DISBURSEMENT-BASED APPROACH AND TIME-SLICE FINANCING

1. **ADB Policy.** Operations Manual D14, paragraph 8, last sentence, provides that the "MFF can also finance slices of long-term contract packages in such investment programs or large stand-alone projects."

2. **Rationale.** The Integrated Road Investment Program will involve two types of contracts for civil works:

(a) **Conventional Road Contracts (CRC).** The conventional measure and value contracts, requiring detailed contract supervision, will be used for the rehabilitation of provincial, rural and selected national roads. Initial construction is to be completed in the first 1-2 years, followed by a 3-year maintenance period. The contract packages will cover a number of roads of isolated lengths within a district.

(b) **Road Management Contracts (RMC).** The RMC is based on the sample bidding documents developed by the World Bank for Output and Performance-based Road Contracts. Within each package a significant proportion will require rehabilitation in the first 1-2 years, with the remainder possibly requiring periodic resurfacing throughout the contract period (5-7 years in total). Routine maintenance throughout the contract period is part of the work.

3. Both contract models will require long-term engagement of contractors to ensure that the required level of services are provided by the project roads. The contracts are packaged of relatively large size to invite adequate competition during procurement processes, and to engage qualified contractors in their specialized areas. Related consulting services will also be required for a longer term than the conventional construction contracts. ADB's financing approach needs to accommodate the longer contract period, and the financial resources should be used more efficiently.

4. **Time-slice Financing.** It is proposed that a works package or a consulting services package will be contracted with ADB financing commitment provided on the demand basis by MFF tranches. For example, for a $20 million contract, which is fully covered under the MFF including government financing, ADB provides $5 million commitment under the first periodic financing request (PFR), which will be followed further by ADB commitment by a series of subsequent PFRs for the remaining in line with project implementation. The civil works will be packaged according to three principles.

(i) Civil works will be packaged according to the geographical areas to cover a large number of, e.g. about 20 to 30 road sections to utilize the capacity of qualified contractors on programming and coordinating the civil works.
(ii) Each contracts will be at a reasonably large size, taking into account local and international markets, e.g., works could be referred to the past ICB contracts in Sri Lanka.
(iii) Neighboring packages will be procured at the same time to allow large contractors to pursue economy of scale in implementation.

5. **Disbursement-based Tranching.** The tranching schedule is based on the disbursement projection, which will minimize financing charges and improve the disbursement ratio 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 government has completed the preparation and due diligence of Project 1, and plans to complete the preparation of other projects by October 2014. Project 1 is estimated to cost $235 million. Following the disbursement-based tranching, the government intends to request Tranche 1 together with the facility to finance the first slice of Project 1, and to request Tranche 2 by end 2014 to finance the first slice of other projects in 2014 and 2015. The amount of each tranche will be requested according to the disbursement progress and projection.

6. **Advantages.** The approach time-slice financing and disbursement-based tranching will have the following advantages:

(i) More competition from contractors with high qualification and adequate capacity is expected due to larger contract packages.
(ii) Contract prices may decrease due to large contract size.
(iii) Quality of works will increase, as more experienced and larger international contractors participate.
(iv) Delays in project implementation can be reduced, as the contract for the overall section was awarded upfront and no additional procurement is required for further sections when processing subsequent PFRs.
(v) ADB's review for procurement can concentrate on large contracts upfront, less subsequent review of procurement activities is required, thus reducing the risk of delays during project implementation.
(vi) The Government and EA/IA can avail of ADB financing when it is required according to the project schedule and actual progress, improving certainty of annual disbursement.
(vii) ADB can better plan allocation of scarce financial resources in accordance with the project progress rather than allocating a huge loan in the country program for one year at the time of approval of the project. The disbursement ratio will also be improved according to disbursement projection-based commitment.
(viii) Time-slicing allows better integration of co-financing, as co-financing agreements can be reached for any tranche individually. Other products such as grants or guarantees may be included for individual tranches as appropriate.

7. **Risk and Measures.** Possible risks can be managed under the following measures:

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

8. **Indicative Tranching Schedule.** For the proposed Integrated Road Investment Program, each contract package is time-sliced in line with the indicative tranching plan. Table 1 provides the indicative schedule of the subsequent tranches based on the financial projection for each contract package (Table 2 and Figure 1).

