

**FRAMEWORK FINANCING AGREEMENT
(SRI: Integrated Road Investment Program)**

Parties

This Framework Financing Agreement (“FFA”) dated 11 July 2014 is between the Democratic Socialist Republic of Sri Lanka (“Sri Lanka”, and Asian Development Bank (“ADB”).

MFF Investment Program

Sri Lanka is committed to and will implement the Integrated Road Investment Program, which is an integral part of Sri Lanka’s investment plan for rural road connectivity (“Rural Road Connectivity Program”). Both the Rural Road Connectivity Program and the Investment Program are described in Schedule 1 hereto.

The total cost of the Rural Road Connectivity Program over the period 2010 to 2020 is expected to be \$1.8 billion equivalent. The total cost of the Investment Program, over the period 2015 to 2024 is expected to be \$906 million equivalent.

Multitranche Financing Facility

The Multitranche Financing Facility (the Facility) is intended to finance individual projects under Rural Road Connectivity Program, provided that such projects comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

These may include:

- (i) **Road improvement component** will design, improve, and maintain about 2,200 km of rural access roads, including provincial and local authority roads, and about 400 km of national roads. The rural access roads will be improved to all-weather standards, and be maintained for three years. Selected national road corridors will be improved and/or maintained for seven years, while short isolated sections will be maintained for three years after improvement.
- (ii) **Capacity development component** will build the capacity of road agencies on road asset management, project management, and contract administration. The road agencies including the Road Development Authority (RDA) will take lead in developing a harmonized road asset management approach in the level of central, provincial, and local governments. Consulting services will be engaged to assist the RDA in developing its own capacity and in the skill transfer program from RDA to provincial and local road agencies.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Sri Lanka, cancel the uncommitted portion of the Facility, and withdraw Sri Lanka’s right to request any financing tranche under

the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Sri Lanka to request any financing. Sri Lanka has the right not to request any financing under the Facility. Sri Lanka also has the right at any time to cancel any uncommitted portion of the Facility.

Sri Lanka and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect. With prior notice to the borrower, ADB may cancel the facility or reject a financing request when there is a material noncompliance with ADB policies or FFA undertakings; or there are undue delays in the submission of the financing requests or the implementation of the investment program.

Financing Plan

The financing plan for the Integrated Road Investment Program is summarized below.

Financing Source	Total (\$million)	Share (%) of Total
Asian Development Bank	800.0	88.3
Government of Sri Lanka	106.0	11.7
Total (Investment Program)	906.0	100.0

Financing Terms

ADB will provide loans to finance projects under the Investment Program, as and when the latter are ready for financing, provided, Sri Lanka is in compliance with the understandings hereunder, and the projects are in line with those same understandings.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges

and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is eight hundred million US dollars (\$800,000,000). It will be provided in individual tranches from ADB's Ordinary Capital Resources¹ and/or Special Funds Resources² in Loans.

Availability Period

The last date on which any disbursement under any tranche may be made will be on or before 30 September 2024. The last financing tranche is expected to be executed no later than 31 December 2021.

Terms and Conditions

Sri Lanka will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The Executing Agency will be the Ministry of Highways, Ports and Shipping (MOHPS). The Implementing Agency will be the Road Development Authority (RDA). The Executing and Implementing Agencies will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.

Periodic Financing Requests

Sri Lanka may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program and its related projects upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by Sri Lanka. Sri Lanka will make available to MOHPS and the Road Development Authority (RDA) the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

Each individual tranche will be for an amount of no less than fifty million US dollars (\$50,000,000), or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related

¹ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

² Provisions of the Special Operations Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Special Funds Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

legal agreements.

The projects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual agreed between Sri Lanka and ADB.

Until notice is otherwise given by Sri Lanka, the Secretary to Treasury, or the Director General of External Resources Department of the Ministry of Finance and Planning will be Sri Lanka's authorized representative for purposes of executing PFRs.

**General
Implementation
Framework**

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

Procedures

Tranches to be provided under the Facility will be subject to following procedures and undertakings:

- (a) Sri Lanka will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (b) Sri Lanka will have submitted a PFR in the format agreed with ADB.
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan amount;
- (ii) Description of the project(s) to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the project(s);
- (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate; and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguards	Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during the implementation of the Facility. ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the projects financed under such financing tranche.
Procurement	All goods and services to be financed under the Facility will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2013, as amended from time to time).
Consulting Services	All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2013, as amended from time to time).
Advance contracting; Retroactive financing	Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting of civil works, equipment and materials, and consulting services and (b) retroactive financing of eligible expenditures for civil works, equipment and materials, and consulting services up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Sri Lanka acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.
Disbursements	Disbursements will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time).
Monitoring, Evaluation, and Reporting Arrangements	Schedule 2 hereto sets as the Design and Monitoring Framework for the Facility, against which the implementation effectiveness will be evaluated. Further details to be complied regarding the monitoring, evaluation and reporting arrangements are provided in the Implementation Framework in Schedule 3.
Undertakings	Attached as Schedule 6 are the undertakings provided by Sri Lanka.

SRI LANKA

By _____
DR. BATAGODA MUDIYANSELAGE
SUREN BATAGODA
Deputy Secretary to the Treasury

ASIAN DEVELOPMENT BANK

By _____
SRI WIDOWATI
Country Director, SLRM

SCHEDULE 1

MFF CONSTITUENTS

A. Road Map

1. Country Background

1. With a coastline of about 1600 km, Sri Lanka consists mostly of flat-to-rolling coastal plains, with mountains in the south-central core. The maximum length of the island (from north to south) is 435 km while the maximum width (east to west) is 240 km. The highest point is 2,524 meters (8,281ft) above sea level. The country occupies a strategic position near the main sea trade corridors between Europe and Asia, a factor which allowed Colombo to develop very early as an international port city and then subsequently as a trans-shipment point for cargo originating or destined for the Indian sub-continent.

