



Periodic Financing Request Report

Project Number: 50301-004
MFF Number: 0102
May 2021

Democratic Socialist Republic of Sri Lanka: Second Integrated Road Investment Program (Tranche 3)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 14 April 2021)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0049627792
\$1.00	=	SLRs201.500000

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
EIRR	–	economic internal rate of return
GAP	–	gender action plan
km	–	kilometer
MFF	–	multitranche financing facility
MOHW	–	Ministry of Highways
PBM	–	performance-based maintenance
RDA	–	Road Development Authority
SSEMAP	–	site-specific environment management action plan

NOTES

- (i) The fiscal year (FY) of the Government of Sri Lanka ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2021 ends on 31 December 2021.
- (ii) In this report, “\$” refers to United States dollars.

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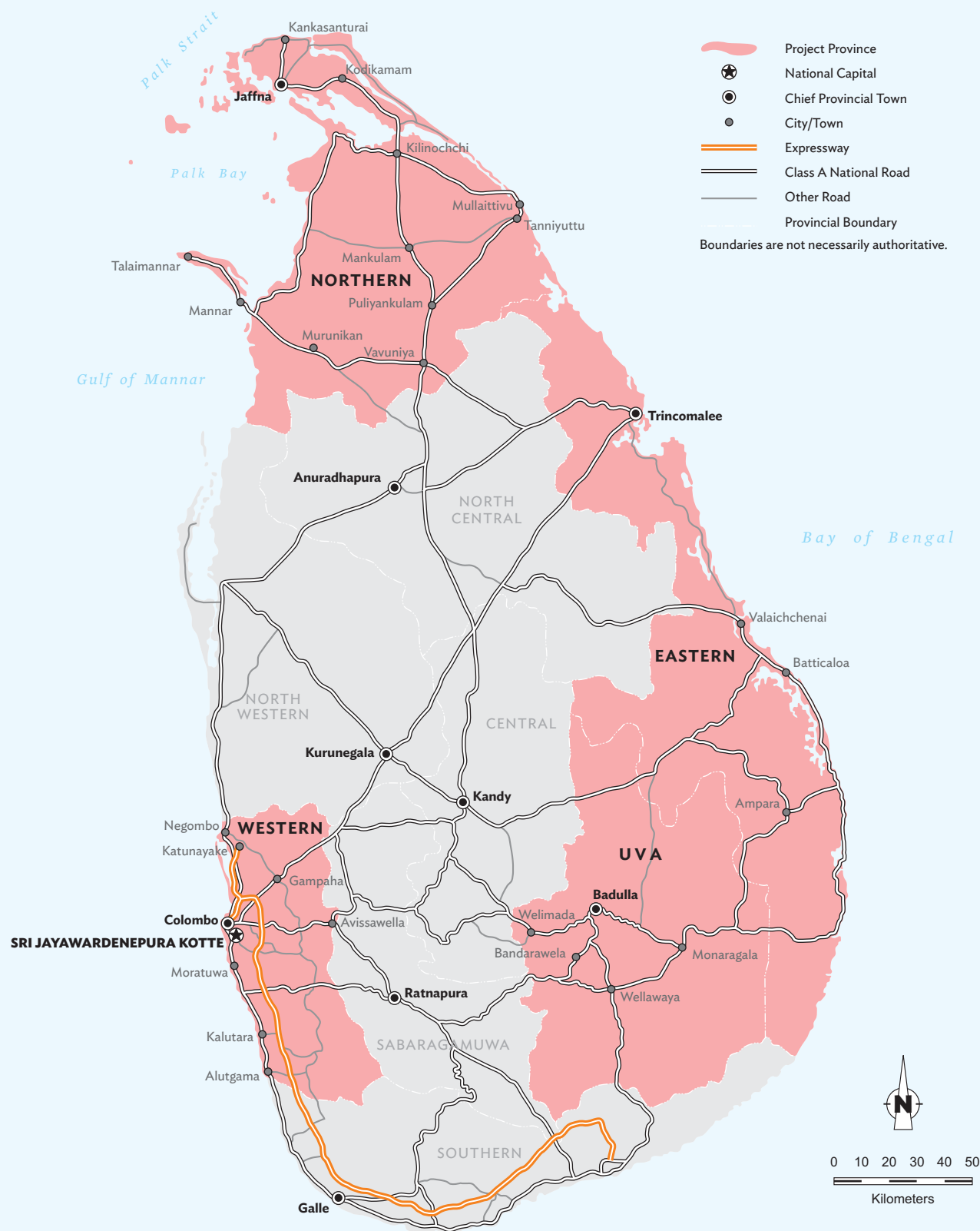
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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 50301-004	
Project Name	Second Integrated Road Investment Program-Tranche 3	Department/Division	SARD/SATC
Country	Sri Lanka	Executing Agency	Ministry of Highways
Borrower	Democratic Socialist Republic of Sri Lanka		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=50301-004-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=50301-004-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		200.00
		Total	200.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	2,096.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Medium
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Promoting rural development and food security		ADB Financing	
✓ Strengthening governance and institutional capacity		Adaptation (\$ million)	9.90
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.5		Effective gender mainstreaming (EGM)	✓
SDG 9.1			
SDG 10.2		Poverty Targeting	
SDG 13.a		General Intervention on Poverty	✓
4. Risk Categorization: Low			
5. Safeguard Categorization Environment: B Involuntary Resettlement: B Indigenous Peoples: C			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		200.00	
Cofinancing		0.00	
None		0.00	
Counterpart		15.72	
Government		15.72	
Total		215.72	
Currency of ADB Financing: US Dollar			

