



Periodic Financing Request Report

Project Number: 47273-005
MFF Number: 0086
November 2015

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

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 November 2015)

Currency unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.0070
\$1.00	=	SLRs141.11

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
FAM	–	facility administration manual
FFA	–	framework financing agreement
IEE	–	initial environmental examination
km	–	kilometer
MFF	–	multitranches financing facility
MOUEH	–	Ministry of University Education and Highways
PIC	–	project implementation consultant
RDA	–	Road Development Authority

NOTE

In this report, “\$” refers to US dollars.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 47273-005	
Project Name	Integrated Road Investment Program-Tranche 3	Department /Division	SARD/SATC
Country Borrower	Sri Lanka Democratic Socialist Republic of Sri Lanka	Executing Agency	Ministry of University Education and Highways
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		200.00
		Total	200.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	Effective gender mainstreaming (EGM)	✓
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign MFF-Tranche (Loan): Asian Development Fund		25.00	
Sovereign MFF-Tranche (Loan): Ordinary capital resources		175.00	
Cofinancing		0.00	
None		0.00	
Counterpart		23.88	
Government		23.88	
Total		223.88	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

TRANCHE AT A GLANCE

Date of Receipt by ADB of PFR: 5 August 2015	Tranche Number: 3	
10. Country Operations Business Plan		
CPS	http://www.adb.org/documents/sri-lanka-interim-country-partnership-strategy-2015-2016	
COBP	http://www.adb.org/documents/sri-lanka-country-operations-business-plan-2016-2018	
11. Tranche Summary		
<p>Tranche 3 will finance the second slice of projects in Southern Province, Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province. The first slice of projects was financed under Tranches 1 and 2.</p> <p>Impact and Outcome: The impact will be connectivity between rural communities and socioeconomic centers in Sri Lanka improved by year 2027 (Annual Report, Ministry of Finance, Sri Lanka). The outcome will be transport efficiency on project roads increased.</p> <p>Outputs: (i) Road conditions between the selected rural communities and socioeconomic centers improved, and (ii) capacity of road agencies enhanced.</p> <p>Implementation Arrangements: Ministry of University Education and Highways will be the executing agency.</p> <p>Project Readiness: Project readiness is high. Nine civil works contracts were awarded, and 14 will be awarded by November 2015. One PIC was mobilized, and the remaining two will be mobilized in November 2015. Environment and social safeguards were assessed following ADB and government requirements. No environment or forest clearances are required, and no land acquisition is envisaged.</p>		
12. Significant Developments in the MFF and Previous Tranches		
<p>Tranche 1 (Loan 3171) for \$100 million was approved in October 2014 and became effective in January 2015. Tranche 1 financed the first slice of projects in Southern Province consisting of 11 contracts for civil works, of which 9 contracts for \$106.51 million have been awarded and contractors have been mobilized in May 2015. The remaining 2 civil works contracts are expected to be awarded in December 2015. One PIC was mobilized in June 2015 and the remaining two are expected to be mobilized in November 2015. As of August 2015, cumulative contract awards and disbursement amount to \$95.10 million (60%) and \$12.98 million (14.22%), respectively. A project implementation unit has been established and key professionals including environmental and social safeguards and gender have been appointed. All safeguard requirements have been met satisfactorily in light of the progress of physical works. Of the 51 covenants, 25 have been met and 26 are being complied.</p> <p>Tranche 2 (Loan 3221/3222) for \$107 million was approved in December 2014 and became effective in July 2015. Tranche 2 financed the first slice of projects in Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province consisting of 33 contracts for civil works, of which 14 contracts for \$197.37 million have been approved by ADB for award and are expected to be awarded in November 2015. Eleven contracts for \$153.93 million are at the financial bid evaluation stage and are expected to be awarded in December 2015. The remaining 8 civil works contracts for \$143.66 million are expected to be awarded in March 2016. A project implementation unit has been established and key professionals including environmental and social safeguards and gender have been appointed. All safeguard requirements have been met satisfactorily. Of the 51 covenants, 15 have been met and 36 are being complied.</p>		
13. Milestones		
Estimated Approval	Estimated Effectiveness	Estimated Completion^a
7 December 2015	5 February 2016	30 September 2021

^a For Tranches, this refers to the financial closing date.