2. Sri Lanka's population geography is dominated by settlements clustered along the coast and interior market towns that dominate the rural landscape.¹ About 85 percent of Sri Lanka's population (20.3 million in 2012) lives in rural and peri-urban areas, i.e. outside legally demarcated municipal jurisdictions. More than one fourth of the population lives within 1 kilometer of the coast, a strip of land constituting only 5 percent of the country's area.²

3. Since the end of civil conflict in May 2009, a period of strong economic growth has been shared across Sri Lanka. The growth of the economy maintained over 8% in 2010 and 2011, slightly slowed to 6.4% in 2012 due to weak external demand, drought, and floods, and then rebounded to 7.3% in 2013. It is envisaged that an improving external environment, higher investment, and a recovery in domestic consumption will sustain a rapid pace of economic growth in the next two years.³ The expansion of Sri Lanka's economy has been largely driven by industry and services sectors, which account for 89% of gross domestic product (GDP), and followed by the agriculture sector contributing the remaining 11%.⁴ The drivers of growth over the medium term are expected to be the same sectors that led growth since 2006.

4. Reflecting the robust growth, the national poverty headcount ratio fell to just below 9% in 2010 from over 15% in 2006/07. The poverty rates also declined across most of the country. Declining inequality has also accompanied poverty reduction. Nevertheless, less-developed areas did not exhibit consistently higher elasticity of poverty reduction (proportional change in poverty per unit growth in GDP per capita).⁵ The poor transport infrastructure has hindered the spread of economic activities and the access to basic health and education resource in rural areas. Continued expansion of transport infrastructure to widen access to markets and economic opportunities and to health and education services is required to support inclusive growth and poverty reduction going forward.

¹ Department of Census and Statistics, Ministry of Finance and Planning. 2012. *Population Atlas of Sri Lanka 2012*. Colombo.

² World Bank and UN Habitat. 2012. *Turning Sri Lanka's Urban Vision into Policy and Action*. Washington, D.C.

³ ADB. 2014. *Asian Development Outlook 2014: Fiscal Policy for Inclusive Growth*. Manila.

⁴ Central Bank of Sri Lanka. 2013. *Annual Report of the Monetary Board to the Hon. Minister of Finance for the year of 2012*. Colombo.

⁵ International Monetary Fund. 2013. *Sri Lanka: 2013 Article IV consultation and Proposal for Post-Program Monitoring*. Washington, D.C.

2. Sector Performance

5. Sri Lanka's road network is dense and well laid out, providing basic spatial coverage to the country's population and centers of economic activity. The 132,693 km of road network in Sri Lanka is classified into national, provincial, and local roads according to functionality and administrative responsibility. National roads, comprising about 11,922 km of class A roads and class B roads, are managed by the central government through the Road Development Authority (RDA). The provincial road network, comprising 15,975 km of class C and D roads, is managed by the provincial councils. In addition, about 80,000 km of local roads (class E), managed by local governments, provide direct access to rural communities, and about 24,000 km of unclassified roads serve the purposes of irrigation, wildlife, and land development. In 2011, a new category, the expressway, is inserted into the network by the completion of the Southern Expressway. The 96 km expressway is the first of its kind in the country. Its opening reduced the travel time between Kottawa and Galle from 5 hours to 1.5 hours. In addition to the Southern Expressway, the Government recently completed the Colombo-Katunayake Expressway and the Pinnaduwa Godagama Expressway. The Outer Circular Highway is being constructed.

6. While significant progress has been made in developing the high-mobility network, travel demand has also increased significantly to facilitate social and economic activities. Sri Lanka's number of vehicles grew at an average annual rate of 11% between 2004 and 2011. The national average vehicle ownership rate for Sri Lanka is estimated at about 152 vehicles per 1,000 persons in 2011. The rapidly expanding travel demand has caused issues relating to both travel speed and road safety. The average travel speed on the national road network has fallen from 40 km per hour in 2007 to 33 km per hour in 2011. It is estimated that to maintain the current levels of transport services, road capacity would need to be doubled every 8–10 years.

7. A road asset management system is functioning in RDA to plan and program the road projects. To ensure sustainability of the road network, a road maintenance trust fund was established in 2005 to provide a sustainable source of funding for routine and periodic maintenance. Originally established under the Ministry of Finance and Planning through a deed of trust, the fund was reconstituted in 2010 directly under the Ministry of Ports and Highways. A technical secretariat with adequate staffing (core staff includes the head of the secretariat, a highway engineer, and a finance and administration manager) and operating budget was established. The secretariat works closely with the Planning Division of the Road Development Authority in setting priorities and making allocations from the maintenance trust fund. Fund utilization has been satisfactory, at 94%–100% of the allocations. In terms of physical outputs, periodic maintenance coverage rose from 516 km in 2007 to 1,800 km in 2012. Routine maintenance operations covered 7,000–8,500 km of core maintainable network per annum, excluding roads under construction or in the defect liability period. The fund has served a useful purpose in protecting budget allocations for maintenance, raising awareness of the critical importance of maintenance, and focusing attention on periodic maintenance. In the long term, the government plans to expand the fund to cover the provincial and rural roads, but this will require an integrated road asset management approach adopted at different levels of the road agencies.

8. With assistance from the Asian Development Bank (ADB), the government has piloted performance-based maintenance in different ways while meeting a mixture of success and failure. Since 2009, a consistent approach has been used in most ADB-funded road projects which include the rehabilitation or improvement works plus 3 to 5 years of performance-based maintenance into a single contract. The bidding documents and contract administration have

been gradually improved for procuring and implementing performance-based maintenance. Some early observations include that (i) the bidding documents and contracts need to be carefully structured to ensure the contractor will complete the maintenance period, (ii) the performance-based payment mechanism requires capacity development at both road agencies and contractors, and (iii) the maintenance contracts help the road agencies to secure funds for long-term maintenance.

9. As a result of the enhanced road maintenance and nationwide investment into road improvement, the road network's physical condition has improved. The proportion of roads in good condition rose from 35% in 2007 to 48% in 2011, those in fair condition dropped from 19% to 11%, and roads in poor condition declined from 46% to 41%.