SRI LANKA SECOND INTEGRATED ROAD INVESTMENT PROGRAM (TRANCHE 3)



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I. BACKGROUND

1. **Multitranche financing facility.** On 29 September 2017, the Board of Directors of the Asian Development Bank (ADB) approved a multitranche financing facility (MFF) for the Democratic Socialist Republic of Sri Lanka for the Second Integrated Road Investment Program totaling \$900 million, with an availability period ending in March 2027.¹ The investment program will improve access to the road network in Sri Lanka's rural areas, supporting rural economic and social development. It will upgrade and maintain about 3,400 kilometers (km) of rural access roads to an all-weather standard; rehabilitate and maintain about 340 km of national roads in Eastern, Northern, Uva, and Western provinces; and improve the capacity of road agencies with respect to safeguards, road safety, maintenance, research capacity, and road design and construction.

2. Despite rapid progress in reducing poverty, Sri Lanka faces several challenges in eradicating it. There are disparities in the poverty rate across the districts in its nine provinces, particularly in Eastern, Northern, and Uva provinces. The government's priority is to secure prosperity for all through sustainable and inclusive development. However, poverty-targeting economic growth is hindered by poor transport infrastructure, particularly the poorly maintained provincial and local authority roads. Access to markets and business opportunities, especially along agricultural value chains, can be significantly improved with better transport infrastructure and can serve as the key to poverty reduction and shared prosperity in rural areas.

3. The framework financing agreement for the MFF was signed on 14 August 2017. The MFF uses the time-slice approach for the large-scale investment program. All projects under the program were fully identified and appraised as part of the MFF's due diligence, and each tranche will finance parts of the fully appraised projects following their disbursement requirements.²

4. **Road map.** The government plans to establish 2,500 rural development centers as hubs of rural economic market. This will be achieved by grouping many villages under identified potential development centers that have access to fully equipped rural economic market units, and by upgrading or rehabilitating rural access roads. Progress in improving provincial and local authority roads, however, has been relatively slow because of (i) competition for budget allocations, (ii) limited availability of sustainable raw materials, (iii) limited project implementation capacity of road agencies, (iv) ad hoc selection of provincial and local authority roads in the absence of clear criteria, and (v) insufficient community involvement in rural road development. The investment program will address these issues and improve connectivity between priority rural development centers and surrounding villages.

5. **Policy framework.** The government has adopted a two-tier strategy to provide nationwide connectivity by (i) establishing a trunk road network with expressways and well-connected national roads, and (ii) completing a rural road network to connect the rural population to trunk roads for poverty reduction and shared prosperity. The Public Investment Programme, 2017–2020 provides policies for the road sector to facilitate the country's economic growth by creating an efficient road network that (i) connects large and emerging cities, townships, economic centers,

¹ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: [Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Second Integrated Road Investment Program](#)*. Manila.

² Details are in Approach to Time Slice Financing (accessible from the list of linked documents in Appendix 2 of the report and recommendation to the President for the investment program in footnote 1).

and rural hubs; and (ii) ensures safety and equity.³

6. The government established an implementation framework for the Road Development Authority (RDA) to improve provincial and local authority roads jointly with local road agencies. The objective was to accelerate completion of the rural road network by supplementing the limited capacity of the local agencies. To overcome past shortcomings in rural road development, the framework clearly defined the subproject selection criteria, strengthened local community participation, and improved rural road sustainability by (i) developing rural road design and specifications; (ii) introducing 3-year performance-based maintenance (PBM) contracts considering the industry's readiness and interest; and (iii) developing the technical capacity of local road agencies, including for road asset management.

