



Periodic Financing Request Report

Project Number: 50301-003
MFF Number: 0102
October 2019

Democratic Socialist Republic of Sri Lanka: Second Integrated Road Investment Program (Tranche 2)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 August 2019)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.005563
\$1.00	=	SLRs179.750000

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
GAP	–	gender action plan
km	–	kilometer
MFF	–	multitranchise financing facility
MOHRP	–	Ministry of Highways, Road Development, and Petroleum Resources Development
PBM	–	performance-based maintenance
RDA	–	Road Development Authority

NOTES

- (i) The fiscal year (FY) of the Government of Sri Lanka ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 31 December 2019.
- (ii) In this report, “\$” refers to United States dollars.

Vice-President	Shixin Chen, Operations 1
Director General	Hun Kim, South Asia Department (SARD)
Director	Ravi Venkat Peri, Transport and Communications Division, SARD
Team leader	Kanzo Nakai, Principal Transport Specialist, SARD
Team members	Arlene G. Ayson, Senior Operations Assistant, SARD
	Sajid Raza Zaffar Khan, Financial Management Specialist, SARD
	Maria Laureen Laurito, Senior Social Development Officer (Safeguards), SARD
	Maria Iris D. Millendez-Bombay, Associate Safeguards Officer (Environment), SARD
	Aruna U. Nanayakkara, Senior Project Officer (Transport), SARD
	Roshan Ouseph, Counsel, Office of the General Counsel
	Abira G. Prashanth, Project Officer, SARD
	Maria Lualhati A. Rueda, Project Analyst, SARD
Peer reviewers	Zheng Wu, Unit Head, Project Administration, Central and West Asia Department

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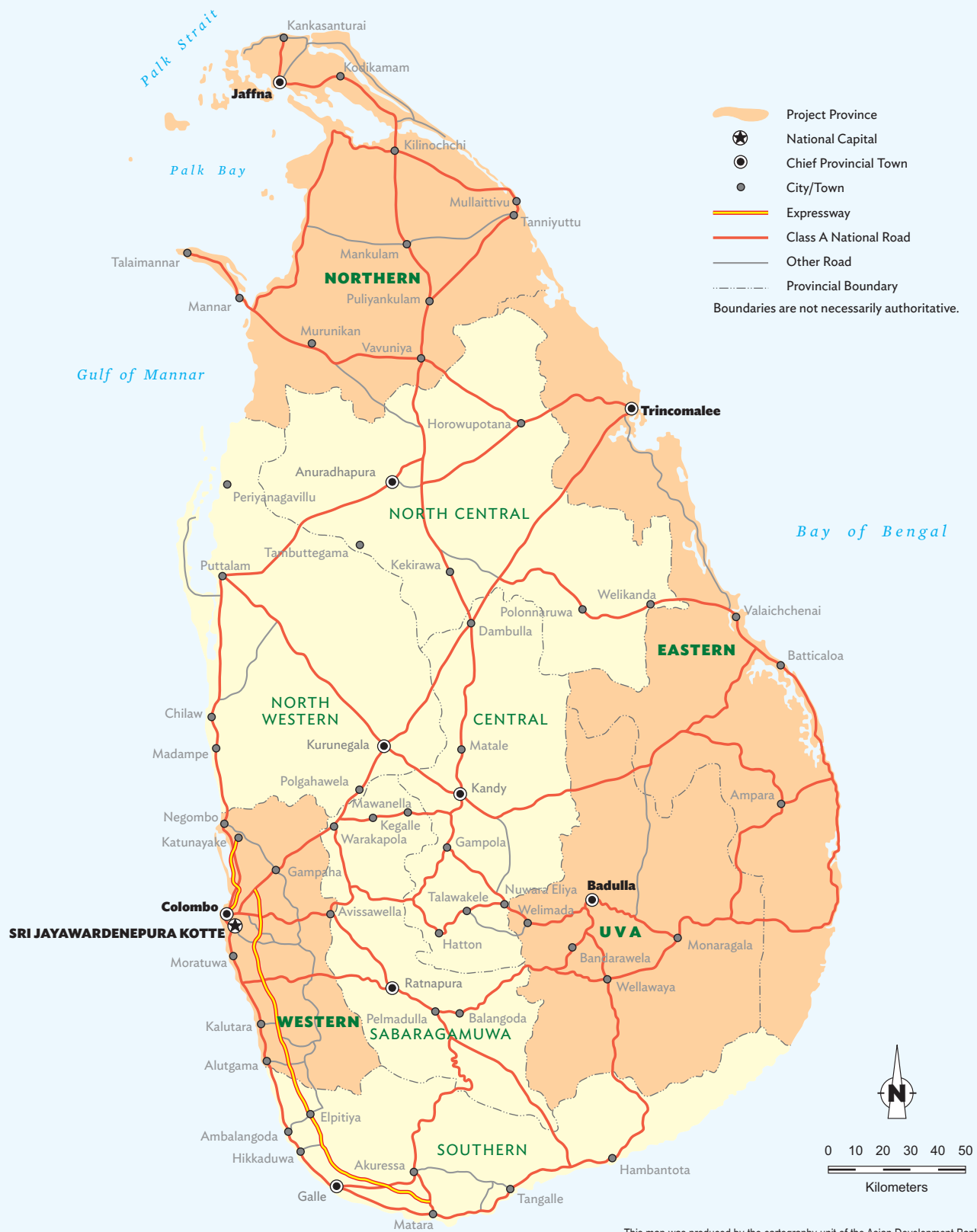
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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 50301-003	
Project Name	Second Integrated Road Investment Program-Tranche 2	Department/Division	SARD/SATC
Country	Sri Lanka	Executing Agency	Ministry of Highways & Road Development and Petroleum Resources Development
Borrower	Democratic Socialist Republic of Sri Lanka		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=50301-003-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=50301-003-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		150.00
		Total	150.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Medium
✓ Accelerating progress in gender equality			
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
✓ Promoting rural development and food security		Adaptation (\$ million)	7.10
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5		Effective gender mainstreaming (EGM)	✓
SDG 9.1			
SDG 10.2		Poverty Targeting	
SDG 13.a			
4. Risk Categorization: Low			
5. Safeguard Categorization Environment: B Involuntary Resettlement: B Indigenous Peoples: C			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		21.80	
Government		21.80	
Total		171.80	
Currency of ADB Financing: US Dollar			