10. There has also been a steady increase in all categories of road accidents since 2008, reflecting the massive rise in new vehicle registrations and sustained traffic growth. About SLR300 million in public funds is allocated annually for traffic management and road safety activities, most of which are conducted by the National Traffic Police. While in addition 2% of the cost of major rehabilitation projects is allocated for road safety and traffic management, there is no focal point for such activities at the Road Development Authority. A midterm prognosis based on the increasing trend in accidents and World Health Organization's road safety profile of Sri Lanka suggests no significant improvement in the road safety record will occur by 2017.⁶

3. Key Problems and Opportunities

11. The road network is challenged to enhance capacity and provide mobility at an acceptable level. While the road network connects the country's main economic and population centers, its capacity, conditions, and standards have not kept pace with the rapidly growing freight and passenger traffic. In the southern region, it is imperative to enhance the accessibility of the trunk road network by improving the existing national, provincial and local road that links to the trunk road network. This is critical to ensuring that development impact is optimized and benefits are reaped in a timely manner. In the northern region, prolonged underinvestment during three decades of civil conflict has left the road network in a state of total disrepair. Most people in the northern region only have poor and limited access to local markets and basic social services. Overall uncontrolled roadside development and encroachment on right-of-way have impeded the widening that is necessary to improve capacity and safety. For lack of high capacity roads and bypasses, traffic passes through the economic and population centers rather than circumventing them. These factors have collectively contributed to slow travel speeds, congestion, and safety hazards in nationwide road transport.

12. As of 2011, 48% of national roads were in good condition, 11% in fair condition, and 41% in poor condition. However, the condition of provincial and local roads is much worse than the national roads. These reflect gaps on both resource allocations among the road categories as well as institutional capacity at different levels of road agencies. To support inclusive growth and poverty reduction, investment should be provided for a sustainable expansion of infrastructure and access to health and education services. The main challenges on rural accessibility are (i) most rural access roads, including provincial and local roads, cannot provide all-weather access, and (ii) part of the trunk road network is in poor condition. In addition, the capacity of road agencies on road management and project management is limited, especially on planning, programming, design, project implementation, and monitoring and evaluation.

⁶ World Health Organization. 2013. *Global Status Report on Road Safety 2013*. Geneva.

13. A two-tier sector strategy is adopted by the government to provide nationwide connectivity: (i) establishing a trunk road network covering a number of expressways and well-connected national roads, and (ii) completing a rural road network to connect the rural populations to trunk roads linking to the centers of socioeconomic activities.⁷ On the aspect of capacity development, RDA's project capacity has been well developed in the large-scale development since 2007. To build the capacity of provincial and local road agencies, a skill transfer program is being established to involve their staff in RDA's road asset management, project management, and contract administration activities.

14. The approximately SLR124 billion invested into road network development at national, provincial, and local levels in 2011 represents a six-fold increase in nominal terms compared to the SLR19 billion spent in 2005. By 2016, the development policy framework proposes to sustain a public investment level of SLR175 billion–SLR200 billion per year, which would thereafter help to develop and maintain the modern road network.

B. Strategic Context

15. The government's ten-year national strategy for 2010–2020 aims to accelerate economic growth, improve social indicators, eradicate hard-core poverty, and improve the environment. Inadequate and poor quality of infrastructure is identified by the strategy as a major constraint to sustaining rapid economic growth. Large public investments are planned for transport and other infrastructure sectors. The national strategy indicates that development of road infrastructure contributes to the acceleration of economic growth, balanced regional development, and opening up of opportunities for national integration and political stability. Therefore, the strategy has accorded the highest priority to improving the entire network of roads in the country with modern technology during 2011–2020.

16. The government wants to boost investments into road transport to ensure that the road network will be planned, maintained, constructed, and developed to (i) meet current and expected future demand in the transport of passengers and freight; (ii) improve the quality of roads by using effective and innovative modern techniques of design, construction, and maintenance; (iii) reduce travel time and operating costs while facilitating greater mobility and improving accessibility; (iv) support the country's economic development by considering the government's future socioeconomic development plans and policies; (v) assess the existing capacity of the infrastructure and add capacity to the road network through widening, improving, and constructing new roads; (vi) improve institutional capacities of the roads administration; (vii) ensure the required actions are taken to protect the environment; and (viii) develop the local road construction industry. The underlying strategic features in the road transport subsector development strategy for economic growth in the development policy framework are as follow:

- (i) Completing the national expressway (181 km) connecting the two international airports located at Katunayake (close to Colombo) and at Mattala (close to Hambantota); bypassing Colombo via Kadawatha, Kaduwela, and Kottawa (the three emerging outer Colombo townships); and passing through Galle and Matara (the two southern provincial cities).

⁷ Government of Sri Lanka, Ministry of Finance and Planning, Department of National Planning. 2010. *Sri Lanka: The Emerging Wonder of Asia: Mahinda Chintana – Vision for the Future*. Colombo.

- (ii) Expanding existing roads in major townships, particularly in Colombo, to six lanes, four lanes, two lanes, and, where necessary, introducing bypasses, overpasses, and underpasses to meet the growing traffic demand in urban areas.
- (iii) Upgrading all existing national roads to a modern standard, together with parallel development in provincial roads, in order to establish the connectivity necessary for improving mobility and traffic efficiency.
- (iv) Implementing the *Maga Neguma* rural development initiative to develop all rural and agricultural road networks as part of improving rural infrastructure as an integral part of empowering the villages.
- (v) Raising most of the financing for the road transport subsector from bilateral and multilateral sources on long-term credit at low rates of interest. Such funding has been mobilized from the World Bank, ADB, Japan, Kuwait, the People's Republic of China, Republic of Korea, and several other bilateral sources.
- (vi) Encouraging domestic private sector construction companies to enter road construction on a turnkey basis and through long-term funding arrangements.
- (vii) Undertaking provincial and rural road funding largely through national budget supports.
- (viii) Increasing allocations of resources to the road maintenance trust fund to ensure adequate funds are channeled for road maintenance.

17. While notable progress has been achieved in addressing the immediate deficiencies of trunk road networks in recent years, the progress on provincial rural road development is relatively slow due to limited resources and weak capacity of provincial and local governments. The government has established a rural road program, “Maga Neguma”, to improve rural roads using the direct labors of RDA. The program has improved about 10,000 km of rural roads upon the request of local authorities since 2004, but there is still about 90% of the whole rural road network requiring rehabilitation.

