

## SUMMARY REVIEW OF THE FIRST INVESTMENT PROGRAM

### I. INTRODUCTION

1. This is a summary of the midterm review mission (the mission) of the Asian Development Bank (ADB) that was conducted on 24 April–9 May 2017 to review the implementation progress of the Integrated Road Investment Program (iRoad program).

### II. BACKGROUND

2. The iRoad program was requested by the Government of the Democratic Socialist Republic of Sri Lanka in 2014 to improve connectivity between rural communities and socioeconomic centers in the country. The expected outcome is increased transport efficiency in project roads. The investment program delivers two outputs: (i) improved road conditions between the selected rural communities and socioeconomic centers, and (ii) enhanced capacity of road agencies.

3. Adopting the multitranche financing facility (MFF) modality, the iRoad program was approved with the amount of up to \$800 million equivalent from ADB's ordinary capital resources (OCR) and Special Funds resources. This will help finance civil works contracts (improvement and maintenance), consulting services, project management, and contingencies. The MFF consists of multiple tranches, subject to the government's submission of related periodic financing requests. ADB has so far approved three tranches: Tranche 1 (L3171), Tranche 2 (L3221/3222), and Tranche 3 (L3325/3326). Asian Development Fund loans under Tranche 2 and Tranche 3 have already been fully utilized and loans have been closed. Details of these tranches are listed in Table 1.

**Table 1: Status of Tranches of Integrated Road Investment Program**

Tranche	Loan Number	Loan Amount		Approval Date	Effectiveness Date	Expected Loan Closing Date	Actual Loan Closing Date
		OCR (\$ million)	ADF (SDR million)				
T1	3171		64.76	3 Oct 14	7 Jan 15	30 Sep 21	
T2	3221	98.00		11 Dec 14	23 Jul 15	30 Sep 19	
	3222		6.14	11 Dec 14	23 Jul 15	30 Sep 19	7 Apr 17
T3	3325	175.00		23 Nov 15	18 Mar 16	30 Sep 21	
	3326		17.71	23 Nov 15	18 Mar 16	30 Sep 21	27 Mar 17

ADF = Asian Development Fund, OCR = ordinary capital resources, SDR = special drawing rights, T = tranche.  
Source: Asian Development Bank.

4. The iRoad program comprises five projects: (i) Project 1 in Southern Province, (ii) Project 2 in Sabaragamuwa Province and Kalutara District of Western Province, (iii) Project 3 in Central Province, (iv) Project 4 in North Central Province, and (v) Project 5 in North Western Province. Tranche 1 finances the first slice of Project 1, and Tranche 2 finances the first slice of the remaining four projects. Tranche 3 finances the second slice of five projects that were appraised under Tranches 1 and 2.

### III. MAJOR FINDINGS

5. **Civil works contracts.** There are two types of civil works contracts under the iRoad program: (i) conventional road contracts (CRC), and (ii) road maintenance contracts (RMC). The scope of the CRC covers the roads rehabilitation phase in the first 2 years, followed by a 3-year performance-based road maintenance phase. Under the CRC, there are 42 contract packages, and all contracts have already been awarded. The total length of rural roads to be rehabilitated under the CRC are around 3,100 kilometers (km). The midterm review mission noted that the engineer's total estimate for the CRC was SLRs65,178,661,158.13 (\$434.5 million), and actual total contract amount after awarding was SLRs71,978,154,678.47 (\$479.8 million),<sup>1</sup> which was around 10.43% increase above the engineer's estimate.<sup>2</sup> As shown in Table 1, of the periodic financing request report for Tranche 3, funds allocated for the civil works contracts were \$744.2 million. The mission estimated that around \$260 million will be available for national roads.

6. In the Southern Province, there are nine CRC contract packages to improve 560 km of rural roads and 20 km of national roads in Galle, Hambantota, and Matara districts. All CRC contracts in the Southern Province commenced on 18 May 2015 and scheduled to be completed by 18 May 2017. As of the end of April 2017, all CRC contracts are behind schedule. However, overall physical progress in CRC contracts in the Southern Province is 84.1% against 99.2% of planned progress. The project implementation consultant (PIC) is of the view that contractors would be able to catch up on delays in most of the contracts.