SRI LANKA SECOND INTEGRATED ROAD INVESTMENT PROGRAM (TRANCHE 2)



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I. BACKGROUND

1. **Multitranche financing facility.** On 29 September 2017, the Board of Directors of the Asian Development Bank (ADB) approved a multitranche financing facility (MFF) of \$900 million, with an availability period ending March 2027, to the Democratic Socialist Republic of Sri Lanka for the Second Integrated Road Investment Program.¹ The investment program will improve the accessibility of the road network in Sri Lanka's rural areas, and thereby support rural economic and social development. It will upgrade and maintain about 3,400 kilometers (km) of rural access roads to an all-weather standard; rehabilitate and maintain approximately 340 km of national roads in Eastern, Northern, Uva, and Western provinces; and improve the capacity of road agencies with respect to safeguards, road safety, maintenance, research capacity, and road design and construction.

2. Despite rapid progress in reducing poverty, Sri Lanka faces several challenges in fully eradicating it. There are disparities in the poverty rate across provinces and districts, particularly in Eastern, Northern, and Uva provinces. Securing prosperity for everyone through sustainable and inclusive development is a priority government strategy. Pro-poor economic growth will need to be driven by both high rates of public expenditure and market-oriented value addition and private sector-led investment. However, growth is hindered by poor transport infrastructure, particularly poorly maintained provincial and local authority roads. Access to markets and business and knowledge opportunities and benefits, especially along agricultural value chains, will be key to further poverty reduction and shared prosperity in rural areas.

3. The framework financing agreement for the MFF was signed on 14 August 2017. The MFF uses the time-slice approach for the large-scale investment program. All projects under the program were fully identified and appraised as part of the MFF due diligence, and each tranche will finance parts of the fully appraised projects in accordance with their disbursement requirements.²

4. **Road map.** The government plans to establish 2,500 rural development centers as rural economic market hubs. This will be achieved by grouping many villages as potential development centers with access to fully equipped rural economic market units, and by upgrading or rehabilitating rural access routes. Progress in improving provincial and rural roads, however, has been relatively slow because of (i) competition for budget allocations, (ii) limited availability of sustainable raw materials, (iii) limited project implementation capacity of road agencies, (iv) ad hoc selection of provincial and local project roads in the absence of clear criteria, and (v) insufficient community involvement in rural road development. The investment program will address these issues and improve connectivity between priority rural development centers and surrounding villages.

5. **Policy framework.** The government has adopted a two-tier strategy to provide nationwide connectivity by (i) establishing a trunk road network with expressways and well-connected national roads, and (ii) completing a rural road network to connect the rural population to trunk roads for poverty reduction and shared prosperity. The Public Investment Programme, 2017–

¹ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for Second Integrated Road Investment Program*. Manila.

² Details of the time-slice approach are in the Approach to Time Slice Financing accessible from the list of linked documents in Appendix 2 of the report and recommendation to the President for the investment program (footnote 1).