7. **Strategic context.** The program is in line with the operational priorities for ADB's Strategy 2030: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) promoting rural development and food security; and (v) strengthening governance and institutional capacity.⁴ The program also contributes to achieving the objectives of ADB's country partnership strategy for Sri Lanka, 2018–2022, which aims to strengthen the drivers of economic growth and improve the quality of growth.⁵ The Second Integrated Road Investment Program will establish fully connected rural development centers with upgraded rural roads, targeting the three economically lagging provinces of Eastern, Northern, Uva, as well as Western Province (footnote 1). It will complement assistance provided to other areas by the first Integrated Road Investment Program to cover all priority rural development hubs (para. 9).⁶

8. **Tranches.** The MFF has an indicative number of five tranches. All tranches will finance parts of the identified projects in sequence using the time-slice approach. Tranche 1 of \$150 million was approved on 6 October 2017, and the loan and project agreements were signed on 22 November 2017.⁷ Tranche 2 of \$150 million was approved on 5 November 2019, and the loan and project agreements were signed on 13 November 2019.⁸ Tranche 3 is listed in the country operations business plan for Sri Lanka, 2021–2023.⁹ A periodic financing request for the third tranche was received on 8 March 2021.

II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

9. **Progress on road map.** The road map in the framework financing agreement that underpins the government's policy framework (footnote 3) remains valid. The government has highlighted the importance of rural development, which targets poverty eradication in the fiscal

³ Government of Sri Lanka, Ministry of National Policies and Economic Affairs, Department of National Planning. 2017. *Public Investment Programme, 2017–2020*. Colombo.

⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁵ ADB. 2017. *Country Partnership Strategy: Sri Lanka, 2018–2022—Transition to Upper Middle-Income Country Status*. Manila.

⁶ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program*. Manila.

⁷ ADB. 2017. *Sri Lanka: Second Integrated Road Investment Program-Tranche 1*. Manila.

⁸ ADB. 2019. *Sri Lanka: Second Integrated Road Investment Program-Tranche 2*. Manila.

⁹ ADB. 2020. *Country Operations Business Plan: Sri Lanka, 2021–2023*. Manila.

year (FY) 2021 budget.¹⁰ In line with the government's strategy, ADB is addressing key bottlenecks and continues to support the improvement of rural roads through the two investment programs to cover all the country's priority rural development hubs (footnotes 1 and 6). Progress continues on the first investment program, which is upgrading the rural road network in the Central, North Central, North Western, Sabaragamuwa, and Southern provinces, and in the Kalutara District in Western Province. As of 31 December 2020, civil works were completed for 2,632 km of the 3,138 km rural roads under the first investment program.¹¹

10. Improvements to the policy framework. The government's new national policy framework, National Policy Framework Vistas of Prosperity and Splendour, 2020-2025, prioritizes development of a road network to provide comfortable, efficient, and environment-friendly transportation to the general public while ensuring economic growth.¹² This includes rehabilitating unfinished roads connecting to economic corridors, resurfacing and modernizing rural road networks, and developing alternative road systems to facilitate access to main roads and expressways. The government's framework has been strengthened to include physical infrastructure and value-added project implementation approaches such as (i) a higher standard of rural road specifications; (ii) introduction of context-sensitive designs with community participation; (iii) establishment of a well-managed grievance redress mechanism; (iv) expansion of the road asset management system to rural access roads; (v) introduction of 3-year PBM contracts; (vi) encouragement of women's participation in project implementation and maintenance; and (vii) various capacity development components, including safeguards, road safety, information management system, and financial sustainability.

11. Progress of the investment program. Implementation of tranches 1 and 2 is on track. As of 31 December 2020, the RDA awarded all 53 civil works contract packages totaling about \$776 million.¹³ As of 11 April 2021, a total of \$282.7 million has been disbursed out of the \$300 million from tranche 1 and tranche 2 loans. Loan proceeds of tranches 1 and 2 are expected to be fully disbursed by June 2021. Contractual measures and emergency maintenance schemes have been applied for a few poor-performing contractors. Implementation of the capacity development component is slightly behind the original schedule because (i) the RDA has focused mainly on procurement of the road development component; (ii) the coronavirus disease (COVID-19) has impacted the government's budgetary provision and international travel; and (iii) most of the capacity development component needs to be implemented in parallel with or after substantial progress of the road development component.

12. Coronavirus disease impact and response. Construction physical progress was affected by the movement restrictions that were adopted to reduce the spread of COVID-19. A COVID-19 prevention program has been implemented on-site, which requires mask wearing, temperature checks, social distancing, sanitation facility provision, logging of workers and participants, and polymerase chain reaction tests. The advance payment schedule has been amended to enhance contractors' cash liquidity. The MFF program is expected to support the post-pandemic economic recovery by creating more than 14,000 jobs that are estimated to pay

¹⁰ M. Rajapaksa. [Budget Speech 2021](#). Speech to Parliament delivered by the Prime Minister and Minister of Finance, 17 November 2020.