TRANCHE AT A GLANCE

14. Linked Documents

	Required Document	Disclosure Date
(i) Environment	IEE - Initial Environment Examination	
Weblink:	http://www.adb.org/projects/documents/integrated-road-investment-program-tranche-1-iee	1 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-rmc-iee	7 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-central-province-iee	7 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-sabaragamuwa-province-iee	7 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-north-central-province-iee	7 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-north-western-province-iee	7 October 2014
	IEE - Initial Environment Examination	
	http://www.adb.org/projects/documents/integrated-road-investment-program-project-2-western-province-iee	7 October 2014
(ii) Involuntary resettlement	IR - Involuntary Resettlement	
Weblink:	http://www.adb.org/projects/documents/integrated-road-investment-program-tranche-1-rpddr	1 October 2014
	IR - Involuntary Resettlement	
	http://www.adb.org/projects/documents/integrated-road-investment-program-sabaragamuwa-province-western-province-rural-roads-project-2-rpddr	7 October 2014
	IR - Involuntary Resettlement	
	http://www.adb.org/projects/documents/integrated-road-investment-program-central-province-rural-roads-project-3-rpddr	7 October 2014
	IR - Involuntary Resettlement	
	http://www.adb.org/projects/documents/integrated-road-investment-program-national-roads-project-2-3-5-rpddr	7 October 2014
	IR - Involuntary Resettlement	
	http://www.adb.org/projects/documents/integrated-road-investment-program-north-central-province-rural-roads-project-4-rpddr	7 October 2014
	IR - Involuntary Resettlement	
	http://www.adb.org/projects/documents/integrated-road-investment-program-north-western-province-rural-roads-project-5-rpddr	7 October 2014
(iii) Indigenous peoples		
Weblink:		

^a For Tranches, this refers to the financial closing date.

I. BACKGROUND

1. The absence of all-weather road connectivity is a serious problem in Sri Lanka's rural areas, preventing communities from accessing socioeconomic centers. Poor road infrastructure has a strong link to poverty and affects economic growth in rural areas, agricultural productivity, and employment. The Government of Sri Lanka is addressing this problem through a country-wide rural road investment program—aimed at providing all-weather road connectivity to eligible unconnected rural habitations. The Asian Development Bank's (ADB's) interim country partnership strategy, 2015–2016 for Sri Lanka aims to address the major constraints to sustaining inclusive growth and is closely aligned with the government's priorities.¹ The country partnership strategy reconfirms continuing ADB assistance for developing the transport sector, particularly rural roads, which are critical for rural development in providing access to markets, health, education, and administrative services.

2. The Integrated Road Investment Program (the investment program) supports the government's sector objective to improve and sustain connectivity between Sri Lanka's rural communities and socioeconomic centers.² The immediate outcome will be increased transport efficiency on project roads in the country.

3. ADB and the government signed the framework financing agreement (FFA) for the investment program on 11 July 2014. On 25 September 2014, the Board approved the provision of loans to Sri Lanka under a multitranche financing facility (MFF) of up to \$800 million equivalent. The MFF uses the time-slicing approach. The investment program comprises five projects to be implemented between 2014 and 2024, as well as capacity building initiatives.³

4. Tranche 1 was approved on 3 October 2014. The Tranche 1 loan and project agreements were signed on 5 November 2014 and became effective on 7 January 2015. Tranche 1, amounting to \$100 million, finances the first slice of the project in Southern Province to (i) improve and/or maintain 560 kilometers (km) of rural access roads and 130 km of national roads; (ii) build capacity of implementing agencies on road asset management, project management, and contract administration; and (iii) prepare the project for subsequent tranches.⁴

5. Tranche 2 was approved on 11 December 2014. The loan agreements for Tranche 2 were signed on 28 May 2015, and the project agreement was signed on 4 June 2015. The loan became effective on 23 July 2015. Tranche 2, amounting to \$107 million, finances the first slice of the projects in Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province to improve and/or maintain 2,548 km of rural access roads and 118 km of national roads.⁵

6. On 5 August 2015, ADB received the government's periodic financing request for Tranche 3, totaling \$200 million, to continue improving road conditions between selected rural

¹ ADB. 2015. *Interim Country Partnership Strategy: Sri Lanka, 2015–2016*. Manila.

² 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.

³ Project 1 is in Southern Province (Tranche 1 financed the slice of it); Project 2 is in Sabaragamuwa Province and Kalutara District of Western Province; Project 3 is in Central Province; Project 4 is in North Central Province; and Project 5 is in North Western Province (Tranche 2 financed the slice of projects 2–5).

⁴ The total cost of project 1 is estimated at \$235 million.