7. In North Central Province and North Western Province, there are 15 CRC contract packages to improve 1,210 km of rural roads in Anuradhapura, Kurunegala, Polonnaruwa, and Puttalam districts. Most of the CRC contracts in North Central and North Western provinces were commenced in August 2016. As of end April 2017, 11 out of 15 CRC contracts are behind schedule. Overall physical progress in CRC contracts in the North Central Province is 8.2% against 14.5% of planned progress, while in the North Western Province, it is 7.9% against 12.4% of planned progress.

8. In Central and Sabaragamuwa provinces and the Kaluthara district, there are 18 CRC contract packages to improve 1,342 km of rural roads. Most of the CRC contracts in Central and Sabaragamuwa provinces were signed in November 2015, and the CRC contracts in the Kaluthara district in the Western Province were signed in September 2016. The overall physical progress in CRC contracts in the Central Province is 61.8% against 65.5% of planned progress. The overall physical progress in CRC contracts in the Sabaragamuwa province is 46.8% against 56.1% of planned progress. The contracts in the Kaluthara district are still in the mobilization stage, and physical progress is 6.3% against 7.5%.

9. As of 30 April 2017, the overall physical progress in CRC contracts in the iRoad program is 41.5% against 48.6% planned progress.

10. **RMC contracts.** There are four RMC contracts that are based on the sample bidding documents developed by the World Bank for output- and performance-based road contracts. ADB has already approved the sample bid documents for RMC contracts. The RMC contract procurement was delayed mainly due to the requirement of Sri Lanka's Road Development Authority (RDA) to use similar bid documents for both ADB- and World Bank-funded projects.

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<sup>1</sup> US dollar values based on conversion rate of \$1=SLRs150.

<sup>2</sup> World Bank. 2006. *Procurement of Works and Services under Output- and Performance-based Road Contracts and Sample Specifications*. Washington, DC.

(The bid documents for World Bank-funded RMC contracts were approved in March 2017.) The RDA design office is working on designs for the identified roads. The RDA informed the mission that all RMC contracts will be awarded by the end of 2017. The mission has requested the RDA to start the RMC bid process prior to fielding the fact-finding mission for the proposed iRoad 2 project.

11. **Shortage of gravel and aggregates.** As reported in the previous review mission in November 2016, there is still a shortage of gravel and aggregates in North Central Province due to recent changes in regulations for material borrowing and transport. The contractors in North Central Province complained to the mission that they face difficulties in getting approvals for material borrowing and transport. The mission had discussions with the senior management of the RDA and the Ministry of Higher Education and Highways (MOHEH) regarding this issue. The RDA and MOHEH informed the mission that a special cabinet paper has been already submitted to address the issue. The mission has requested the RDA and MOHEH to follow up relevant government agencies until the issue is effectively resolved.

12. **Social safeguards.** The iRoad program is classified as *B* for involuntary resettlement, *C* for indigenous people, and *B* for environment. No significant safeguard issues were found by the mission. The mission noted there is a proper complaints handling system in the project. Grievance redress committees have been established for road projects, for which design or construction works have been started. The PICs record, follow up construction-related public complaints, and attach a summary of complaints register for each contract to the monthly progress reports prepared by the PICs. The mission had discussions with project-affected people during the site visits. The people were well informed about grievance redress mechanisms and they knew the project staff and their contacts to help communicate any grievance during design and construction.

13. The RDA is effectively implementing the context-sensitive design concept.<sup>3</sup> The land donation process is being implemented to improve “black spots.” Otherwise, roads are improved within the existing road corridors. So far, 525 small land strips, less than 1-meter width, have been donated. The total number of strips to be donated will be available once all the road designs are finalized.

14. The mission noted there is large community support for the iRoad program because of the significant socioeconomic benefits it can provide all communities, including women. Benefits are already apparent in completed roads. Improved roads are providing better and easier access to schools, markets, health centers, and markets.

15. **Environmental safeguards.** The mission noted that mitigation measures are being adequately taken. However, for some roads, measures for dust control were not adequate. The mission advised the RDA to take adequate measures to control dust in project roads, at least during peak hours and especially during the start and end of school hours. The mission also requested the RDA and the PICs to prepare monthly summary records, including compiling information and actions taken on environmental safeguards, and to regularly refer checklists and to make such documents available at the respective project office for easy reference. The mission requested the RDA to adopt the site-specific environmental safeguard monitoring system prepared by the ADB Resident Mission in Sri Lanka for the iRoad program. The mission also requested the RDA to follow up with contractors who have not yet mobilized the required safeguards staff.

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<sup>3</sup> Under this concept, a series of consultation meetings with road users are carried out at the feasibility, detailed design, and construction stages. The feedback of these meetings is incorporated in road design and construction.