¹¹ In addition to civil works, the road asset management system (a key measure to preserve the asset value of rehabilitated infrastructure) is being developed for rural access roads in the provinces under the first investment program; 3-year PBM contracts have commenced for completed subprojects.

¹² Government of Sri Lanka. 2019. [National Policy Framework Vistas of Prosperity and Splendour, 2020-2025](#). Colombo.

¹³ Project implementation consultants are recruited in accordance with the progress of procurement for civil works. As of 30 December 2020, consultants for all four provinces have been engaged. The RDA is preparing the procurement for the rehabilitation of an additional nine roads totaling 73 km in the Western Province.

more than \$50 million in salaries.

13. **Compliance with undertakings and loan covenants.** As of December 2020, the government and the RDA are in compliance with the covenants of the loan and project agreements of existing tranches and the undertakings of the framework financing agreement.

14. **Timeliness of tranche 3.** Tranche 3 was originally scheduled in 2019 in the framework financing agreement. The delay in processing was mainly because of insufficient budgetary provision during the government transition period and the impact of COVID-19. The subsequent two tranches are expected to be requested from 2022 onward. The last tranche will be completed before the end of the MFF availability period.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

15. Tranche 3 is aligned with the following impact: connectivity between rural communities and socioeconomic centers in Sri Lanka improved (footnotes 3 and 12). Tranche 3 will have the following outcome: transport efficiency on project roads increased.¹⁴

B. Outputs

16. The investment program will have the following outputs: (i) road conditions between the selected rural communities and socioeconomic centers improved, and (ii) capacity of road agencies enhanced. Tranche 3 will finance a portion of the civil works, equipment, and consulting services under the time-slice approach.

C. Summary Cost Estimates and Financing Plan

17. Tranche 3 is estimated to cost \$215.72 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the updated facility administration manual.¹⁵

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Civil works	205.39
2. Equipment	3.02
3. Consulting services for project implementation and capacity development	3.71
4. Recurrent costs (project administration)	0.14
Subtotal (A)	212.26
B. Contingencies^c	0.00
C. Financial Charges During Implementation^d	3.46
Total (A+B+C)	215.72

^a The government will finance taxes and duties of \$15.72 million through exemption.

^b In 2021 prices as of January 2021. The items under base cost follows Table 1 of the report and recommendation of the president for the multitranche financing facility.

^c Physical contingencies computed at 10.0% for civil works, 10.0% for equipment, 10.0% for consulting services, and 10.0% of recurrent costs for the investment program. Price contingencies computed at about an average of 1.5% on foreign exchange costs and about 5.0% on local currency costs for the investment program; includes

¹⁴ The design and monitoring framework for tranche 3 is in Appendix 1. Because of the time-slice nature of the MFF, the design and monitoring framework reflects the impact, outcome, and outputs of the facility.

¹⁵ The Updated Facility Administration Manual is in Appendix 5.

provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate. Because tranche 3 will finance the third slice of the identified projects, it has no contingency cost.

^d Includes interest and commitment charges. Interest during construction for the ordinary capital resources loan has been computed at the 5-year US dollar fixed swap rate plus an effective contractual spread of 0.50%. Commitment charges for the ordinary capital resources loan are 0.15% per year to be charged on the undisbursed loan amount. Source: Asian Development Bank estimates.

18. The government has requested a regular loan of \$200 million from ADB's ordinary capital resources to help finance a part of the investment program. The third tranche of the MFF will have (i) a 29-year term, including a grace period of 8 years; (ii) an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; (iii) a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and (iv) such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 18.75 years, and there is no maturity premium payable to ADB.¹⁶

19. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works, equipment, consulting services, recurrent costs, and financing charges during construction. The government will finance taxes and duties for a total of \$15.72 million.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	200.00	92.71
Government	15.72	7.29
Total	215.72	100.00

Source: Asian Development Bank estimates.

20. Climate adaptation is estimated to cost \$40.1 million for the MFF, while for tranche 3 the climate adaptation cost is \$9.9 million. The incremental cost to address climate change adaptation is estimated at 5.2% of the civil works cost, which includes the additional cost of drainage, culverts, retaining walls, and concrete pavement in flooded areas. ADB will finance 100% of the adaptation costs. As a co-benefit of the overall road improvement, the program is projected to reduce total greenhouse gas emissions by 188,659 tons over 20 years.¹⁷

D. Implementation Arrangements

21. The implementation arrangements are summarized in Table 3 and described in detail in the updated facility administration manual (Appendix 5).