Table 1: Summary Financing Plan of the Integrated Road Investment Program ($ million)

	Indicative Tranching Plan						
Financier	**1 (2014)**	**2 (2014)**	**3 (2016)**	**4 (2017)**	**5 (2018)**	**6 (2020)**	**Total**
Asian Development Bank	100.0	100.0	200.0	150.0	150.0	100.0	800.0
Government	18.0	15.0	25.0	18.0	18.0	12.0	106.0
Total	**118.0**	**115.0**	**225.0**	**168.0**	**168.0**	**112.0**	**906.0**

Source: Asian Development Bank

Table 2: Detailed Disbursement Projection

($ million)

Item	Total	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
A. Investment Costs [a] [b]												
1. Civil Works	701.12	0.00	113.23	275.30	153.47	73.72	40.91	23.79	7.53	5.64	5.64	1.88
a. National Road Management	188.16	0.00	18.82	18.82	39.51	58.33	24.46	7.53	7.53	5.64	5.64	1.88
Southern Province	47.04		18.82	18.82	1.88	1.88	1.88	1.88	1.88			
Western Province (Kalutara District)	0.00											
Sabaragamuwa Province	47.04				18.82	18.82	1.88	1.88	1.88	1.88	1.88	
Central Province	47.04				18.82	18.82	1.88	1.88	1.88	1.88	1.88	
Northern Central Province	47.04					18.82	18.82	1.88	1.88	1.88	1.88	1.88
b. Rural Access Road Improvement	512.96	0.00	94.42	256.48	113.96	15.39	16.45	16.26	0.00	0.00	0.00	0.00
Southern Province	106.40		42.56	53.20	3.19	3.19	4.26					
Western Province (Kalutara District)	28.00		5.60	14.00	5.60	0.84	0.84	1.12				
Sabaragamuwa Province	84.00		16.80	42.00	16.80	2.52	2.52	3.36				
Central Province	92.96		9.30	46.48	27.89	2.79	2.79	3.72				
Northern Central Province	106.40		10.64	53.20	31.92	3.19	3.19	4.26				
North Western Province	95.20		9.52	47.60	28.56	2.86	2.86	3.81				
2. Consultants	40.48	5.05	9.95	10.15	7.20	1.92	1.92	1.92	0.59	0.59	0.59	0.59
a. Project Implementation Consultant	29.52		8.86	8.86	5.90	1.18	1.18	1.18	0.59	0.59	0.59	0.59
b. Survey and Implementation Consultant	6.00	4.80	0.60	0.30	0.30							
c. Individual Consultant	4.96	0.25	0.50	0.99	0.99	0.74	0.74	0.74				
Subtotal (A)	**741.60**	**5.05**	**123.18**	**285.44**	**160.67**	**75.64**	**42.84**	**25.71**	**8.12**	**6.24**	**6.24**	**2.47**
B. Recurrent Costs [c]												
1. Project Management	15.00	1.80	2.10	2.10	2.10	1.80	1.80	1.80	0.45	0.45	0.3	0.3
Subtotal (B)	**15.00**	**1.80**	**2.10**	**2.10**	**2.10**	**1.80**	**1.80**	**1.80**	**0.45**	**0.45**	**0.30**	**0.30**
C. Contigencies												
1. Physical Contingency [d]	77.02				15.40	15.40	15.40	15.40	15.40			
2. Price Contingency [e]	53.88					8.08	8.08	10.78	13.47	13.47		
Subtotal (C)	**130.90**	**0.00**	**0.00**	**0.00**	**15.40**	**23.49**	**23.49**	**26.18**	**28.87**	**13.47**	**0.00**	**0.00**
D. Financing Charges During Implementation												
1. Interest During Implementation [f]	15.35							3.07	3.07	3.07	3.07	3.07
2. Commitment Charges [g]	3.15							0.63	0.63	0.63	0.63	0.63
Subtotal (D)	**18.50**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**3.70**	**3.70**	**3.70**	**3.70**	**3.70**
Total Project Cost (A+B+C+D)	**906.00**	**6.85**	**125.28**	**287.54**	**178.17**	**100.93**	**68.12**	**57.39**	**41.14**	**23.86**	**10.24**	**6.47**
ADB Financing	800.00	2.00	110.80	255.90	158.11	89.40	60.11	50.80	36.13	21.07	9.52	6.16
Government Financing	106.00	4.85	14.48	31.64	20.06	11.53	8.01	6.59	5.01	2.79	0.72	0.31

Figure 1: Disbursement Projection and Tranching Plan