18. In line with the government's national strategy, ADB's country partnership strategy 2012–2016 aims to address the major constraints for sustaining inclusive growth in post-war Sri Lanka.⁸ The strategy focuses on three pillars: (i) inclusive and sustainable economic growth, (ii) catalyzing private investment and enhancing the effectiveness of public investment, and (iii) human resource and knowledge development. Transport sector, particularly rural road connectivity, is one of the key areas in implementing the strategy.

C. Policy Framework

19. The central government takes responsibility for transport policy and interprovincial road transport infrastructure.⁹ Provincial governments are responsible for provincial roads and intraprovincial road transport services, and local authorities for local roads. The private sector provides all road freight services, while a mix of private (77%) and public (23%) operators provide bus passenger transport. Oversight of road transport at the national level is by four

⁸ ADB. 2011. *Country Partnership Strategy: Sri Lanka, 2012-2016*. Manila.

⁹ Road Development Authority, Planning Division. 2007. *National Road Master Plan 2007-2017*. Colombo.

ministries: Ports and Highways, Transport, Private Transport Services, and Local Governments and Provincial Councils.

20. Under the three tier government structure, the policy framework for road sector is as described in the Table 1.

Table 1: Road Sector Policy Framework

Key Area	Policy and Initiatives for Sector Development
Sector strategy	<ul style="list-style-type: none"> • The overall target is to develop the entire road network as all-weather roads, with 100 percent rural accessibility and creating high mobility inter-regional expressways to facility the efficient movement of people and goods. To achieve the target, the public investment plan between 2012-2016 includes: <ul style="list-style-type: none"> ○ Expressway development: a 480 km expressway network will be constructed to connect major cities. ○ National road capacity enhancement: 1,825 km of national highways will be widened to multilane standard, 3,600 km of national highways will be rehabilitated, 300 bridge on national road network will be reconstructed. ○ Rural road connectivity program: 1,000 GN Divisions will be connected by improving 800 km of national roads, 1,500 km of provincial roads, 4,000 km of local roads, and 1,000 rural bridges. ○ Capacity development: the capacity of road related institution will be strengthened.
Road connectivity planning	<ul style="list-style-type: none"> • National road master plan 2007 to 2017 developed by the planning division, RDA. • Most provincial and local road agencies plan the road connectivity on an annual basis to address the demands of communities.
Road asset management	<ul style="list-style-type: none"> • The MOHPS and RDA lead a program on building the capacity of road asset management of road agencies. <ul style="list-style-type: none"> ○ Review and improve the business process model of RDA on road asset management ○ Update the data collection manual ○ Upgrade the road asset management system ○ Outsource the data collection function to private sector ○ Develop a road asset management strategy in MOHPS, including the performance target and reporting protocols. ○ Replicate the RDA model in provincial and local road agencies.
Operation and maintenance	<ul style="list-style-type: none"> • A road maintenance trust fund (RMTF) was established in 2005 to provide a sustainable source of funding for routine and periodic maintenance. The following measures will be taken for road maintenance at all levels: <ul style="list-style-type: none"> ○ Increasing allocations to RMTF ○ Expanding RMTF to include the regional level by developing policies and mechanisms to increase participation and to obtain the contribution of provincial and local government. ○ Introducing a special division for bridge management.

Road safety	<ul style="list-style-type: none"> • National Council for Road Safety operates under Ministry of Transport through Motor Traffic amendment act No. 05 of 1998. • A Road Safety Fund has been established. Towards this fund insurance companies should contribute 1% from their third party insurance coverage. • With a vision of “Safe roads for everyone”, the National Council for Road Safety undertakes the following key functions: <ul style="list-style-type: none"> ○ Payment of compensation for victims of accidents caused by unidentified vehicles. ○ Formulate and implement projects on Road safety. ○ Coordinate road safety related activities in government and non-government organizations ○ Solicit financial and other support for road safety activities ○ Advise the government on road safety related policies and projects. ○ Coordinate with similar international institutions and share experience ○ Collect data on related subjects and conduct research and field inspections ○ Maintaining a database pertaining to road safety.
Capacity development and knowledge transfer	<ul style="list-style-type: none"> • RDA will review the quality control and/or assurance mechanism used in its practices of engineering design and construction supervision, and establish a complete system to ensure to quality of road construction, rehabilitation, and maintenance. • Skill transfer program between RDA and the provincial and local road agencies will be established.

D. Investment Program

21. The public investment strategy proposes to sustain an investment level above \$1.3 billion per year to road sector until 2016.¹⁰ Within the overall road sector investment plan, the government will implement a rural road connectivity program. Connecting rural hubs is the top priority of the rural road connectivity program. The government plans to select about 1,000 rural communities according to the population, development potentials, and the distance to trunk roads to extend the development benefits to rural areas. The total demand for investment until 2024 is about \$1.8 million. ADB is requested to assist the government in addressing the connectivity issues for these communities. Within the rural road connectivity program, the government requests ADB to finance five projects, covering five provinces (Southern Province, Sabaragamuwa Province, Central Province, North Central Province, and North Western Province) and one rural district, Kalutara of Western Province. In the meantime, the government will use its own financing resource to finance projects in the remaining three provinces, while other development partners’ assistance is also actively sought.

22. The Investment Program is an integral part of Sri Lanka’s rural road connectivity program by improving the road sections linking rural communities and adjacent socioeconomic centers. The investment program will comprise five projects: Project 1 is in Southern Province, Project 2 in Sabaragamuwa Province and the Kalutara District of Western Province, Project 3 in Central Province, Project 4 in North Central Province, and Project 5 in North Western Province.

¹⁰ Department of National Planning, Ministry of Finance and Planning. 2013. *Unstoppable Sri Lanka 2020: Public Investment Strategy 2014-2016*. Colombo.

23. The investment program is in line with the government's sector objective: establishing a modern transport system that will enable acceleration of economic growth. As agreed with the government, ADB will contribute to the sector outcome of improved nationwide connectivity.

