APPROACH TO TIME-SLICE FINANCING

1. **Background.** The investment cost will upgrade 3,400 kilometers (km) of rural access roads and 340 km of national roads in Eastern Province, Northern Province, Uva Province, and Western Province in Sri Lanka. All projects under the proposed investment program have been identified by the fact-finding mission for the multitranche financing facility (MFF). The projects were fully appraised as part of due diligence for the MFF, and each tranche will finance part of these projects.

2. **ADB policy.** The Operations Manual of the Asian Development Bank (ADB) on bank policies (D14/BP, para. 8, last sentence) provides that the “MFF can also finance slices of long-term contract packages in such investment programs or large stand-alone projects.”[1]

3. **Rationale.** The Government of the Democratic Socialist Republic of Sri Lanka has adopted a two-tier strategy to provide nationwide connectivity: (i) establish a trunk road network with expressways and well-connected national roads, and (ii) complete a rural road network to connect the rural road population to trunk roads. A new rural road connectivity program was launched in 2014 under the overall government policy to develop rural economies by establishing rural development centers with upgraded access to surrounding villages. Part of the program is financed by the Integrated Road Investment Program approved in 2014. The proposed Second Integrated Road Investment Program will cover high priority national and rural access roads of the government’s rural road connectivity program in the remaining areas to complement the first investment program. Aligned with the government long-term rural development strategy, as well as the corresponding large rural road connectivity program, ADB will provide continuous support for the rural development program through the MFF as the most efficient modality. The MFF can also provide a platform for long-term capacity development to address structural issues in the road sector such as shortage of raw materials and sustainability.

4. The investment cost to be financed under the Second Integrated Road Investment Program is $1,084.6 million; ADB is requested to finance up to $900 million. As ADB’s resource allocation for Sri Lanka is limited and cannot accommodate financing such large-scale investment in a stand-alone project loan, the project will be financed by the MFF, adopting the time-slice approach to finance large numbers of stand-alone projects.[2] Otherwise, the investment has to be split into several stand-alone project loans financing only projects of particular procurement packages. This will cause delay in the implementation period and affect the development impact of the projects.

5. The Second Integrated Road Investment Program involves civil works contracts with performance-based maintenance requirement. Initial construction will require rehabilitation in the first 2–3 years, followed by a 3-year maintenance period for rural access roads (5 years for national roads). The contract model needs long-term engagement of contractors to ensure that the required level of services is provided by the project roads. The contracts are packaged in relatively large size to invite adequate competition during procurement processes and to engage qualified contractors. Related consulting services will also require longer term engagement than the conventional construction contracts. ADB’s financing approach needs to accommodate the longer contract period, and the financial resources should be used more efficiently.

[1] ADB. 2015. Multitranche Financing Facility. Operations Manual. Bank Policies. OM D14/BP. Manila.

[2] According to ADB’s Country Operations Business Plan (Sri Lanka 2017–2019), the indicative resources available for sovereign operations amount to $1,845.49 million for 2017–2019, averaging around $615 million annually for all sectors.

6. **Time-slice approach.** An MFF using the time-slice approach is proposed as the modality to finance this large-scale stand-alone project through long-term works and consultant contracts. The MFF will consist of several tranches, subject to the government's submission of related periodic financing requests (PFR), execution of the related loan agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in the Framework Financing Agreement. The project was fully appraised as part of the due diligence for preparing the MFF, and each tranche will finance parts of this fully appraised project. The MFF allows a long-term partnership with the government for policy dialogue and capacity development. The time-slice approach gives the government and ADB flexibility in providing funds for the project depending on its achieved physical and financial progress.

7. The proposed tranche schedule and financing plan for the MFF are in Table 1. Each tranche will finance parts of the works and consulting services contracts using the time-slice approach for large-scale stand-alone projects. Once a tranche is disbursed, the government will submit a PFR to ADB for a subsequent tranche, which will continue to finance the contracts awarded under Tranche 1.

Table 1: Financing Plan

			Indicative Tranche Schedule and Amount ($ million)				
Source	**Amount** ($ million)	**Share of Total** (%)	**1 (2017)**	**2 (2018)**	**3 (2019)**	**4 (2020)**	**5 (2021)**
ADB	900.0	83.0	150.0	150.0	200.0	200.0	200.0
OCR (RL)	815.0	75.1	90.0	125.0	200.0	200.0	200.0
OCR (CL)	85.0	7.8	60.0	25.0	0.0	0.0	0.0
GOSL	184.6	17.0	22.1	22.1	28.7	28.7	83.0
Total	**1084.6**	**100.0**	**172.1**	**172.1**	**228.7**	**228.7**	**283.0**

ADB = Asian Development Bank, CL = concessional loan, GOSL = Government of Sri Lanka, OCR = ordinary capital resources, RL = regular loan.
Source: Asian Development Bank.