⁵ The total cost of projects 2–5 is estimated at \$605.74 million.

communities and socioeconomic centers. The proposed Tranche 3 will finance the second slice of all contracts being funded under Tranches 1 and 2. Approval is critical for sufficient funds to be available for disbursement, particularly for contracts awarded under Tranche 2. Tranche 3 is included in Sri Lanka's Country Operations Business Plan, 2016–2018.⁶

II. ASSESSMENT OF IMPLEMENTATION

7. Tranche 1 has 11 contracts for civil works, of which nine contracts worth about \$106.51 million were awarded,⁷ and contractors were mobilized on 18 May 2015.⁸ The remaining two contracts will be awarded in December 2015. ADB approved all three project implementation consultant (PIC) contracts, worth about \$14.42 million. One PIC was mobilized on 14 June 2015, and the remaining two will be mobilized in November 2015. As of August 2015, cumulative disbursement was \$12.98 million. A project implementation unit was established, and professionals in environmental and social safeguards and gender were appointed. All safeguard requirements have been met satisfactorily considering the physical works progress. Monitoring activities and on-site compilation of monitoring checklists were initiated following procedures in the resettlement framework and environmental assessment and review framework. The government is compliant with the covenants in the loan agreement and FFA, and the Road Development Authority (RDA) is compliant with the covenants in the project agreement.

8. Tranche 2 has 33 contracts for civil works. ADB approved 14 of these (footnote 8), worth about \$197.67 million, which will be awarded in November 2015.⁹ Eleven contracts worth about \$153.93 million are at the financial bid evaluation stage, and will be awarded in December 2015. The remaining eight contracts worth about \$143.66 million will be awarded in March 2016. A project implementation unit was established, and professionals in environmental and social safeguards and gender were appointed. The government is compliant with the covenants in the loan agreements and FFA, and RDA is compliant with the covenants in the project agreement.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

9. The impact will be improved connectivity between rural communities and socioeconomic centers in Sri Lanka consistent with the Annual Report, Ministry of Finance, Sri Lanka. The outcome will be increased transport efficiency on project roads.

B. Outputs

10. Tranche 3 will deliver two outputs (i) improved road conditions between the selected rural communities and socioeconomic centers and (ii) enhanced capacity of road agencies. The outputs will be achieved through two components. The road improvement component will improve and maintain about 3,108 km of rural access roads and about 248 km of national roads. The capacity development component will build the capacity of road agencies on road asset management, project management, and contract administration.

⁶ ADB. 2015. *Country Operations Business Plan: Sri Lanka, 2016–2018*. Manila.

⁷ ADB is financing 89.29% of civil works, which is \$95.10 million.

⁸ Contracts include the standard Environmental Management Plan, as required.

⁹ ADB is financing 89.29% of civil works, which is \$176.50 million.

11. Tranche 3 will finance the second slice of projects in Southern Province, Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province.¹⁰

C. Investment and Financing Plans

12. The total cost of the projects under the investment program is estimated at \$906.00 million, inclusive of taxes, duties and interest, and other charges on the loan during implementation (Table 1). Tranche 3, in the amount of \$200.00 million, will finance part of the second slice of projects. The government will request subsequent tranche(s) to finance the remaining slice(s) of projects based on disbursement progress.

Table 1: Cost Estimates
(\$ million)

Item	Program ^a	Tranche 3 ^b
A. Base Cost^c		
1. Civil works	744.26	201.38
2. Consulting services	37.94	12.30
3. Project management	15.00	6.00
Subtotal (A)	797.20	219.68
B. Contingencies^d	91.68	-
C. Financing Charges during Implementation^e	17.12	4.20
Total (A+B+C)	906.00	223.88

^a Includes taxes and duties of \$87.03 million to be financed from government resources (either exemption or through payment).

^b Cost estimates for the second slice of the projects is \$223.88 million, which includes taxes and duties of \$23.88 million to be financed from government resources.

^c In 2015 prices based on detailed design.

^d Physical contingencies for the investment program computed at 10% for civil works and 10% for consulting services. Price contingencies computed at about 2% on foreign exchange costs and about 6% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate. Since Tranche 3 represents a slice of contracts already awarded, for which costs are fairly certain, it has no contingency cost.

^e Includes interest and commitment charges. Interest during construction for Asian Development Bank (ADB) loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.5% for the ordinary capital resources (OCR) loan plus a maturity premium of 0.1% based on average loan repayment period of 15.75 years, and at 2.0% per annum for the loan from ADB's Special Funds resources. Commitment charges for the OCR loan are 0.15% per year to be charged on the undisbursed OCR loan amount.