E. Financing Plan

24. The investment program is estimated to cost \$906 million, including taxes and duties, physical and price contingencies, interest and other charges during implementation.

Table 1: Investment Program
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Civil works	701.12
2. Consulting services	40.48
3. Project management	15.00
Subtotal (A)	756.60
B. Contingencies^c	130.90
C. Financing Charges During Implementation^d	18.50
Total (A+B+C)	906.00

^a Includes taxes and duties of \$82.60 to be financed from government resources.

^b In mid-2014 prices.

^c Physical contingencies computed at 10% for civil works; and 10% for consulting services. Price contingencies computed at 2% on foreign exchange costs and 7% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for ADB loan(s) has been computed at the 5-year forward London interbank offered rate plus a spread of 0.2% for the ordinary capital resources loan, and at 2.0% per annum for the loan from ADB's Special Funds resources. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank.

25. The government has requested a multitranche financing facility of \$800 million from ADB's ordinary capital resources and Special Funds resources to help finance civil works, consulting service, and project management costs of the investment program. The government will provide counterpart financing of \$106 million for feasibility study and engineering, tax and duties, and part of the contingency. The financing plan for the investment program is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
ADB	800.00	88.3
Government ^a	106.00	11.7
Total	906.00	100.00

^a The current country limit for Sri Lanka is 90%.

ADB = Asian Development Bank

Source: Asian Development Bank.

26. The MFF will finance slices of long-term contract packages under the investment program. Each tranche will finance slices of a group of contracts for civil works or consulting services. Each contract is sliced according to the indicative tranching schedule. The amount of each tranche will be requested according to the disbursement progress and projection. The tranching schedule will be based on the disbursement projection to improve the disbursement ratio and minimize financing charges.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved connectivity between rural communities and socioeconomic centers in Sri Lanka	By 2027 Rural hub centers connected to socioeconomic centers by all-weather roads increases by 1,000	Annual report of Ministry of Finance and Planning Survey of RDA	Assumptions Government's development strategy effectively coordinated with road sector investment Planned transport projects implemented as scheduled
Outcome Increased transport efficiency on project roads	By 2024 Travel time on project rural roads reduced by 20% from 2013 rate. Travel time on project national roads reduced by 10% from 2013 rate. Use of roads built or upgraded (average daily vehicle-kilometers in the first full year of operation) reaches 2.8 million.	Survey of RDA Survey of RDA Survey of RDA	Assumptions Government provides counterpart funds for the project on time
Outputs 1. Improved road conditions between the selected rural communities and socioeconomic centers	By 2024 About 2,200 km of rural access roads improved to all-weather standard. About 400 km of national roads rehabilitated and maintained under performance-based contracts. Gender targets achieved for road maintenance works.	Project performance monitoring system of RDA Project performance monitoring system of RDA Project performance monitoring system of RDA	Risks Implementation delayed by extreme weather conditions
2. Enhanced capacity of road agencies	By 2024 Skill transfer program to provincial and local road agencies by RDA established and functioning. Rural road design standard, construction specification, and maintenance manual endorsed by RDA.	Capacity building program reports Capacity building program reports	Assumptions Consensus reached with other government agencies on strategy to improve the overall rural connectivity.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks												
	About 80 staff received training on road asset management, project management, and/or performance-based road contracts.	Training program reports													
Activities with Milestones		Inputs													
1. Improved road conditions between the selected rural communities and socioeconomic centers		Asian Development Bank: \$800 million													
		<table border="1"> <thead> <tr> <th data-bbox="824 600 1133 632">Item</th> <th data-bbox="1141 600 1443 632">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="824 642 1133 674">Civil works</td> <td data-bbox="1141 642 1443 674">626.00</td> </tr> <tr> <td data-bbox="824 684 1133 716">Consultancy</td> <td data-bbox="1141 684 1443 716">28.00</td> </tr> <tr> <td data-bbox="824 726 1133 779">Recurrent costs (project management)</td> <td data-bbox="1141 726 1443 779">15.00</td> </tr> <tr> <td data-bbox="824 789 1133 821">Contingency</td> <td data-bbox="1141 789 1443 821">112.50</td> </tr> <tr> <td data-bbox="824 831 1133 852">Financing charges</td> <td data-bbox="1141 831 1443 852">18.50</td> </tr> </tbody> </table>		Item	Amount (\$ million)	Civil works	626.00	Consultancy	28.00	Recurrent costs (project management)	15.00	Contingency	112.50	Financing charges	18.50
Item	Amount (\$ million)														
Civil works	626.00														
Consultancy	28.00														
Recurrent costs (project management)	15.00														
Contingency	112.50														
Financing charges	18.50														
1.1 Mobilize project implementation consultants by 2014															
1.2 Complete engineering design, and bidding documents by 2016															
1.3 Award all contracts for civil works by 2018															
1.4 Complete civil works by 2024															
1.5 Implement performance monitoring survey of the investment program from 2014 to 2024															
2. Enhanced capacity of road agencies		Government: \$106 million													
2.1 Mobilize capacity building consultants by 2017		<table border="1"> <thead> <tr> <th data-bbox="824 1230 1133 1262">Item</th> <th data-bbox="1141 1230 1443 1262">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="824 1272 1133 1304">Civil works</td> <td data-bbox="1141 1272 1443 1304">75.12</td> </tr> <tr> <td data-bbox="824 1314 1133 1346">Consultancy</td> <td data-bbox="1141 1314 1443 1346">12.48</td> </tr> <tr> <td data-bbox="824 1356 1133 1388">Contingency</td> <td data-bbox="1141 1356 1443 1388">18.40</td> </tr> </tbody> </table>		Item	Amount (\$ million)	Civil works	75.12	Consultancy	12.48	Contingency	18.40				
Item	Amount (\$ million)														
Civil works	75.12														
Consultancy	12.48														
Contingency	18.40														
2.2 Establish a skill transfer program to provincial and local road agencies by RDA by 2018															
2.3 Develop a capacity development program on road asset management for RDA, provincial and local road agencies by 2018															
2.4 Develop rural road design standard, construction specification, and maintenance manual by 2020															
2.5 Develop standard bidding documents and contract administration manual for road management by 2020															

RDA = Road Development Authority.