16. **Project performance monitoring.** The mission noted that a project performance management system (PPMS) has been established for all provinces. The mission requested the RDA to update PPMS indicators in quarterly progress reports and to consolidate these in annual reports.

17. **Performance of project implementation consultants.** The mission noted that in all three PIC contracts, most of the originally proposed experts have been replaced. Most of the replacements are in the PIC2 contract for North Central and North Western provinces, and PIC2 has not yet found suitable replacements for the vacant positions of the national rural road design engineer and national road safety engineer.

18. **Project management unit (PMU) staff.** The mission noted that the RDA and MOHEH have not yet appointed essential PMU staff for provincial PMUs. For all provincial PMUs, the required number of project engineers have not yet been appointed. The mission said that project engineers play a very critical role in the project by coordinating with government agencies and the general public, managing grievance resolution committees, and assisting contractors to relocate utilities.

19. **Compliance with loan covenants.** The RDA has substantially complied with major covenants in the loan and project agreements.

20. **Audited financial statement.** The mission noted that the RDA and MOHEH have submitted audited financial statements for 2015.

21. **Gender aspects.** The iRoad program has been classified as an effective gender mainstreaming. The PICs along with RDA staff are implementing the gender action plan (GAP) formulated for the program. The mission noted that reports submitted by the RDA on GAP monitoring do not include adequate details on the progress made against indicators and activity targets. The ADB Sri Lanka Resident Mission has introduced a matrix to report the progress against the targets, and the mission expects that this new template will be used in future progress reports. The mission noted that the technical assistance social development consultant regularly reviews the gender aspects of the projects.

22. With improved rural roads, vehicle driving speed will increase significantly, making community members, especially children, prone to road accidents. Considering this future scenario, the RDA is conducting special road safety programs targeting schoolchildren and adults in all provinces. The mission noted that the RDA has adopted innovative ideas to reach all road users effectively.

23. **Design and monitoring framework (DMF).** The mission updated the achievements of the DMF as of 30 April 2017.

24. **Disbursement and contract award details.** The disbursement for the iRoad program as of 15 May 2017 is \$200.28 million, which is 109% of the eOperations target disbursement for 2017. The contract awards as of 15 May 2017 is \$335.28 million, which is 144% of the eOperations target for 2017.

25. **Cost to completion.** The RDA reported to the mission that, as per the PIC's updated cost estimates to completion for the Southern Province, all contracts in the province can be completed within the original contract amounts. The mission noted that contractors in other provinces are

still preparing working drawings so the cost to completion for those contracts is not yet available. The mission requested the RDA to follow up with contractors and PICs to finalize working drawings and to establish cost to completion for each contract by the end of July 2017.

26. **Capacity building.** The mission noted that more than 60 workshops and training programs have been carried out through the PIC for around 300 RDA staff and provincial councils staff on road safety, context-sensitive design, contract management, and safeguards. However, the RDA has not yet utilized individual consultants' inputs that were identified during the project appraisal. As per the DMF, all consultants required for the capacity building component should have been fielded by 2017. The RDA informed the mission that they have delayed mobilizing the road assets management consultant because roads are still being rehabilitated, and that all individual consultants will be recruited by September 2017.

27. **Tranche 4 processing.** In anticipation of the RDA's fund needs for the iRoad program in the first quarter of 2018, the mission informed the government that Tranche 4 processing will be started in the third quarter of 2017 to secure ADB's management approval in September 2017.

28. **Lessons learned from the implementation.** The mission discussed with the RDA and PICs the lessons learned from the implementation of the iRoad program, which will be incorporated into the project design of the iRoad 2 program.<sup>4</sup> The mission observed that the program is being implemented smoothly without any critical issues relating to implementation capacity. However, some lessons worth considering for the improvement of iRoad 2 implementation are (i) more accurate cost estimates that consider local conditions; (ii) further consideration of adaptation measures in view of recent climate change patterns; (iii) further clarification of the community participation mechanism to share the concept among stakeholders; (iv) more rational contract packaging particularly of project implementation consultants; (v) further strengthening of the safeguards monitoring capacity; and (vi) modification of contract conditions.

#### IV. CONCLUSIONS

29. Overall, the project implementation is satisfactory. The RDA should closely monitor the progress of civil works, timely address issues that may delay implementation, and ensure compliance with loan covenants and safeguard requirements.

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<sup>4</sup> These are also discussed in the previous review mission in November 2016.