

PERIODIC FINANCING REQUEST

Date: 14 August 2017

To: Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila

ATTENTION: Director General, South Asia Department
Fax No. +63-2-636-4444

Sir/Madam:

RE: Second Integrated Road Investment Program: Periodic Financing Request # 1

Please refer to the Framework Financing Agreement for the Second Integrated Road Investment Program dated 14 August 2017 between Asian Development Bank (ADB) and the Democratic Socialist Republic of Sri Lanka (Sri Lanka). Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, Sri Lanka requests ADB to process this PFR for a tranche, in the form of a regular loan and a concessional loan, both from its ordinary capital resources (OCR). The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment hereto. Descriptions of the projects for which financing is hereby requested are set out in Attachment hereto.

By:

RATHNAYAKE MUDIYANSELAGE PRIYANTHA RATHNAYAKE
Director General, Department of External Resources
Ministry of National Policies and Economic Affairs

Attachment

Tranche Description The projects proposed for financing under the requested PFR is a slice of aggregation of national and rural road projects under the Second Integrated Road Investment Program, including:

- (i) upgrading and maintaining about 3,400 kilometer (km) of rural access roads to all-weather standard; rehabilitating and maintaining at a good condition about 340 km of national roads in Northern, Eastern, Uva, and Western Provinces; and
- (ii) improving the capacity of road agencies with respect to safeguards, road safety, maintenance, research capacity, and road design and construction.

The Design and Monitoring Framework for this tranche is in Annex 1. Additional details are in RRP and the linked documents.

Cost Estimates and Financing Plan The total cost to be financed under tranche 1 is estimated at \$172.1 million, inclusive of taxes, duties, and interest and other charges on the loans during construction. The detailed cost estimates and financing plan are in Annex 2.

(\$ million)

Category	Government	ADB (OCR – Regular Loan)	ADB (OCR – Concessional Loan)	Total
Works and Equipment	0.0	83.2	55.4	138.6
Consulting Services	0.0	3.9	2.6	6.5
Project Management	0.0	1.4	1.0	2.4
Tax and Duties	22.1	0.0	0.0	22.1
Financing Charges	0.0	1.5	1.0	2.5
Total	22.1	90.0	60.0	172.1

Loan Amount and Terms The request is for (i) a regular loan of \$90 million from ADB's ordinary capital resources (OCR), with a 30 year term, including a grace period of 7 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 as agreed in the FFA, and further supplemented under the Ordinary Operations Loan Agreement. 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;¹ and (ii) a concessional loan of \$60 million from ADB's OCR, with a 25 year term including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions as agreed in the FFA, and further supplemented under the Ordinary Operations (Concessional) Loan Agreement.

Expected Project Completion and Closing Dates	The physical progress to be financed under tranche 1 is expected to be achieved by 30 June 2020. Closing date of the loan accounts will be 31 December 2020.
Advance Contracting	Advance contracting is requested for civil works, equipment, and consulting services.
Retroactive Financing	Retroactive financing is requested for the eligible expenditures, not exceeding the amount of 20% of the relevant loan amounts, incurred before loan effectiveness, but not earlier than 12 months before the signing of the relevant legal agreement.
Implementation Arrangements	The Executing Agency will be the Ministry of Higher Education and Highways. The Implementing Agency will be the Road Development Authority. Detailed implementation arrangements are described in the Facility Administration Manual.
Procurement and Consulting Services	The procurement plan is attached as Annex 3.
Confirmation of Continuing Validity of and Adherence to Provisions of FFA, Previous Agreements, and the Design and Monitoring Framework	Sri Lanka confirms that the understandings set out in the FFA have been adhered, and remain true to date.
Readiness of the Project for Implementation	The detailed design and bid documents have been prepared. The procurement of civil works was started Q2/ 2017.
Safeguards	Involuntary Resettlement Due Diligence and Socioeconomic Assessment reports (Annex 4), Initial Environmental Examination reports (Annex 5), and a gender action plan (Annex 6) are attached.

¹ The maturity-based premium of 0.20% is based on the loan terms and the government's choice of repayment option and dates.