Source: ADB.

13. The government has requested a \$175 million loan from ADB's ordinary capital resources and \$25 million equivalent from ADB's Special Funds resources to help finance the second slice of projects.¹¹ The government will finance taxes and duties amounting to \$23.88 million.

14. The loan from ADB's ordinary capital resources will have a 26-year term, including a grace period of five years, straight-line, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a commitment charge of 0.15% per year (interest and other charges during construction to be capitalized in the loan), and such other terms and conditions set forth in the draft loan and project agreements. Based on this, the average loan maturity is 15.75 years, and the maturity premium payable to ADB is 0.10% per

¹⁰ Tranche 3 will finance the second slice of projects 1–5. The first slice is financed under Tranches 1 and 2.

¹¹ The ADB loan may finance local transportation and insurance costs.

annum. No withdrawals shall be made from ADB's ordinary capital resources until all ADB's Special Funds resources have been exhausted.

15. The loan from ADB's Special Funds resources will have a 25-year term, including a grace period of five years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. Interest during construction will also be capitalized for the Asian Development Fund loan.

16. The financing plan is in Table 2. Detailed cost estimates by expenditure category and financier are provided in the updated facility administration manual (FAM).¹²

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	200.00	89.33
OCR Loan	175.00	78.16
ADF Loan	25.00	11.17
Government	23.88	10.67
Total	223.88	100.00

ADF = Asian Development Fund, OCR = ordinary capital resources.
Source: Asian Development Bank estimates.

D. Implementation Arrangements

17. The implementation arrangements are summarized in Table 3 and detailed in the FAM.

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	January 2016–March 2024 ^a
Loan closing date	30 September 2021
Management	
(i) Oversight body	<p>National Steering Committee: Chair: Secretary, Ministry of University Education and Highways (MOUEH). Members: Chief secretaries of the provinces under the investment program; secretary, Finance Commission; director general, Road Development Authority (RDA); senior project director and project directors of each project of the investment program; commissioners of local government authorities under the investment program; heads of provincial road agencies; district secretaries; External Resources Department, National Planning Department, Budget Department, and Department of Project Management and Monitoring.</p> <p>Provincial Coordination Committees: Chair: Chief secretary of the province. Members: Project director (secretary to the committee), district secretaries, representatives of provincial road agencies, and representatives of local authorities.</p>
(ii) Executing agency	MOUEH
(iii) Key implementing agency	RDA
(iv) Implementation unit	RDA, 201 staff (to be strengthened as required).

¹² Updated Facility Administration Manual (Appendix 6).

Aspects	Arrangements		
Procurement	International competitive bidding	N/A	N/A
	National competitive bidding	N/A	N/A
Retroactive financing and/or advance contracting	Retroactive financing for Tranche 3.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

^a Including routine and periodic maintenance.

Source: Road Development Authority.

E. Project Readiness

18. Project readiness is high. Nine civil works contracts were awarded, and 14 will be awarded by November 2015.¹³ One PIC was mobilized, and the remaining two will be mobilized in November 2015. Environment and social safeguards were assessed following ADB and government requirements. No environment or forest clearances are required, and no land acquisition is envisaged.

F. Advance Contracting and Retroactive Financing

19. The FFA allows for advance contracting of civil works and consulting services, subject to ADB procedures. However, no procurement of civil works and consulting services will occur under Tranche 3, as all procurement is being done under Tranches 1 and 2 (footnote 13). The FFA allows, subject to ADB policies and procedures, retroactive financing of the expenditures incurred towards civil works and consulting services eligible under advance contracting, provided that the expenditures are incurred during the period 12 months prior to the signing of the related loan agreements, and do not exceed an amount equivalent to 20% of each individual loan. The government requested retroactive financing under Tranche 3.

IV. DUE DILIGENCE

A. Technical

20. The Tranche 3-financed slices of projects were appraised under Tranches 1 and 2. Engineering design was done for all projects under previous tranches, based on site condition surveys, field investigations, and climate risk assessments.

B. Economic and Financial

21. As most rural access roads are in poor condition, improvements in road connectivity to the rural hubs will result in time savings and decreased vehicle-operating costs. In addition, all-weather rural access roads will result in significant poverty reduction and social benefits for the rural population, such as increased agriculture productivity, improved access to health and education, and better employment opportunities. The conventional economic analysis model does not capture these social benefits. Therefore, an economic internal rate of return (EIRR) threshold of 10.0% was adopted for rural access roads. For national roads, a threshold of 12.0%

¹³ See paras.7–8.