2020 provides policy directions for the road sector to facilitate the country's economic growth by creating an efficient road network that (i) connects large and emerging cities, townships, economic centers, and rural hubs; and (ii) ensures safety and equity.³

6. The government established an implementation framework for the Road Development Authority (RDA) to improve provincial and local authority roads with local road agencies. The objective was to accelerate completion of the rural road network by supplementing the limited capacity of the local agencies. To overcome past shortcomings in rural road development, the framework increased subproject selection criteria accountability, strengthened community participation, and improved rural road sustainability through (i) rural road design and specifications; (ii) introduction of 3-year performance-based maintenance (PBM) contracts; and (iii) technical capacity development of local road agencies, including for road asset management.

7. **Strategic context.** In line with the government's national strategy, ADB's country partnership strategy for Sri Lanka, 2018–2022 aims to address major development constraints by strengthening the drivers of economic growth and improving the quality of growth.⁴ The Second Integrated Road Investment Program (footnote 1) aligns with the government strategy and policy to establish fully connected rural development centers with upgraded rural roads, and with priority pillars in the country partnership strategy.⁵ The program targets the three lagging provinces of Eastern, Northern, and Uva as well as Western Province, and will complement assistance under the first Integrated Road Investment Program in other areas (paragraph 9) to cover all of the country's priority rural development hubs.⁶

8. **Tranches.** The MFF has an indicative number of five tranches. All tranches will finance parts of the identified projects in sequence with the time-slice approach. Tranche 1 of \$150 million was approved on 6 October 2017, and the loan and project agreements were signed on 22 November 2017. Subsequent tranches were scheduled to be processed from 2018 to 2021.

II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

9. **Progress on road map.** The road map agreed in the framework financing agreement that underpins the government's policy framework remains valid. The government has confirmed the importance of further rural road development to accelerate village development as a key pillar of the fiscal year (FY) 2019 budget.⁷ In line with the government strategy, ADB is addressing key bottlenecks and continues to support the improvement of provincial and rural roads through the two investment programs (footnotes 1 and 6) to cover all of the country's priority rural development hubs. Progress is continuing on the first investment program, which will upgrade the rural road network in the Central, North Central, North Western, Sabaragamuwa, and Southern provinces, and in the Kalutara district in Western Province. Physical progress of the civil works for rural roads

³ Government of Sri Lanka, Ministry of National Policies and Economic Affairs, Department of National Planning. 2017. *Public Investment Programme, 2017–2020*. Colombo.

⁴ ADB. 2017. *Country Partnership Strategy: Sri Lanka 2018–2022*. Manila.

⁵ The investment program also aligns with ADB's operational priorities under ADB. 2018. *Strategy 2030: Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila. The program addresses poverty and about reducing inequality and promoting rural development and food security.

⁶ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for Second Integrated Road Investment Program*. Manila.

⁷ M. Samaraweera. 2019. [Enterprise Sri Lanka—Empowering the People and Nurturing the Poor](#). *Budget Speech 2019*. Speech to Parliament delivered by the Minister of Finance, 5 March 2019.

under the first investment program is generally on track, and as of 31 August 2019 was approximately 85.4%.⁸

10. **Improvement of policy framework.** The government is continuing its established policy framework for rural road development. Under the framework, the RDA is responsible for executing provincial and local authority roads through agreements with local road authorities. ADB supports this through the two investment programs. The government's framework has been strengthened to include not only physical upgrading of rural access roads but also value-added project implementation approaches such as (i) a higher standard of rural road specifications; (ii) introduction of context-sensitive designs, with community participation; (iii) establishment of a well-managed grievance redress mechanism; (iv) expansion of the road asset management system to rural access roads; (v) introduction of 3-year performance-based maintenance contracts; (vi) encouragement of women's participation in project implementation and maintenance; and (vii) various capacity development components, including safeguards, road safety, information management system, and financial sustainability.

11. **Progress of investment program.** Implementation of the MFF and tranche 1 is on track. The RDA awarded 15 civil works contract packages for Uva Province totaling \$182.9 million in June 2018, and 11 contract packages for Eastern Province totaling \$170.7 million in July 2019.⁹ Financial bid evaluation of 17 packages for Northern Province has been completed, out of which five contracts were already awarded.¹⁰ Bids for the remaining contract packages for Western Province were invited in May 2019, and the contracts will be awarded in early 2020.¹¹ As of 26 September 2019, \$61.2 million has been disbursed from tranche 1 loans. Implementation of the capacity development component is slightly behind the original schedule because (i) the RDA has focused mainly on procurement of the road development component, and (ii) most of the capacity development component need to be implemented in parallel with or after substantial progress of the road development component.¹²

12. A midterm review mission was conducted in May 2019 for tranche 1 of the MFF. There were no substantial and material changes in the type of investments contemplated under the investment program. The mission found delays in some procurement activities mainly due to (i) insufficient budget allocation in 2018, (ii) the political situation at the end of 2018, and (iii) security incidents in April 2019. However, the government has reaffirmed its commitment to the investment program with its 2019 budget allocation. With a stable political situation in the country, procurement activities are expected to get back on track. Given the projected procurement schedule, loan proceeds under tranche 1 will be substantially disbursed by mid-2020.