Table 3: Implementation Arrangements for Tranche 3

Aspects	Arrangements
Implementation period	July 2021–December 2024
Estimated completion date	31 December 2024
Estimated loan closing date	30 June 2025
Management ^a	
(i) Executing agency	Ministry of Highways
(ii) Key implementing agency	Road Development Authority

¹⁶ No maturity premium is charged pursuant to the transitional support measures approved in 2021 by the ADB Board of Directors for loans to Sri Lanka approved under Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under ADB's Strategy 2030.

¹⁷ The Updated Climate Change Assessment is in Appendix 13. The contribution on greenhouse gas emission from tranche 3 is estimated to be 2,096 tons per annum on a pro rata basis.

Aspects	Arrangements		
(iii) Implementation unit	Four implementation units under the Road Development Authority with 205 staff		
Procurement	International and/or national competitive bidding (civil works)	53 contracts (all awarded) ^b	\$758.02 million ^c
	Shopping (equipment)	11 contracts	\$4.01 million
Consulting services	Project implementation consultants (QCBS 90:10), including for training programs	144 person-months of international consulting services and 9,741 person-months of national consulting services (all four contracts awarded)	\$33.20 million
	Individual consultant selection ^d	104 person-months of international consulting services and 198 person-months of national consulting services	\$3.90 million
Retroactive financing and advance contracting	Retroactive financing of eligible civil works, equipment, and consulting services expenditures incurred before loan effectiveness but within 12 months prior to loan signing, up to 20% of the loan amount; advance contracting for recruitment of consultants and procurement of civil works and equipment		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection.

^a A national steering committee and provincial steering committees will be established as oversight bodies, as detailed in the facility administration manual.

^b The 73-kilometer additional roads in Western Province will be included as new contracts after a detailed cost estimate is prepared. The number of contracts will be updated when information becomes available.

^c Procurement and consulting services include all activities under the facility because of the time-slice approach, but exclude the amount of taxes and duties contributed by the government through exemption.

^d The Road Development Authority will recruit individual consultants for research capacity enhancement, mechanistic–empirical pavement design development, road asset management, information management system, road safety guidelines, and institutional support for financial sustainability.

Sources: Asian Development Bank and Road Development Authority.

E. Project Readiness

22. Project readiness is high. Tranche 3 will finance parts of the project identified during the appraisal of the MFF. All 53 civil works contract packages have been awarded. It is envisaged that tranche 3 will be smoothly disbursed, considering project readiness.

IV. DUE DILIGENCE

A. Technical

23. The RDA has implemented the projects identified under the investment program based on specific selection criteria.¹⁸ The project designs are optimized for local conditions, construction efficiency, and economy, with attention to climate change impacts and maintenance requirements.¹⁹ The climate change risk and adaptation assessment has been updated, indicating the costs for tranche 3.

B. Economic and Financial

¹⁸ The main criteria for rural roads are (i) number of households (50 or more); (ii) availability of electricity and water; (iii) presence of health and medical facilities, educational facilities, and commercial and market facilities; and (iv) absence of land acquisition and environmentally sensitive areas.

¹⁹ The main design features are to (i) use an asphalt pavement rather than the traditional bituminous surface treatment to reduce maintenance requirements, (ii) adopt community participation through a context-sensitive design approach that accommodates local requests and concerns, and (iii) include PBM contracts to ensure efficient maintenance.

24. During the MFF approval, the investment program was found to be economically viable with an overall economic internal rate of return (EIRR) of 17.2%. The economic analysis of the investment program followed ADB guidelines and compares life-cycle costs in with- and without-project scenarios.²⁰ Quantified benefits include savings in vehicle operation costs, travel time, and road maintenance costs, as well as reduced carbon dioxide emissions. At the appraisal of tranche 3, the economic analysis was updated using the actual civil works contract amounts and the implementation schedule. The updated EIRR is 16.4%, which remains above ADB's threshold of 9%. Some of the actual contract amounts exceed the engineer's estimates, which resulted in the updated EIRR being lower than the original. The maintenance-related financial requirements were also updated and are generally unchanged from the estimates made during MFF appraisal.²¹ Improvements in institutional maintenance arrangements, particularly for local authority roads, are required to ensure the sustainability of the road assets.²²

C. Governance

25. **Policy and legal.** Implementation arrangements will involve the central, provincial, and local governments.²³ At the central level, the Ministry of Highways (MOHW) is responsible for the formulation of policies and performance monitoring.²⁴ The RDA was established as a statutory authority with separate legal status by the Road Development Authority Act, 1981. The RDA chairperson reports to the MOHW secretary. Under the 13th amendment to the Constitution (enacted in 1987) and the Pradeshiya Sabha Act, No. 15, 1987, provincial councils (which constitute provincial-level government agencies) are responsible for the work of local authorities within the areas served by the provincial councils. The RDA operates as though it was contracted by the provincial authorities to construct roads that belong to the local authorities. The implementation arrangements satisfy the Road Development Authority Act, which requires the RDA to consult with other government agencies on projects within their areas. The national steering committee and provincial coordination committees will ensure proper coordination.

