

PERIODIC FINANCING REQUEST

Date: 11 July 2014

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

ATTENTION: Director General, South Asia Department
Fax No. (632) 636-2212

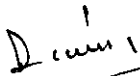
Sir/Madam:

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

Please refer to the Framework Financing Agreement for the Integrated Road Investment Program dated 11 July 2014 between Asian Development Bank (ADB) and Sri Lanka. Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, Sri Lanka requests ADB to process this PFR for a tranche, in the form of a loan from its Special Funds resources. The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment A hereto. Descriptions of the projects for which financing is hereby requested are set out in Attachments A hereto.

By:



RATHNAYAKE MUDIYANSELAGE PRIYANTHA RATHNAYAKE
Director General, Department of External Resources
Ministry of Finance and Planning

Attachment

Project Description The project proposed for financing under the requested PFR is a slice of Project 1, which is the project in Southern Province, under the Integrated Road Investment Program, including three components:

- (i) Road improvement in Southern Province: The component will improve and/or maintain 560 km of rural access roads and 130 km of national roads. The rural access roads, including 510 km of local roads and 50 km of provincial will be on access routes between the rural hubs and the trunk road network. The rural access roads will be improved to all-weather standards, and be maintained for three years. The national roads will connect the rural access roads to adjacent socioeconomic centers. About 110 km of national road corridor will be improved and maintained under road management contracts for seven years, and the other 20 km of national road sections will be improved together with the rural access roads and maintained for three years.
- (ii) Capacity development: The component will build the capacity of road agencies on road asset management, project management, and contract administration. The road agencies including the Ministry of Highways, Ports and Shipping (MOHPS), Road Development Authority (RDA), and the provincial and local road agencies. RDA will take lead in developing a harmonized road asset management approach in the level of central, provincial, and local governments. Individual consulting services will be engaged to assist the MOHPS and RDA in developing their own capacity and in the skill transfer program from RDA to provincial and local road agencies in Southern Province.
- (iii) Project preparation: The component will carry out feasibility study, and engineering design for the subsequent tranches. The scope will cover projects in Sabaragamuwa Province, Kalutara District of Western Province, Central Province, North Central Province, and North Western Province.

The Design and Monitoring Framework for this tranche is in Annex 1.

Cost Estimates and Financing Plan

The total cost of Project 1 is estimated at \$235 million, inclusive of taxes, duties, and interest and other charges on the loan during implementation. Tranche 1 will finance the first \$118 million slice of Project 1. The detailed cost estimates and financing plan are in Annex 2. The government will request subsequent tranche(s) to finance the remaining slice(s) of Project 1 based on the disbursement progress.

(\$ million)

Item	Government of Sri Lanka	ADB ADF	Total
Civil Works	10.20	85.00	95.20
Consulting Services	7.80	8.00	15.80
Project Management		3.15	3.15
Financing Charges during Implementation		3.85	3.85
Total	18.00	100.00	118.00

Loan Amount and Terms	<p>The request is for a loan of \$100 million from ADB's Special Funds resources.</p> <p>The loan from ADB's Special Funds resources will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions as agreed in the FFA, and further supplemented under the draft loan and project agreements.</p>
Period of Loan Utilization	The project is expected to be completed by 30 March 2021. Loan closing date of the first tranche loan is 30 September 2021.
Advance Contracting	Advance contracting is requested for civil works and consulting services.
Retroactive Financing	Retroactive financing is requested for civil works and consulting services, not exceeding the amount of \$20,000,000 (20% of the loan amount), incurred before loan effectiveness, but not earlier than 12 months before the signing of the legal agreement.
Implementation Arrangements	The Executing Agency will be the Ministry of Highways, Ports and Shipping. The Implementing Agency will be the Road Development Authority (RDA). A project implementation unit will be set up in RDA to implement the project.
Procurement and Consulting Services	The procurement plan is attached as Annex 3.
Confirmation of Continuing Validity of and Adherence to Provisions of FFA, Previous Agreements, and the Design and Monitoring Framework	Sri Lanka confirms that the understandings set out in the FFA have been adhered, and remain true to date.
Readiness of the Project for Implementation	Feasibility study and design reports and the bid document have been prepared for all project roads under Project 1. The procurement of civil works will start in June 2014.
Safeguards	As part of project preparation, a resettlement due diligence report (Annex 4), an IEE report (Annex 5), and a gender action plan (Annex 6) have been prepared for Project 1.

