the poverty reduction strategy of the country has undergone a significant realignment."

The CAS Progress Report proposed continued strong engagement by the Bank in Sri Lanka, with levels of support that would be adjusted as the country's situation continued to evolve, especially with regard to the trend in the peace process, and the commitment to a sustainable program of poverty reduction and growth.

The report says there has been some success towards achieving the CAS outcomes, especially in the peace and tsunami pillars [3]. "The Bank focuses its evaluation of the CAS on the concrete results on the ground," said Debbie Bateman, World Bank Country Coordinator for Sri Lanka. She observed that some benefits of the cease-fire, strong economic growth and agriculture production in the country's conflict-affected North and East, have been realized. Certain key reforms such as result-based budgeting, and a strong response to the tsunami disaster have also been achieved.

The report notes the significant risks associated with the strategy, but considers these risks justifiable as long as Sri Lanka retains the potential for moving forward towards peace and achieving its elusive but still attainable economic potential.

The Road Sector Assistance credit from the International Development Association (IDA), the World Bank's concessionary arm, has 40 years to maturity with a 10-year grace period; it carries a service charge of 0.75 percent

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For project information, visit:

Road Sector Assistance Project:

<http://www.worldbank.org/external/default/main?pagePK=64027221&piPK=64027220&theSitePK=233047&menuPK=287064&Projectid=P086411>

Education Sector Operation:

<http://www.worldbank.org/external/default/main?pagePK=64027221&piPK=64027220&theSitePK=233047&menuPK=287064&Projectid=P084580>

[1]SWAp is an approach to support a locally owned program for a coherent sector in a comprehensive and coordinated manner, moving toward use of country systems

[2]The CAS progress report had been planned for earlier, but was changed when the team mobilized to orchestrate the Bank's response to the tsunami.

[3]The tsunami was added as a fourth CAS pillar, given the overlaps with each of the other three pillars.