⁸ In addition to civil works progress, the road asset management system (a key measure to preserve the asset value of rehabilitated infrastructure) is being developed for rural access roads in the provinces under the first investment program; 3-year performance-based maintenance contracts have commenced for completed subprojects.

⁹ As of 31 August 2019, physical progress of civil works in Uva Province is 27.9%.

¹⁰ Eleven contracts would require negotiation with bidders because of high bid prices that exceed the engineer's estimates. Awards of the contracts may be delayed. One contract requires some technical clarifications.

¹¹ Project implementation consultants are recruited in accordance with the progress of procurement for civil works. As of 30 September 2019, consultants for Eastern Province, Northern Province and Uva Province have been engaged.

¹² Training on safeguards and rural road design and construction have been held only in Uva Province, where civil contract packages were awarded in 2018. Procurement of laboratory equipment and enhancement of the RDA's research capacity will begin in 2020 and 2021. Specialists for the development of pavement design will be recruited in 2020. Institutional support for financial sustainability is planned to be carried out from 2020. Road asset management will be supported after civil works are substantially completed.

13. **Compliance with undertakings and loan covenants.** As of July 2019, covenants of the loan and project agreements of tranche 1 are being complied with.¹³ The government has also complied with the undertakings of the framework financing agreement.

14. **Timeliness of tranche 2.** Tranche 2 was originally scheduled in 2018 in the framework financing agreement. Thus, the timeliness of tranche 2 is rated *on track* with expected approval in 2019.¹⁴ Tranche 2 is listed in the country operations business plan for Sri Lanka, 2020–2022.¹⁵ Civil works contract packages in three provinces have been awarded, and the remaining packages for Northern and Western provinces are scheduled to be awarded in 2019 or early 2020, which means there would be little risk of further delay in the implementation of a substantial part of the investment program. A request for the third tranche is expected to be submitted in 2020 for approval in the same year. The subsequent two tranches are expected to be requested every year from 2021 onwards. The last tranche will be completed before the end of the MFF availability period.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

15. Tranche 2 is aligned with the following impact: connectivity between rural communities and socioeconomic centers in Sri Lanka improved.¹⁶ Tranche 2 will have the following outcome: transport efficiency on project roads increased.¹⁷

B. Outputs

16. The investment program will have the following outputs: road conditions between the selected rural communities and socioeconomic centers improved (output 1), and capacity of road agencies enhanced (output 2). Tranche 2 will finance a portion of the civil works, equipment, and consulting services under the time-slice financing approach.

C. Summary Cost Estimates and Financing Plan

17. Tranche 2 is estimated to cost \$150 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the updated facility administration manual.¹⁸

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Civil works	156.2
2. Equipment	2.5

¹³ The first audited project financial statement for 2018 was received before the deadline of 30 June 2019. Required safeguard monitoring reports have been submitted to ADB and disclosed on the ADB website. Environment and social safeguard activities, including the establishment of a grievance redress mechanism, have been implemented in line with the safeguard plans and frameworks.

¹⁴ ADB. 2018. Staff Instructions on Business Processes for Multitranchise Financing Facility. *Compendium of Staff Instructions*. Manila (Table 2: Rating Criteria for Multitranchise Financing Facility).

¹⁵ ADB. 2018. *Country Operations Business Plan*, Sri Lanka 2019–2021. Manila.

¹⁶ Government of Sri Lanka, Department of National Planning, Ministry of National Policies and Economic Affairs. 2017. *Public Investment Programme, 2017–2020*. Colombo.

¹⁷ The design and monitoring framework is in Appendix 1. Due to the time-slice nature of the MFF, the design and monitoring framework reflects the impact, outcome, and outputs of the facility.

¹⁸ The updated facility administration manual is in Appendix 5.

Item	Amount ^a
3. Consulting services for project implementation and capacity development	6.9
4. Recurrent costs (project administration)	1.7
Subtotal (A)	167.3
B. Contingencies^c	0.0
C. Financial Charges During Implementation^d	4.5
Total (A+B+C)	171.8

^a The government will finance taxes and duties of \$21.8 million.

^b In mid-2019 prices as of July 2019. The format of Base Cost has followed the table at the approval of the MFF.

^c Physical contingencies computed at 10.0% for civil works, 10.0% for equipment, 10.0% for consulting services, and 10.0% of recurrent costs for the investment program. Price contingencies computed at about an average of 1.5% on foreign exchange costs and about 5.0% on local currency costs for the investment program; includes provision for potential exchange rate fluctuation. Because tranche 2 will finance the second slice of the identified projects, it has no contingency cost.