Source: Asian Development Bank.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

A. Project Implementation Arrangements

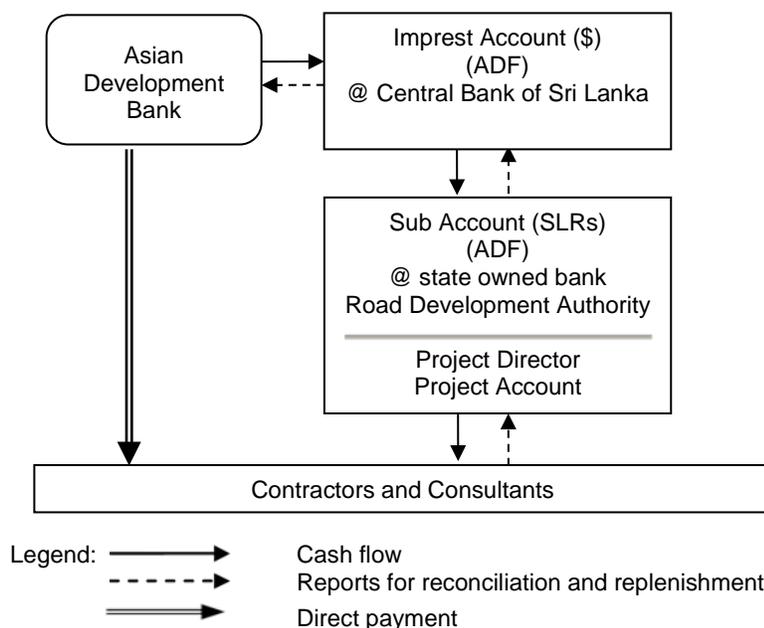
1. The projects under the Integrated Road Investment Program will follow the following implementation arrangements.

Project Stakeholders	Management Roles and Responsibilities
Executing agency (EA)	Ministry of Highways, Ports and Shipping (MOHPS, formerly Ministry of Ports & Highways) <ul style="list-style-type: none"> <input type="checkbox"/> overall coordination of project implementation <input type="checkbox"/> interagency coordination
Implementing agency (IA)	Road Development Authority (RDA) <ul style="list-style-type: none"> <input type="checkbox"/> day-to-day project and safeguards management <input type="checkbox"/> consultant recruitment and procurement of works <input type="checkbox"/> withdrawal applications <input type="checkbox"/> project progress reports and safeguard monitoring reports <input type="checkbox"/> maintaining project accounts and complete loan financial records
National Steering Committees Chair: Secretary of MOHPS; Members: <ul style="list-style-type: none"> • Chief Secretaries of the provinces under the investment program • Secretary, Finance Commission • Director General, RDA • Senior Project Director (iRoad) • Commissioners of Local Government authorities under the investment program • Heads of provincial road agencies • District Secretaries • External Resources Department, National Planning Department, and Project Monitoring and Management Department of MOFP 	<ul style="list-style-type: none"> <input type="checkbox"/> oversee and monitor project implementation as well as the adequacy of overall project funding <input type="checkbox"/> hold meeting as required but at least quarterly to discuss overall status and project issues, and when and as necessary invite representatives from the Central Environmental Agency, Geological Survey and Mines Bureau, and utilities (electricity, telecommunications, water, and drainage) for coordination purposes
Provincial Coordination Committees Chair: Chief Secretary of the Province Members: <ul style="list-style-type: none"> • Project Director (Secretary to the Committee) • District Secretaries • Representatives of Provincial Road Agencies • Representatives of Local Authorities 	<ul style="list-style-type: none"> <input type="checkbox"/> coordinate and facilitate project implementation <input type="checkbox"/> hold meeting as required but at least quarterly to discuss implementation progress and address project issues, and when and as necessary invite representatives from the relevant offices <input type="checkbox"/> a coordination committee will be established in each province under the investment program

Project Stakeholders	Management Roles and Responsibilities
Asian Development Bank	<input type="checkbox"/> Monitor and review overall implementation of the project in consultation with the EAs/IAs including: the project implementation schedule; actions required in terms of poverty reduction, environmental impacts, and resettlement plans (RPs) if applicable; timeliness of budgetary allocations and counterpart funding; project expenditures; progress with procurement and disbursement; statement of expenditure when applicable; compliance with particular loan covenants; and the likelihood of attaining the project's immediate development objectives.

B. Fund Flow

2. The fund flow for projects under the investment program will be as follows.



Notes on funds flow:

- From ADB to the Imprest Account.** Loan proceeds will be channeled through an Imprest Account opened at the Central Bank of Sri Lanka to a sub account to be managed by RDA at state owned banks acceptable to the Government and ADB. ADB funds will be allocated based on the annual budget estimates prepared by the RDA. RDA will process all other disbursement requests to ADB, including direct payment to contractors and consultant fee. The Imprest Account will be liquidated and replenished according to the ADB's *Loan Disbursement Handbook*.
- From ADB to contractors as well as consultants.** Dollar-denominated payments above \$100,000 for contractors, contracted by RDA, will be paid directly by ADB, which requires RDA's submission of approved invoices and documentation to ADB in accordance with ADB's *Loan Disbursement Handbook*.

C. Accounting, Auditing and Reporting

3. Sri Lanka, MOHPS and RDA shall ensure that proper accounts and records are maintained and audited in a timely manner to adequately identify the use of loan proceeds in such manner and details as may be specified under each Loan Agreement and Project Agreement(s).

4. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by ADB's Public Communications Policy (2011). After review, ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB website. The Audit Management Letter and the entity level Audited Financial Statements will not be disclosed.

D. Project Performance Monitoring and Evaluation

5. Within 3 months from the effective date of the framework financing agreement, MOHPS and RDA shall develop a Project Performance Monitoring System (PPMS) for the investment program. The PPMS shall monitor and evaluate the impacts, outcomes, outputs and activities in relation to the targets and milestones set for the investment program and projects under the investment program.