Table 2: Disbursement Projection and Tranching Plan

Year	2018	2019	2020	2021	2022	2023	2024	2025
Disbursement ($ million)	115.0	324.0	197.0	142.0	47.0	38.0	24.0	13.0
Tranche 1 ($150 million)								
Tranche 2 ($150 million)								
Tranche 3 ($200 million)								
Tranche 4 ($200 million)								
Tranche 5 ($200 million)								

8. The time-slice approach allows ADB to finance the project during the implementation period by a series of loans, which can be accommodated through the annual resources allocated to Sri Lanka and limit the size of the individual loans to the amount of financing required for about 1 year. This will limit the amount of commitment charges to be paid by Sri Lanka and reduce the uncommitted and undisbursed loan amounts for ADB.

9. **Time-slicing contracts.** It is proposed that the works and consulting packages will be contracted with ADB financing commitment provided on the demand basis by MFF tranches. For example, for the works that are fully covered under the MFF including government counterpart financing for contingencies, ADB commits $150 million under the first tranche, which will be

followed by further ADB commitments through a series of subsequent tranches to finance the remaining contract amount in line with project implementation progress. This financing method is considered the same arrangement as a series of planned supplementary financings.

10. **Benefits of time-slice contracts.** More competition and more participation by qualified contractors are ensured by packaging more contracts. Time-slicing better reflects the large-scale program, and ADB's financial resources are used more efficiently. The contract packages under the large-scale program provide sufficient incentives to those contractors to establish the required infrastructure and facilities to implement the project in Sri Lanka. It is therefore expected that the time-slice arrangement will attract more competition, including contractors outside Sri Lanka.

11. Limiting ADB's commitment under individual tranches to manageable loan sizes, while providing an overall commitment to fund the project under the Framework Financing Agreement, ensures that ADB's resources are utilized efficiently and in a moderate way, and remain available for other projects and sectors. The amount of commitment charges is limited to the individual loans approved, and the approval of subsequent tranches can be harmonized with the implementation progress.

12. **Advantages and benefits.** The expected overall advantages and benefits of the time-slice approach for the contracts can be summarized as follows:

(i) More competition from domestic and international contractors is expected due to the larger size of the program.
(ii) Contract prices may decrease due to the competition.
(iii) Quality of works will increase as more experienced and larger domestic/ international contractors participate.
(iv) Delays in project implementation can be reduced as the contract for the overall section was awarded up front and no additional procurement is required for further sections when processing subsequent tranches.
(v) ADB has more opportunities to officially discuss implementation issues with the executing agency and other key stakeholders when PFRs are submitted. This provides a platform for long-term policy dialogue and capacity development in a more leveraged way.
(vi) ADB's procurement review can concentrate on contracts up front; no subsequent review of procurement activities is required, thus reducing the risk of delays during project implementation.
(vii) The government and the executing agency can avail of ADB financing when it is required according to the project schedule and actual progress, improving certainty of annual disbursement.
(viii) ADB can better plan allocation of scarce financial resources in accordance with the project progress rather than allocating a huge loan in the country program for 1 year at the time of approval of the project.
(ix) Time-slicing allows better integration of cofinancing, as cofinancing agreements can be reached for any tranche individually. Other products such as grants or guarantees may be included for individual tranches, as appropriate.

13. **Risk management and measures.** Possible risks and challenges for management of large-scale contracts with time-slice financing can be managed under the following measures in Table 3.

Table 3: Risk Management and Measures for Time-Slice Financing

Risks	Measures
Coordination of the follow-on financing	After the first submission of the IPC, annual disbursement will become predictable. Frequent review missions involving contractors will help plan preparation of the subsequent PFRs. A risk of delay in PFR approval can be mitigated by government counterpart financing.
Assurance of the follow-on financing	ADB board approval will have been provided for the overall facility with commitment of government financing. It is a matter of management considerations to provide the next PFR based on the performance of the ongoing PFR. This could provide more control of the ongoing PFR. A very marginal risk of ADB non-financing can be mitigated by provisions of the government commitment to the financing beyond ADB financing commitment.
Control of the size and the number of PFRs per contract	Each PFR will cover the financing at least for 1 year for all contracts appraised in the past PFR.

ADB = Asian Development Bank, IPC = interim payment certificate, PFR = periodic financing request.
Source: Asian Development Bank.