DESIGN AND MONITORING FRAMEWORK FOR TRANCHE 1

Impact the Program is Aligned with			
Connectivity between rural communities and socioeconomic centers in Sri Lanka improved (Public Investment Programme, 2017–2020) ^a			
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 2019: 10% of physical works completed for the 3,400 km of rural access roads improved to an all-weather standard and maintained under PBM contracts (2017 baseline: not improved) 1b. By 2019: 10% of physical works completed for the 340 km of national roads rehabilitated and maintained under PBM contracts (2017 baseline: not rehabilitated) 1c. By 2019: at least one awareness session per district in Uva Province held on (i) road safety, with women comprising more than 50% participants; and (ii) sexually transmitted diseases, including HIV, with women comprising more than 40% participants (2017 baseline: not applicable)	1a-c. RDA project performance monitoring system	Implementation is delayed by extreme weather conditions.
2. Capacity of road agencies enhanced	By 2024: 2a. Training programs for increased knowledge and skills regarding safeguards, road safety awareness, PBM contract management, and rural road design and construction developed (2017 baseline: not applicable)	2a. Training program reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	2b. 50% of research equipment commissioned (2017 baseline: not commissioned and implemented)	2b. Capacity–building program reports	
Key Activities with Milestones			
<ol style="list-style-type: none"> 1. Road conditions between the selected rural communities and socioeconomic centers improved <ol style="list-style-type: none"> 1.1 Mobilize project implementation consultants by 2018 1.2 Complete engineering design and bidding documents by 2017 1.3 Award all contracts for civil works by 2019 1.4 Complete civil works by 2021 1.5 Implement performance monitoring survey of the investment program from 2017 to 2027 2. Capacity of road agencies enhanced <ol style="list-style-type: none"> 2.1 Mobilize project implementation consultants by 2018; and other capacity development consultants by 2019 2.2 Develop capacity development training programs for road agencies by 2019 2.3 Procure equipment by 2020 and implement action plan for research capacity enhancement by 2024. 2.4 Develop mechanistic-empirical pavement design, road asset management system, information management system, and rural road safety guidelines by 2021. 2.5 Develop policy alternatives to improve financial sustainability by 2019, Have MOHEH and RDA endorse the most suitable policy arrangements by 2020, and implement the identified policy by 2022. 2.6 Conduct the training programs by 2024 			
Inputs			
ADB: \$150 million (loan)			
Government: \$22.1 million			
Assumptions for Partner Financing			
Not Applicable			

ADB = Asian Development Bank, km = kilometer, MOHEH = Ministry of Higher Education and Highways, PBM performance-based maintenance, RDA = Road Development Authority.

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

Source: Asian Development Bank.

Table 6: Detailed Cost Estimates by Expenditure Category and Financier – Tranche 1

Component	Total	Government		ADB (OCR [RL])		ADB (OCR [CL])	
	\$ million	[%]	\$ million	[%]	\$ million	[%]	\$ million
A. Investment Cost							
1. Civil works	135.80	0.0%	0.00	60.0%	81.50	40.0%	54.30
2. Equipment	2.80	0.0%	0.00	60.0%	1.70	40.0%	1.10
3. Consultants							
a. Project Implementation	5.10	0.0%	0.00	60.0%	3.10	40.0%	2.00
b. Capacity Development	1.40	0.0%	0.00	60.0%	0.80	40.0%	0.60
Subtotal (A)	145.10	0.0%	0.00	60.0%	87.10	40.0%	58.00
B. Recurrent Cost	2.40	0.0%	0.00	60.0%	1.40	40.0%	1.00
C. Tax and duties	22.10	100.0%	22.10	0.0%	0.00	0.0%	0.00
D. Contingencies							
1. Physical	0.00	- %	0.00	- %	0.00	- %	0.00
2. Price	0.00	- %	0.00	- %	0.00	- %	0.00
Subtotal (C)	0.00	- %	0.00	- %	0.00	- %	0.00
E. Financial charges implementation							
1. Interest during construction	2.40	0.0%	0.00	60.0%	1.40	40.0%	1.00
2. Commitment Charges	0.10	0.0%	0.00	100.0%	0.10	0.0%	0.00
Subtotal (D)	2.50	0.0%	0.00	60.0%	1.50	40.0%	1.00
Total (A+B+C+D+E)	172.10	12.8%	22.10	52.3%	90.00	34.9%	60.00

ADB = Asian Development Bank; CL=concessional loan; OCR= ordinary capital resources; RL= regular loan.

Source: Asian Development Bank estimates.

Annex 3: Procurement Plan
(Linked Documents 4, Attachment B)

Annex 4: Involuntary Resettlement Due Diligence and Socioeconomic Assessment reports
(Linked Documents 19-22)

Annex 5: Initial Environmental Examination reports
(Linked Documents 11-14)

Annex 6: Gender Action Plan: Tranche 1
(Linked Documents 10)