26. **Financial management.** ADB reviewed and updated the financial management assessment of the RDA conducted during the MFF due diligence. The RDA has experience in implementing ADB-funded projects and has a dedicated accounting and finance team with qualified accountants.²⁵ The RDA has established and maintained separate project records and accounts, ensuring an adequate audit trail. The National Audit Office of Sri Lanka undertakes annual audits of RDA financial statements and project financial statements for each tranche under the MFF, following Sri Lanka auditing standards. Project financial statements for ongoing tranches were received on time and the auditors have issued an unqualified audit opinion on the latest available project financial statements. The project management unit has a dedicated internal audit section, carrying out regular internal audits and reporting to the RDA's audit committee and the finance committee of the Ministry of Finance.

27. The RDA's overall financial management risk is *moderate* mainly because of (i) the need to enhance the project management unit finance team to cope with the civil works' progress, (ii) the absence of a financial management and accounting manual, and (iii) delayed submission of

²⁰ ADB. 2017. [Guidelines for the Economic Analysis of Projects](#). Manila.

²¹ The Updated Economic and Financial Analysis is in Appendix 7.

²² The Updated Risk Assessment and Risk Management Plan is in Appendix 12.

²³ The governance arrangements for the investment program are the same as those used in the first two tranches. No major issues have been observed in terms of the RDA's implementation capacity.

²⁴ The MOHW was formerly the Ministry of Highways, Road Development, and Petroleum Resources Development.

²⁵ A few vacant positions at the provincial level are to be filled.

the RDA's entity-level financial statements with qualified audit opinion.²⁶ Tranche 3 due diligence has strengthened the financial management action plan, and key mitigation measures were agreed for the identified risks, including (i) fast track the hiring of accounting and finance staff, (ii) develop an accounting and financial management manual,²⁷ and (iii) implement the action plan to resolve audit qualifications.

28. **Procurement and anticorruption.** Procurement will be undertaken in accordance with the ADB Procurement Guidelines (2015, as amended from time to time). All consultants will be engaged following the ADB Guidelines on the Use of Consultants (2013, as amended from time to time). To date, 53 civil works contract packages and 4 project implementation consulting packages have been awarded without any serious procurement issues. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the MOHW, and the RDA. The specific policy requirements and supplementary measures are described in the updated facility administration manual (Appendix 5).

D. Poverty, Social, and Gender

29. **Poverty reduction and social impacts.** The investment program will improve the socioeconomic situation and support poverty reduction in Eastern, Northern, Uva, and Western provinces. About 9.8 million people live in the project area's 145 divisions. A socioeconomic assessment found that the main sources of income for users of the proposed roads are agriculture, fisheries, self-employment, and wage labor. Employment in the public and private sectors is significant in larger towns. More than 90% of surveyed households described the current road conditions as bad. Communities indicated that poor road conditions affected day-to-day activities. Improved access to education and health, road safety, and increased job opportunities were listed among the positive benefits expected from the improvements. Many of the roads to be improved are in areas that were affected by the 26-year civil conflict. Upgrading these roads will benefit post-conflict rehabilitation and the continued revival of the rural economy.

30. **Gender and development.** Tranche 3 is categorized *effective gender mainstreaming*. The socioeconomic assessment of the program found that women are actively engaged in family and community activities and decision-making processes, although results vary among the provinces. Women surveyed said they were willing to participate in the projects by working as maintenance or civil works wage laborers, and/or operating a small business to provide services to contractors. The gender action plan (GAP) prepared for the program includes key gender mainstreaming activities.²⁸ The RDA has prepared social due diligence and monitoring reports that confirm continuous and generally satisfactory GAP implementation in the four provinces. In line with GAP targets, the project has increased women's employment rate to 12%, average participation rate in safety awareness to 52%, and average participation rate in health and hygiene training to 29%.

²⁶ The submission of FY2018 audited entity financial statements was delayed mainly because of the prolonged translation from local language.

²⁷ Through the public administration specialist to be hired for the MFF program.