EIRR was used. The overall project's economic analysis indicated it is economically viable, with an overall EIRR of 18.4%.¹⁴ A sensitivity analysis on capital costs, benefits, and implementation delays confirmed the project's economic viability.

22. Costs for project roads' operation and maintenance will decrease after construction is completed. Recent government strategy indicates future budget allocations for national roads will be adequate for operation and maintenance. The government envisages that, in the long term, the road maintenance trust fund can be accessed by provincial and local road agencies. The investment program will build provincial and local road agencies' capacity to facilitate access to the trust fund for non-national roads, and to enhance their financial sustainability.

C. Governance

23. **Policy and legal.** The investment program's implementation arrangements will involve three levels of government: central, provincial, and local. At the central level, the Ministry of University Education and Highways (MOUEH) is responsible for policy formulation and performance monitoring. The Road Development Authority Act (RDA Act) established RDA as a statutory authority with a separate legal status in 1981. The RDA chairperson reports to the MOUEH secretary. At the provincial and local levels, provincial councils are responsible for the respective local authorities' work, under the 13th amendment to the Constitution enacted in 1987 and the Pradheshiya Sabha Act No. 15 in 1987. In keeping with Sri Lanka's devolution norm, RDA functions as if contracted by provincial authorities to construct roads belonging to local authorities, and a memorandum of understanding to this effect will be executed. The arrangement follows the existing practice in Sri Lanka, where local authorities generally lack the capacity and resources to implement such projects.

24. The implementation arrangements satisfy the RDA Act, which requires that RDA consults with other government agencies on projects in their respective areas. The national steering committee and provincial coordination committees will ensure proper coordination.

25. **Institutional capacity.** MOUEH and RDA have sufficient capacities, past experiences, and institutional strengths to procure the civil works, select consultants, and administer contracts. Participation of provincial, district, and local authorities in the steering and coordination committees has been arranged, with consideration of their respective institutional capacity.

26. **Financial management.** An assessment carried out for RDA indicates the financial management risk is moderate and financial management arrangements are adequate. RDA has experience implementing ADB-funded projects and has satisfactory capacity in project financial accounting and ADB disbursement procedures. It also has a dedicated project accounting and finance team with suitably qualified accountants. RDA will establish and maintain separate project records and accounts to identify the project financing resources received and expenditures made, thus providing for an adequate audit trail. The government's Auditor General's Department will annually audit the project accounts and related financial statements following international auditing standards.

27. **Procurement and anticorruption.** Procurement will follow ADB's Procurement Guidelines (2015, as amended from time to time). The Bribery Act, No. 11 of 1954, the Declaration of Asset and Liabilities Act, No. 1 of 1975, and the Permanent Commission to

¹⁴ Economic and Financial Assessments for Tranche 3 (Appendix 8).

Investigate Allegations of Bribery and Corruption Act, No. 19 of 1994 provide a legal basis to deal with bribery and corruption. The government's Auditor General's Department will monitor procurement activities. ADB explained and discussed its Anticorruption Policy (1998, as amended to date) with the government, the MOUEH, and RDA. Specific policy requirements and supplementary measures are described in the FAM.

D. Poverty, Social, and Gender Dimensions

28. **Poverty reduction and social impacts.** Tranche 3 will finance the second slice of projects appraised under previous tranches. The investment program will improve the socioeconomic situation and enhance poverty reduction in six provinces, where about 11.7 million people reside. Consultation and social surveys were conducted along all project roads, and covered 57,438 households. The majority of surveyed households described road conditions as bad or very bad. Communities indicated the poor conditions prevented safe travel, and cited positive benefits will include improved access to education and health, better transport services, and increased job opportunities. Communities will be consulted through a transect walk to ensure the final design of rural access roads incorporates their concerns on construction, social and environmental issues, and road safety.