6. RDA shall provide ADB:

- (a) within 45 days from the close of each quarter, with quarterly progress reports on the respective components of the project and the Investment Program. Such reports shall include information on progress made during the period of review pursuant to the preceding paragraph of this Schedule, a summary financial account for the project, changes, if any in the implementation schedule, problems or difficulties encountered and remedial actions taken, anticipated problems and the proposed remedial measures, and work to be undertaken in the following period; and
- (b) a Project completion report within 3 months of completion of the project within 3 months of the completion of the Investment Program. These reports shall cover a detailed evaluation of the projects and the Investment Program respectively covering the design, costs, contractors and consultants' performance, social and economic impact, economic rate of return, and other details as may be requested by ADB.

E. Project Review

7. ADB, the Borrower, MOHPS and RDA shall meet regularly as required, to discuss the progress of the Project and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the objectives of projects and of the Investment Program. ADB, the Borrower, MOHPS and RDA will undertake an inception mission soon after the legal agreements for any tranches are declared effective; thereafter, regular reviews will follow at least annually. As necessary, special loan administration missions will be fielded, under which any changes in scope or implementation arrangement may be required to ensure achievement of project and investment program objectives.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

1. The investment program will comprise five projects: Project 1 is in Southern Province, Project 2 in Sabaragamuwa Province and the Kalutara District of Western Province, Project 3 in Central Province, Project 4 in North Central Province, and Project 5 in North Western Province.

A. Selection Criteria

2. The projects will meet the following selection criteria.
- (i) The project will have substantial impact on improved transport connectivity between rural communities and socioeconomic centers.
 - (ii) The project road may include rural, provincial, and national roads. The rural and provincial roads should be selected on access routes between the rural hubs and the trunk road network. The national roads should connect the selected rural access routes and adjacent socioeconomic centers.
 - (iii) The project will also support the capacity development of RDA, provincial road agencies, and relevant offices in local authorities, on road asset management project management, and/or contract administration.
 - (iv) The project will be technically feasible, least-cost and supported by a detailed report for such feasibility;
 - (v) The project will be economically feasible and financially sustainable, and its estimated economic internal rate of return equal to or higher than 10% for provincial and rural roads and 12% for national roads, based on the economic analysis to be conducted in accordance with ADB's *Guidelines for the Economic Analysis of Project*;
 - (vi) Design of project road will be finalized based on input from community consultation conducted in accordance with the RF and input from road safety audits;
 - (vii) The project roads will be selected following the detailed criteria in the safeguard frameworks.¹³ A project road will not be selected if (i) it is located within or close to an environmentally sensitive area, such as a wildlife sanctuary, national park, or other areas having significant ecological functions; and (ii) land acquisition;
 - (viii) The project will be environmentally sound and socially sound and include measures to mitigate any possible environment and social impacts in accordance with the safeguard frameworks prepared (footnote 13 and Schedule 5) and Safeguard Policy Statement (SPS) 2009. For each project, a poverty and social analysis will be conducted in accordance with ADB's guidelines on poverty and social assessment.

¹³ Environment Assessment and Review Framework (EARF), Resettlement Framework (RF) and IPPF (Indigenous Peoples Planning Framework (IPPF))

- (ix) A project categorized as 'A' in accordance with the SPS will not be considered under the Facility. If any indigenous peoples are likely to be affected by a project, an indigenous peoples plan (IPP) will be prepared in accordance with the agreed indigenous peoples planning framework (IPPF) and the SPS 2009;
- (x) Sufficient counterpart funding has been allocated to implement the project timely and efficiently in accordance with the overall implementation schedule; and;
- (xi) For each project, all necessary Government approvals and agreements between government agencies, will be obtained, including MOHPS, RDA, relevant provincial government and local authorities, and other relevant agencies, as applicable.

B. Approval Procedures

3. All projects will be processed in accordance with the procedure set out below.
 - (i) RDA will prepare a long list of GN Divisions in accordance with the requirements of national planning department, MOFP on rural hubs.
 - (ii) Relevant provincial governments, relevant local authority, and RDA will jointly select a short list of GN Divisions from the long list.
 - (iii) RDA, with the assistance from provincial governments and local authorities, will undertake survey and consultation to identify the access routes between each GN Divisions and adjacent socioeconomic center. The access routes may include local authority roads, provincial roads, and/or national roads.
 - (iv) After verification from the ground, RDA will check compliance with the selection criteria, and for those found compliant with the selection criteria, RDA will recommend approval to the National Steering Committee for approval.
 - (v) After approval of short list, RDA will instruct PIU to prepare project proposal which includes cost estimate, preliminary design, safeguards and economic analysis. For safeguards, the PIU will prepare (a) an initial poverty and social assessment (IPSA) and fill out a checklist for every project road for (b) involuntary resettlement; (c) indigenous people; (d) environmental checklist; and (e) rapid environmental assessment for one province based on the all road specific Environmental checklists.
 - (vi) After completion of (a), (b), (c) and (d) described in (v), PIU will submit the checklists to ESDD for review and approval.
 - (vii) PIU will (a) prepare all required safeguard planning documents (IEE including EMP, RP and IPP, if required) in accordance with EARF, RF and IPPF for each project road proposed to be financed under Investment Program¹⁴, and (b) safeguard due diligence reports for roads approved on each tranche. PIU will submit safeguard planning documents and safeguard due diligence reports on

¹⁴ Preparation of these documents should be done in parallel and concurrently with the preparation of road designs.

each tranche proposed to be financed under the Investment Program to ADB and ESDD for review and clearance.