^d Includes interest and commitment charges. Interest during construction for the ordinary capital resources (OCR) loan has been computed at the 5-year US dollar fixed swap rate plus an effective contractual spread of 0.50% and maturity premium of 0.20%. Commitment charges for the OCR loan are 0.20% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank.

18. The government has requested a loan in an amount of up to \$150 million from ADB's ordinary capital resources to help finance a part of the project. The second tranche of the MFF will have a 29-year term, including a grace period of 8 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 18.75 years, and the maturity premium payable to ADB is 0.20% per year.

19. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, equipment, consulting services, recurrent costs, and financing charges during construction. The government will finance taxes and duties for a total of \$21.8 million.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	150.0	87.3
Government	21.8	12.7
Total	171.8	100.0

Source: Asian Development Bank.

20. Climate adaptation is estimated to cost \$40.1 million for the MFF. For tranche 2, the climate adaptation cost is \$7.1 million. The incremental cost to address climate change adaptation is estimated at 5.2% of the civil works cost. This includes the additional cost of drainage, culverts, retaining walls, and concrete pavement in flooded areas. ADB will finance 100% of the adaptation costs.¹⁹

D. Implementation Arrangements

21. The implementation arrangements are summarized in Table 3 and described in detail in the updated facility administration manual.

¹⁹ The investment program is estimated to reduce carbon dioxide emissions by about 350,900 tons.

Table 3: Implementation Arrangements for Project (Tranche 2)

Aspects	Arrangements		
Implementation period	December 2019–December 2022		
Estimated completion date	31 December 2022		
Estimated loan closing date	30 June 2023		
Management ^a (i) Executing agency (ii) Key implementing agency (iii) Implementation unit	MOHRP RDA 4 implementation units under the RDA with 205 staff		
Procurement	International and/or national competitive bidding (civil works)	53 contracts (31 contracts already awarded)	\$892.4 million
	Shopping (equipment)	11 contracts	\$5.8 million
Consulting services	Project implementation consultants (QCBS 90:10), including for training programs	144 person-months of international consulting services and 9,741 person-months of national consulting services (4 contracts, with 2 already awarded)	\$33.2 million
	Individual consultant selection ^b	104 person-months of international consulting services and 198 person-months of national consulting services	\$4.7 million
Retroactive financing and/or advance contracting	The RDA will use retroactive financing and advance contracting for civil works, equipment, and consulting services. ADB will provide retroactive financing to finance expenditures incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the loan agreements and not exceeding 20% of the loan amount.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, MOHRP = Ministry of Highways, Road Development, and Petroleum Resources Development, QCBS = quality- and cost-based selection, RDA = Road Development Authority.

^a A national steering committee and provincial steering committees will be established as oversight bodies, as detailed in the facility administration manual.

^b The RDA will recruit individual consultants for research capacity enhancement, mechanistic–empirical pavement design development, road asset management, information management system, road safety guidelines, and institutional support for financial sustainability.

^c Procurement and consulting services indicate all activities under the facility due to the time-slice approach.

Sources: Asian Development Bank and Road Development Authority.

E. Project Readiness

22. Project readiness is high. Tranche 2 will finance parts of the project identified during the appraisal of the MFF, using the time-slice approach. Out of 53 civil works contract packages, 31 contracts have been awarded. The remaining packages for the Northern and Western provinces are under procurement, and expected to be awarded in 2019 for Northern Province, and in 2020 for Western Province. No serious safeguard issues have been found. It is envisaged that tranche 2 will be smoothly disbursed, considering project readiness.

IV. DUE DILIGENCE

A. Technical

23. The RDA has implemented the projects identified under the investment program on the basis of specific selection criteria.²⁰ The project designs are optimized for local conditions,

²⁰ The main criteria for rural roads are (i) number of households (50 or more); (ii) availability of electricity and water; (iii) presence of health and medical facilities, educational facilities, and commercial and market facilities; and (iv) absence of land acquisition, and environmentally sensitive areas.

construction efficiency, and economy, with due attention to climate change impacts and maintenance requirements.²¹

B. Economic and Financial

24. During the approval of the MFF, the investment program was found to be economically viable with an overall economic internal rate of return (EIRR) of 17.2%. The economic analysis of the investment program followed ADB guidelines, and compares life-cycle costs in with- and without-project scenarios.²² Quantified benefits include savings in vehicle operation costs, travel time, and road maintenance costs, as well as reduced carbon dioxide emissions. At the appraisal of tranche 2, the economic analysis was updated using the actual civil works contract amounts and the implementation schedule for Eastern and Uva provinces. The updated EIRR is 15.8%, which remains above ADB's threshold of 9%. Some of the actual contract amounts exceed the engineer's estimates, which resulted in the updated EIRR being lower than the original. The maintenance-related financial requirements were also updated and are generally unchanged from the estimates made during appraisal of the MFF.²³ Improvements in institutional maintenance arrangements, particularly for local authority roads, are required to ensure the sustainability of the road assets.²⁴