²⁸ The GAP is in Appendix 11. Key gender mainstreaming activities for the program include (i) ensuring that at least 35% of those engaged for design consultations are women; (ii) integrating features that increase safety and meet the needs of the elderly, women, children, and the differently-abled; (iii) encouraging employment of local women as road construction workers; (iv) ensuring that at least 30% of local employees hired for road maintenance are women, and that they receive equal wages for equal work; (v) conducting awareness training on road safety, HIV, and sexually transmitted infections, with women making up at least 40% of participants; (vi) appointing gender focal persons at all levels; (vii) building transport sector knowledge and skills on gender and inclusivity; and (viii) developing an online grievance reporting mechanism, and tracking sex-disaggregated data regarding complainants.

31. **HIV, AIDS, and human trafficking.** The HIV prevalence rate is low in Sri Lanka. The National Program for Sexually Transmitted Diseases and AIDS Control helps refurbish health clinics and establish outreach and awareness programs throughout the country. The investment program has incorporated measures to mitigate HIV and AIDS risks by providing awareness training for civil works contractors and for project-affected communities at prominent village locations. Awareness-raising activities are conducted separately for men and women. The social impact assessment did not identify human trafficking as a significant issue in the project area. Civil works contractors will hire local laborers. As a mitigation measure, affected communities will be provided with awareness training on human trafficking. Specific provisions in the bid documents and the works contracts financed under the program will ensure that the contractors follow all applicable international core labor standards and national labor laws.

E. Safeguards

32. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.

33. **Environment (category B).** All ongoing roads financed under the investment program have been assessed, with the findings and mitigations covered in the provincial initial environmental examination, which were disclosed prior to the MFF approval in 2017. The environmental assessment and review framework prepared prior to MFF approval remains valid. No updates were necessary during the processing of tranche 3. Additional roads identified for financing under the MFF have also been assessed and the initial environmental examinations covering these roads were prepared following the environmental assessment and review framework and disclosed in November 2020. All roads identified under the program have limited footprints, involving mainly rehabilitation and maintenance of existing rural and national roads located outside protected or critical habitat areas. Environmental impacts include typical road construction-related issues such as generation of dust and other air pollutants, noise, solid and liquid waste from construction sites and workers' camps, and community and occupational health and safety concerns.

34. The projects comply with all applicable domestic laws and requirements. The standard environmental management plan includes mitigation measures for all anticipated impacts. Contractors have prepared site-specific environment management action plans (SSEMAP). All project implementation consultants are sufficiently staffed to support and monitor works and SSEMAP implementation. Compliance with SSEMAP, all applicable domestic laws, and ADB's Safeguard Policy Statement is being monitored, which is not significantly hampered by the COVID-19 pandemic. Capacity-building activities related to environmental safeguards, health, and safety are being carried out to the extent possible. Consultation with affected communities is being conducted, with inputs and suggestions from stakeholders incorporated in the final design. The program has a functioning grievance redress mechanism at the grassroots level. The environment due diligence report confirms generally satisfactory compliance with environmental safeguard requirements, including measures to prevent and control the spread of COVID-19. Annual environment monitoring reports have been submitted and disclosed.

35. **Involuntary resettlement (category B).** All roads have been assessed for involuntary resettlement and only those that do not require expropriation will receive financing under the investment program. The RDA's social due diligence and monitoring reports confirm all applicable safeguard requirements have been met. Civil works in ongoing tranches have been undertaken only within existing right-of-way, except where communities have donated small strips of land to improve road safety. A voluntary land donation system is in place following procedural

requirements in the resettlement framework. The system requires the government to ensure that land donation is undertaken without coercion and documented in a transparent manner, and that an independent monitor verifies the process. The reports also confirmed that the grievance redress mechanism is functioning in all provinces.²⁹ The social monitoring reports have been submitted and disclosed.

36. **Indigenous peoples (category C).** No indigenous peoples community as defined by ADB's Safeguard Policy Statement has been identified in the subproject areas.

F. Summary of Risk Assessment and Risk Management Plan

37. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Insufficient budget allocation under the fiscal consolidation	The project is included in government's budget allocations and the government and the Road Development Authority continue to prioritize the annual budget allocation to the committed contracts. The draft loan agreement includes a covenant requiring the government to make available adequate counterpart funds to meet additional costs and to ensure that the Road Development Authority has sufficient funds to satisfy liabilities under the project. The financial arrangement will contribute to easing the government's financial burden to provide counterpart funding.
Inadequate maintenance of the road asset	The project has adopted mitigation measures that include (i) a higher standard of pavement, (ii) adaptation measures against climate change, (iii) performance-based maintenance contracts, (iv) road asset management, and (v) a technical capacity development program. Institutional management specialists will be recruited to propose policy improvements or alternatives for project road sustainability.