- (viii) PIU will submit project proposal to be financed under Investment Program to MPHPS/RDA for clearance. MOHPS/RDA will scrutinize the project proposals; recommend modifications as needed, and, subject to addressing modification, will give final approval for the project proposal and submit to ADB for considerations.
- (ix) After reviewing the project proposal and relevant safeguard documents, if ADB finds that the project proposal does satisfy the eligibility criteria and procedures, ADB will approve the project. If ADB finds that the proposed project proposal does not satisfy the eligibility criteria and procedures, or does not comply with ADB's safeguard policies, ADB may (a) advise MOHPS on remedial actions to be taken for the proposed project in order for it to comply or (b) reject the project.
- (x) For provincial and rural roads on the access routes, RDA and the relevant provincial governments and the relevant local authority will enter into an agreement to request RDA to carry out necessary civil works on the selected roads.
- (xi) Upon clearance of the safeguard planning documents by ADB, RDA will proceed with tendering as guided by ADB Procurement Guideline.
- (xii) If any time during the implementation the design of a project road is modified to affect social or environmental impact, all related safeguard planning documents for such road will be modified accordingly and undergo clearance by ADB.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Sri Lanka will ensure, cause the Ministry of Highways, Ports and Shipping (MOHPS), and the Road Development Authority (RDA) to ensure, that all the requirements prescribed in this Schedule, and the following social and environment safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the components/projects under the Facility.

- (i) Environmental Assessment and Review Framework, dated May 2014,
- (ii) Resettlement Framework dated, May 2014,
- (iii) Indigenous Peoples Planning Framework dated, May 2014,
- (iv) Social Safeguard Due Diligence Report for the first tranche, May 2014,
- (v) Initial Environmental Examination for the first tranche, May 2014; and
- (vi) Gender Action for the first tranche, May 2014.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components, projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure, and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity building requirements), grievance redress mechanisms and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed by Sri Lanka, MOHPS and RDA and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's Safeguard Policy Statement (2009), as amended from time to time.

4. In all cases, for each new PFR preparation, Sri Lanka will cause MOHPS and RDA to review ongoing projects to check on the status of compliance with the social and environment safeguard plans and frameworks, and submit due diligence reports of the earlier PFR to ADB, together with other required safeguard documents and monitoring reports relevant to the components/projects included in the tranche being processed. In any case if significant involuntary resettlement and environment issues are identified in the course of the implementation and review of ongoing projects, a corrective action plan will be prepared to address such issues and submitted to ADB.

5. Annual monitoring reports that describe the progress of the implementation of social environmental activities and semi-annual monitoring reports that describe the progress of the implementation of gender-mainstreaming activities, including any compliance issues and corrective actions (if any) will be submitted to ADB.

SCHEDULE 6

Sri Lanka has given the following undertakings.

Implementation Arrangements

1. Sri Lanka shall, and shall cause MOHPS and RDA to, remain committed to implementation of the Integrated Road Investment Program (“Program”) and achieve its outputs and outcome in a timely manner.
2. In the event of any change in the road map, policy framework, investment program, or financing plan for the Program, Sri Lanka shall, and will cause MOHPS and RDA to, assess with ADB the potential impact on the Program and evaluate any change in scope, amendment, or continuation, as appropriate, of the Program.
3. Sri Lanka shall take all actions, including provision of funds (including any residual funds for completion of project contracts), facilities, services and other resources necessary or appropriate to enable MOHPS and RDA to perform their obligations under the legal agreements for each tranche, and for timely completion of the projects under the Facility.
4. Sri Lanka shall, and will cause MOHPS and RDA to, implement the Program and the projects of the Program in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the government, RDA and ADB.
5. Sri Lanka shall cause MOHPS and RDA to employ sufficient staff for the duration of the Program with adequate and relevant expertise in the field of project management, financial management, engineering, procurement, environmental and social safeguards implementation. RDA shall ensure that all staff employed for the Project are equipped with adequate office space, facilities, equipment, support staff and telecommunications and management information systems for the entire duration of the Project.

Safeguards

6. Sri Lanka shall ensure or cause RDA to ensure that the preparation, design, construction, implementation, operation and decommissioning of the projects and all project facilities under the Program comply with (a) all applicable laws and regulations of Sri Lanka including relating to environment, health, and safety; (b) the environmental safeguards as set out in ADB’s Safeguard Policy Statement (“SPS”); (c) the environmental assessment and review framework; and (d) all measures and requirements set forth in the relevant initial environmental examination and environment management plan, and any corrective or preventative actions with respect to environment set forth in a safeguards monitoring report.
7. Sri Lanka shall ensure or cause RDA to ensure that all land and all rights-of-way required for each project and project facilities are made available to the works contractor in accordance with the schedule agreed under the related works contract and all land acquisition and resettlement activities are implemented in compliance with (i) all applicable laws and regulations of Sri Lanka to land acquisition and involuntary resettlement; (ii) the involuntary resettlement safeguards as set out in the SPS; (c) the resettlement framework; and (d) all measures and requirements set forth in the respective resettlement plan and safeguard

planning document, and any corrective or preventive actions with respect to land acquisition and involuntary resettlement set forth in any safeguards monitoring report.

8. Sri Lanka shall ensure or cause RDA to ensure that each project and project facilities under the Program comply with (i) all applicable laws and regulations of Sri Lanka relating to indigenous peoples; (ii) the indigenous peoples safeguards as set out in the SPS; (c) the indigenous peoples planning framework; and (d) all measures and requirements set forth in the respective indigenous peoples plan and any corrective or preventive actions with respect to land acquisition and involuntary resettlement set forth in any safeguards monitoring report.

Social

9. Sri Lanka shall ensure or cause RDA to ensure that civil works contracts under the projects follow all applicable labor laws of Sri Lanka (including not employing or using children as labor, equal pay for equal work), health, safety, welfare, sanitation, and working conditions.

Operation & Maintenance

10. Sri Lanka shall ensure that:

- (a) RDA, or relevant road agency, maintains the project roads and that proper technical supervision and adequate routine maintenance funds are provided; and
- (b) the funds required for the maintenance and rehabilitation of the Project roads are allocated annually and released on a timely basis.

Road Safety

13. Sri Lanka shall cause RDA to develop and implement a road safety program with coordinated engineering, enforcement and education components. The road safety program shall also provide for the monitoring and reporting on the traffic volume and accident rate on the road sections rehabilitated under the Project.

Governance and Anticorruption

14. Sri Lanka shall, and shall cause MOHPS and RDA to, comply with ADB's Anticorruption Policy (1998, as amended to date) and cooperate with any investigation by ADB and extend all necessary assistance for the satisfactory completion of such investigation.

15. Sri Lanka shall ensure or cause MOHPS and RDA to ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to any project under the Program.