C. Governance

25. **Policy and legal.** Implementation arrangements will involve the central, provincial, and local governments.²⁵ At the central level, the Ministry of Highways, Road Development, and Petroleum Resources Development (MOHRP) is responsible for the formulation of policies and performance monitoring.²⁶ The RDA was established as a statutory authority with separate legal status by the Road Development Authority Act, 1981. The RDA chairperson reports to the MOHRP secretary. Under the 13th amendment to the Constitution (enacted in 1987) and the Pradheshiya Sabha Act, No. 15 of 1987, provincial councils (which constitute provincial-level government agencies) are responsible for the work of local authorities within the areas served by the provincial councils. In keeping with the devolution norm of Sri Lanka, the RDA operates as though it was contracted by the provincial authorities to construct roads that belong to the local authorities. The implementation arrangements satisfy the RDA Act, which requires the RDA to consult with other government agencies on projects within their areas. The national steering committee and provincial coordination committees will ensure proper coordination.

26. **Financial management.** The RDA has prior and ongoing experience in implementing ADB-funded projects. The financial management assessment of the RDA that was conducted for the due diligence for the MFF was reviewed. The RDA's overall financial management risk is *moderate*. The RDA has a dedicated project accounting and finance team with suitably qualified accountants. The RDA has established and maintained separate project records and accounts to identify the financing resources received and expenditures made for the project, thus ensuring an

²¹ Main design features are to (i) use an asphalt pavement rather than the traditional bituminous surface treatment to reduce maintenance requirements, (ii) adopt community participation through a context-sensitive design approach that accommodates local requests and concerns, and (iii) include performance-based maintenance contracts to ensure efficient maintenance.

²² ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.

²³ The Updated Economic and Financial Analysis is in Appendix 7.

²⁴ The Updated Risk Assessment and Risk Management Plan is in Appendix 12.

²⁵ The governance arrangements for the investment program are the same as those used in the first one. No major issues have been observed in terms of the RDA's implementation capacity.

²⁶ The MOHRP was formerly the Ministry of Higher Education and Highways (MOHEH).

adequate audit trail. The National Audit Office of Sri Lanka will undertake annual audits of the project accounts and financial statements, following Sri Lanka auditing standards. The first audited project financial statement for FY2018 was submitted before the due date of 30 June 2019. The RDA has submitted its audited entity financial statements for FY2016, and has generally complied with the current financial management action plan described in the facility administration manual.²⁷ However, fiscal policy restraints have resulted in an inadequate budget allocation to the investment program, causing some procurement delays.²⁸ Tranche 2 due diligence has resulted in further strengthening of the financial management action plan. Capacity will be improved through the development of an accounting and financial management manual and enhancement of internal audits.

27. Procurement and anticorruption. Procurement will be undertaken in accordance with the ADB Procurement Guidelines (2015, as amended from time to time). All consultants will be engaged in accordance with the ADB Guidelines on the Use of Consultants (2013, as amended from time to time). To date, 31 civil works contract packages and 3 project management consulting packages have been awarded without any serious procurement issues. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the MOHRP, and the RDA. The specific policy requirements and supplementary measures are described in the updated facility administration manual.

D. Poverty, Social, and Gender

28. Poverty reduction and social impacts. The investment program will improve the socioeconomic situation and enhance poverty reduction in Eastern, Northern, Uva, and Western provinces. About 9.8 million people live in the project area's 145 divisions. A socioeconomic assessment found that the main sources of income for users of the proposed roads are agriculture, fisheries, self-employment, and wage labor. Employment in the public and private sectors is significant in larger towns. Over 90% of surveyed households described the current road conditions as bad. Communities indicated that poor road conditions affected day-to-day activities. Improved access to education and health, road safety, and increased job opportunities were listed among the positive benefits expected to result from the improvements. Many of the roads to be improved under the investment program are in areas that were affected by the 26-year civil conflict, and upgrading these roads will benefit post-conflict rehabilitation and the continued revival of the rural economy.

29. Gender and development. The socioeconomic assessment of the program found that women were actively engaged in family and community activities and decision-making processes, although results vary among provinces. Women surveyed for the assessment said they were willing to participate in the projects by (i) working as maintenance or civil works wage laborers, and/or (ii) operating a small business to provide services to contractors. The gender action plan (GAP) prepared for the program includes key gender mainstreaming activities.²⁹ The social due

²⁷ Audited entity financial statements of the RDA for FY2017 and FY2018 were also made available in local languages. The auditors are in the process of translating the audit reports into English and will submit them to the Parliament for endorsement, after which they will be submitted to ADB.