Source: Asian Development Bank.

V. ASSURANCES

38. The government, the MOHW, and the RDA have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the updated facility administration manual and loan documents.

39. The government, the MOHW, and the RDA have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

VI. THE PRESIDENT'S DECISION

40. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranches financing facility in an aggregate principal amount not exceeding \$900,000,000 to the Democratic Socialist Republic of Sri Lanka for the Second Integrated Road Investment Program, the President has approved the tranche as described in para. 18 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.

²⁹ In ongoing tranches, the grievance committees have received 355 complaints, 254 of which have been resolved while 101 are in process.

DESIGN AND MONITORING FRAMEWORK FOR TRANCHE 3

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) (OP 2.4.1; OP 5.1.1) b. Travel time on national project roads reduced by 10% from 2016 rate (2016 baseline: Travel time of each project) (OP 2.4.1) c. Average daily vehicle-km increased to 4.6 million (2016 baseline: 3.5 million vehicle-km)	a–c. RDA survey	The 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 2024: At least 3,400 km of rural access roads improved to an all-weather standard and maintained under PBM contracts (2017 baseline: Not improved) (OP 1.3.1; OP 3.2.5; OP 5.1.1) 1b. By 2026: At least 340 km of national roads rehabilitated and maintained under PBM contracts (2017 baseline: Not rehabilitated) (OP 1.3.1; OP 3.2.5) 1c. By 2024: At least three awareness sessions per district held on (i) road safety, with women comprising more than 50% of participants; and (ii) sexually transmitted diseases, including HIV, with women comprising more than 40% of participants (2017 baseline: Not applicable) 1d. By 2026: At least 30% of local maintenance workers hired are women (2017 baseline: Not applicable)	1a–d. RDA project performance monitoring system	Implementation is delayed by extreme weather conditions.
2. Capacity of road agencies enhanced	By 2024: 2a. Knowledge and skills of at least 100 road agency staff increased with regard to safeguards, road safety awareness, PBM contract management, and rural road design and construction (2017 baseline: Not applicable) (OP 6.1.1)	2a. Training program reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2b. Full set of research equipment commissioned and action plan for research capacity enhancement implemented (2017 baseline: Not commissioned and implemented)</p> <p>2c. Mechanistic–empirical pavement design, road asset management system, information management system, and rural road safety guidelines developed (2017 baseline: Not developed)</p> <p>2d. Policy measures on financial sustainability endorsed by the Ministry of Highways and the RDA (2017 baseline: Not endorsed)</p>	2b–d. Capacity building program reports	
Key Activities with Milestones (to be conducted during the implementation of tranche 3)			
1. Road conditions between the selected rural communities and socioeconomic centers improved			
1.1 Complete 70% of physical works by 2023			
1.2 Conduct the performance monitoring survey of the investment program during the implementation of tranche 3			
1.3 Conduct at least two awareness sessions per district on road safety and sexually transmitted diseases by 2023			
2. Capacity of road agencies enhanced			
2.1 Mobilize all necessary capacity development consultants by 2022			
2.2 Develop capacity development training programs for road agencies by 2021			
2.3 Start the equipment procurement in 2021 and complete it by 2022; begin to implement the action plan for research capacity enhancement in 2022			
2.4 Develop mechanistic–empirical pavement design by 2023			
2.5 Commence policy alternatives to improve financial sustainability by 2021; have the Ministry of Highways and the RDA endorse the most suitable policy arrangements by 2023			
2.6 Increase knowledge and skills of at least 70 road agency staff regarding safeguards, road safety awareness, PBM contract management, and rural road design and construction by 2023			
Inputs			
Facility		Tranche 3	
Asian Development Bank: \$900 million (loan)		\$200 million (loan)	
Government of Sri Lanka: \$184.6 million		\$15.7 million	
Assumptions for Partner Financing			
Not applicable			

km = kilometer, OP = operational priority, PBM = performance-based maintenance, RDA = Road Development Authority.
Note: Because of the time-slice nature of the multitranchise financing facility, the design and monitoring framework reflects the impact, outcome, and outputs of the facility. The specific deliverables of tranche 3 are indicated under Key Activities with Milestones.

^a Government of Sri Lanka, Ministry of National Policies and Economic Affairs, Department of National Planning. 2017. [Public Investment Programme, 2017–2020](#). Colombo; Government of Sri Lanka. 2019. [National Policy Framework Vistas of Prosperity and Splendour, 2020–2025](#). Colombo

Contribution to Strategy 2030 Operational Priorities

Expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (Appendix 6).

Source: Asian Development Bank.