29. **Gender and development.** The social study found women were actively engaged in family and community activities and decision-making processes: 79% always participated in family decision making, 59% contributed to household income, and 54% were involved in community activities. About 60% of women stated they were willing to participate in the projects by working as maintenance laborers and civil works wage laborers, or operating small businesses catering to contractors. They also indicated improved road accessibility will provide better access to health, education, and social and economic opportunities. Tranche 3 is categorized as "Effective Gender Mainstreaming," and a gender action plan was prepared.¹⁵ Gender mainstreaming activities include (i) ensuring women are consulted in the final design of rural access roads; (ii) integrating features that increase safety and meet the needs of the elderly, women, children, and the disabled; (iii) ensuring that at least 30% of local employees hired for road maintenance are women, which will generate about 208,000 person-days of labor, and that they receive equal wages for equal work; (iv) providing training in road maintenance to all employed women; and (v) encouraging women's participation in awareness campaigns on road safety, sexually transmitted infections, and human trafficking.

30. **HIV/AIDS and human trafficking.** The HIV prevalence rate is low in Sri Lanka. The establishment of the National Program for Sexually Transmitted Diseases and AIDS Control helps refurbish health clinics and establish outreach and awareness programs. The investment program has incorporated measures to mitigate HIV risks by conducting awareness training for civil works contractors and project-affected communities at prominent village locations. Awareness-raising activities will be conducted separately for men and women. The social impact assessment did not identify human trafficking as a significant issue in the project area. It is anticipated that civil works contractors will hire local laborers and not require migrant workers. Communities in the project area will be provided with awareness training on human trafficking.

E. Safeguards

31. **Involuntary resettlement and indigenous peoples.** Tranche 3 is categorized as category B for involuntary resettlement and category C for indigenous peoples following ADB's

¹⁵ Gender Action Plan (Appendix 12).

Safeguard Policy Statement (2009). The categorizations follow those of the previous tranches. All Tranche 3-financed projects have been fully appraised under Tranches 1 and 2. The due diligence report covering all projects confirms that safeguard impacts are minimal, as envisaged at appraisal, and that Tranches 1 and 2 are compliant with the social safeguards requirements outlined in the resettlement framework and indigenous peoples planning framework prepared for the multitranche financing facility. All requirements in the frameworks have been met, and all planning documents have been disclosed. The government has committed adequate resources to implement safeguard measures, and PIC staffs are in place to provide support.

32. **Environment.** Tranche 3 is classified as category B, consistent with Tranches 1 and 2 and in accordance with the Safeguard Policy Statement. All Tranche 3-financed projects have already been fully appraised under Tranches 1 and 2, and the environmental assessment and review framework, initial environmental examinations (IEEs),¹⁶ and climate risk assessments remain valid.¹⁷ The environmental due diligence for Tranches 1 and 2 concluded that all environmental safeguards requirements are either complied or being complied with. None of the project roads passed through reserved forest or national parks, sanctuaries, or habitats of protected species, and none of the roads disturbed any cultural heritage or monuments of cultural or historical importance. All bidding documents contained the province-specific environmental management plans, environmental monitoring plans, and road-specific environmental code of practice checklists, from which respective contractors prepared road-specific environmental management plans.

F. Risks and Mitigating Measures

33. Delayed implementation, resulting from the preparation time for detailed engineering designs and prolonged land acquisition and resettlement, is a key risk. To mitigate this, engineering design and bidding documents have been prepared in advance, and land requirements have been minimized.

G. Risk Categorization

34. Tranche 3 is categorized as low risk; all features of a low-risk project have been met: (i) ADB's previous experience in Sri Lanka's road sector shows a sound record, (ii) executing agency capacity for externally financed project administration is reasonable, (iii) the loan amount does not exceed \$200 million, and (iv) all safeguard classifications are not category A.

V. ASSURANCES

35. The government and RDA have assured ADB that implementation of Tranche 3 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 FAM and loan documents.

36. The government and RDA will agree with ADB on certain covenants for Tranche 3, which will be set forth in the loan agreements and project agreement.

¹⁶ Tranche 1 IEE report for Southern Province is disclosed at <http://www.adb.org/sites/default/files/project-document/82512/47273-003-iee-01.pdf>, while Tranche 2 IEE reports for Central, Sabaragamuwa, Western, North Central, and North Western provinces and the Road Management Contract are disclosed at <http://www.adb.org/projects/47273-004/main>

¹⁷ Climate risk was assessed as medium because some project roads are located in tsunami-affected, storm-surge, erosion and flood prone areas.

VI. RECOMMENDATION

37. On the basis of the approval of ADB's Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$800,000,000 to the Democratic Socialist Republic of Sri Lanka for the Integrated Road Investment Program, it is recommended that the President approve the proposed tranche as described in para. 13 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements for the proposed tranche.