²⁸ The procurement of civil works for Eastern and Northern provinces was about 6–12 months behind the original schedule.

²⁹ The Gender Action Plan is in Appendix 11. Key gender mainstreaming activities for tranche 1 include (i) ensuring that at least 35% of those engaged for design consultations are women; (ii) integrating features that increase safety and meet the needs of the elderly, women, children, and the disabled; (iii) encouraging employment of local women as road construction workers; (iv) ensuring that at least 30% of local employees hired for road maintenance are women, and that they receive equal wages for equal work; (v) conducting awareness training on road safety, HIV,

diligence and monitoring reports confirm that the GAP has been implemented in Uva Province, where civil works packages are ongoing under tranche 1, except for delays in the preparation of manuals on communication and gender in transportation. Tranche 2 is classified *effective gender mainstreaming*, and the GAP will be implemented in tranche 2 projects, including the preparation of the training manuals.

30. **HIV, AIDS, and human trafficking.** The HIV prevalence rate is low in Sri Lanka. The establishment of the National Program for Sexually Transmitted Diseases and AIDS Control helps refurbish health clinics and establish outreach and awareness programs throughout the country. The investment program has incorporated measures to mitigate HIV and AIDS risks by providing awareness training for civil works contractors and for project-affected communities at prominent village locations. Awareness-raising activities are conducted separately for men and women. The social impact assessment did not identify human trafficking as a significant issue in the project area. Civil works contractors will hire local laborers; as a mitigation measure, affected communities will be provided with awareness training on human trafficking. The inclusion of specific provisions in the bid documents and the works contracts financed under the program will ensure that the contractors follow all applicable international core labor standards and national labor laws.

E. Safeguards

31. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.

32. **Environment (category B).** The scope of works under the investment program involves rehabilitation and maintenance of existing rural and national roads that are not located within protected or critical habitat areas. The consolidated provincial initial environmental examination and the environmental assessment and review framework prepared and cleared prior to the MFF approval in 2017 fulfill ADB's Safeguard Policy Statement requirements and remain valid. No additional roads or activities have been identified for this tranche. The due diligence report confirms satisfactory compliance with environmental safeguard requirements. Anticipated environmental impacts include typical road construction-related issues such as generation of dust, noise, exhaust, and waste from construction sites and workers' camps; surface water contamination; community and occupational health and safety concerns; erosion; and siltation. The projects comply with all applicable domestic laws and requirements. The standard environmental management plan (EMP), which forms part of the initial environmental examination, includes mitigation measures for all anticipated impacts. Contractors have prepared site-specific EMPs based on the final design, road-specific environment checklists, and the standard EMP. The annual monitoring report has been submitted and disclosed.

33. **Involuntary resettlement (category B).** Rural access road and national road improvements have been made within the existing alignments, with no widening required. The due diligence report confirms that safeguard impacts are not significant, as envisaged at appraisal of the MFF, and tranche 1 is compliant with the social safeguard requirements outlined in the resettlement framework prepared for the MFF. A grievance redress mechanism has been established in Uva Province. A voluntary land donation system has been used effectively, following specific procedural requirements for land donation in the resettlement framework. The

and sexually transmitted infections, with women making up at least 40% of participants; (vi) appointing gender focal persons at all levels; (vii) building transport sector knowledge and skills on gender and inclusivity; and (viii) developing an online grievance reporting mechanism, and tracking gender-disaggregated data regarding complainants.

government will ensure that land donation is undertaken without coercion and documented in a transparent manner, and will have the process verified by an independent monitor. A social monitoring report has been submitted and disclosed.

34. **Indigenous peoples (category C).** The identified projects are not expected to impact indigenous peoples.

F. Summary of Risk Assessment and Risk Management Plan

35. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³⁰

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Insufficient budget allocation under the fiscal consolidation	<p>A phased procurement approach with close coordination between the Road Development Authority (RDA) and relevant ministries has helped in controlling budget requirements under fiscal consolidation. All contract packages are either awarded or in the procurement process, and the government and the RDA continue to prioritize the annual budget allocation to the committed contracts.</p> <p>The draft loan agreement includes a covenant requiring the government to make available adequate counterpart funds to meet additional costs and to ensure the RDA has sufficient funds to satisfy liabilities under the project.</p>
Inadequate maintenance of the road asset	<p>The project has adopted mitigation measures that include (i) a higher standard of pavement, (ii) adaptation measures against climate change, (iii) performance-based maintenance contracts, (iv) road asset management, and (v) a technical capacity development program. Institutional management specialists will be recruited to propose policy improvements or alternatives for project road sustainability.</p>

Source: Asian Development Bank.

V. ASSURANCES

36. The government, the MOHRP, and the RDA have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the updated facility administration manual and loan documents.

37. The government, the MOHRP, and the RDA have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

VI. THE PRESIDENT'S DECISION

38. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranches financing facility in an aggregate principal amount not exceeding \$900,000,000 to the Democratic Socialist Republic of Sri Lanka for the Second Integrated Road Investment Program, the President has approved the tranche as described in paragraph 18 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.

³⁰ The Updated Risk Assessment and Risk Management Plan is in Appendix 12.

DESIGN AND MONITORING FRAMEWORK FOR TRANCHE 2^a

Impact the Program is Aligned with:			
Connectivity between rural communities and socioeconomic centers in Sri Lanka improved (Public Investment Programme, 2017–2020) ^b			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Transport efficiency on project roads increased	By 2027: a. Travel time on rural project roads reduced by 20% from 2016 rate (2016 baseline: travel time of each project) b. Travel time on national project roads reduced by 10% from 2016 rate (2016 baseline: travel time of each project) c. Average daily vehicle-km increased to 4.6 million (2016 baseline: 3.5 million vehicle-km)	a–c. RDA survey	Government's budgetary constraints lead to inadequate maintenance of road assets.
Outputs 1. Road conditions between the selected rural communities and socioeconomic centers improved	1a. By 2024: At least 3,400 km of rural access roads improved to an all-weather standard and maintained under PBM contracts (2017 baseline: Not improved) 1b. By 2026: At least 340 km of national roads rehabilitated and maintained under PBM contracts (2017 baseline: Not rehabilitated) 1c. By 2024: At least three awareness sessions per district held on (i) road safety, with women comprising more than 50% of participants; and (ii) sexually transmitted diseases, including HIV, with women comprising more than 40% of participants (2017 baseline: Not applicable) 1d. By 2026: At least 30% of local maintenance workers hired are women (2017 baseline: Not applicable)	1a–d. RDA project performance monitoring system	Implementation is delayed by extreme weather conditions.
2. Capacity of road agencies enhanced	By 2024: 2a. Knowledge and skills of at least 100 road agency staff regarding safeguards, road safety awareness, PBM contract management, and rural road design and construction increased (2017 baseline: Not applicable) 2b. Full set of research equipment commissioned and action plan for research capacity enhancement	2a. Training program reports 2b–d. Capacity building program reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>implemented (2017 baseline: Not commissioned and implemented)</p> <p>2c. Mechanistic–empirical pavement design, road asset management system, information management system, and rural road safety guidelines developed (2017 baseline: Not developed)</p> <p>2d. Policy measures on financial sustainability endorsed by the MOHRP and the RDA (2017 baseline: Not endorsed)</p>		
Key Activities with Milestones (to be conducted during the implementation of tranche 2)			
1. Road conditions between the selected rural communities and socioeconomic centers improved			
1.1 Mobilize project implementation consultants by 2020.			
1.2 Award all contracts for civil works by 2020.			
1.3 Complete 25% of physical works by 2022.			
1.4 Conduct the performance monitoring survey of the investment program during the implementation of tranche 2.			
1.5 Conduct at least one awareness session per district on road safety and sexually transmitted diseases by 2021.			
2. Capacity of road agencies enhanced			
2.1 Mobilize project implementation consultants by 2020, and other capacity development consultants by 2021.			
2.2 Develop capacity development training programs for road agencies by 2021.			
2.3 Procure equipment by 2021 and commence to implement action plan for research capacity enhancement in 2021.			
2.4 Develop mechanistic–empirical pavement design by 2022.			
2.5 Commence policy alternatives to improve financial sustainability by 2020, have the MOHRP and the RDA endorse the most suitable policy arrangements by 2021.			
2.6 Knowledge and skills of at least 30 road agency staff regarding safeguards, road safety awareness, PBM contract management, and rural road design and construction increased by 2021.			
Inputs			
Facility		Tranche 2	
Asian Development Bank: \$900 million (loan)		\$150 million (loan)	
Government of Sri Lanka: \$184.6 million		\$21.8 million	
Assumptions for Partner Financing			
Not Applicable			

km = kilometer, MOHRP = Ministry of Highways, Road Development, and Petroleum Resources Development, PBM = performance-based maintenance, RDA = Road Development Authority.

Note: Results framework indicators and targets will be determined based on the new Corporate Results Framework approved by the Board on 13 September 2019.

^a Due to the time-slice nature of the MFF, the DMF reflects the impact, outcome and outputs of the facility. The specific deliverables of tranche 2 are indicated under Key Activities with Milestones.

^b Government of Sri Lanka, Department of National Planning, Ministry of National Policies and Economic Affairs. 2017. *Public Investment Programme, 2017–2020*. Colombo.

Source: Asian Development Bank.