DESIGN AND MONITORING FRAMEWORK FOR TRANCHE 1

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved connectivity between rural communities and socioeconomic centers</p>	<p>By 2027 Rural hub centers connected to socioeconomic centers by all-weather roads increases by 1,000</p>	<p>Annual report of Ministry of Finance and Planning Survey of RDA</p>	<p>Assumptions Government's development strategy effectively coordinated with road sector investment Planned transport projects implemented as scheduled</p>
<p>Outcome Increased transport efficiency on project roads</p>	<p>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 700,000.</p>	<p>Survey of RDA Survey of RDA Survey of RDA</p>	<p>Assumptions Government provides counterpart funds for the project on time</p>
<p>Outputs 1. Improved road conditions between the selected rural communities and socioeconomic centers in Southern Province</p>	<p>By 2018 60% of financial progress achieved for improving about 560 km of rural access roads in Southern Province to all-weather standard. 40% of financial progress achieved for rehabilitating and maintaining about 130 km of national road corridor in Southern Province. 30% of local workers employed for road maintenance to be women</p>	<p>Project performance monitoring system of RDA Project performance monitoring system of RDA Project performance monitoring system of RDA</p>	<p>Risks Implementation delayed by extreme weather conditions</p>
<p>2. Enhanced capacity of road agencies</p>	<p>By 2024 Skill transfer program to Southern Province by RDA established and functioning 20 staff training on road asset management and project management for MOHPS, RDA, and provincial and local road agencies of Southern Province completed.</p>	<p>Capacity building program reports Capacity building program reports</p>	<p>Assumptions Consensus reached with other government agencies on strategy to improve the overall rural connectivity.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	Rural road design standard, construction specification, and maintenance manual endorsed by RDA. 40 staff trained from RDA and provincial and local road agencies on gender-inclusive project preparation and implementation.	Capacity building program reports Capacity building program reports	
3. Preparation of the projects completed for succeeding projects	By 2016 Appraisal reports and bidding documents of succeeding projects completed.	PFR for following tranches	Assumptions Consensus reached with other government agencies on project selection and implementation arrangements.
Activities with Milestones		Inputs	
1. Improved road conditions between the selected rural communities and socioeconomic centers in Southern Province		Asian Development Bank: \$100 million	
		Item	Amount (\$ million)
1.1 Mobilize project implementation consultants by 2014		Civil works	85.00
1.2 Award all contracts for civil works by 2018		Consultancy	8.00
1.3 Complete civil works by 2024		Project management	3.15
		Financing charges	3.85
2. Enhanced capacity of road agencies		Government: \$18 million	
2.1 Develop a capacity development program on road asset management and project management for RDA, provincial and local road agencies by 2020		Item	Amount (\$ million)
2.2 Develop a skill transfer program to provincial and local road agencies in Southern Province by RDA by 2024		Civil works	10.20
		Consultancy	7.80
3. Preparation of projects completed for succeeding projects			
3.1 Mobilize survey and preliminary engineering team by 2014			
3.2 Complete engineering design, and bidding documents by 2016			

MOHPS = Ministry of Highways, Ports and Shipping, RDA = Road Development Authority.
Source: Asian Development Bank.

Cost Estimates of Project 1 and Financing Plan of Tranche 1					
(\$ million)					
Item	Project 1	Tranche 1			
	Total	Total	% of Project 1	ADB (%)	Government (%)
A. Investment Costs [a] [b]					
1. Civil Works	153.44	95.20	62.0%	89.3%	10.7%
2. Consultancy	37.94	15.80	41.6%	50.6%	49.4%
Subtotal (A)	191.38	111.00	58.0%	83.8%	16.2%
B. Recurrent Costs [c]					
1. Project Management	3.15	3.15	100.0%	100.0%	
Subtotal (B)	3.15	3.15	100.0%	100.0%	
C. Contingencies					
1. Physical Contingency [d]	19.45	0.00	0.0%		
2. Price Contingency [e]	15.17	0.00	0.0%		
Subtotal (C)	34.62	0.00	0.0%		
D. Financing Charges During Implementation					
1. Interest During Implementation	5.40	3.85	71.3%	100.0%	0.0%
2. Commitment Charges	0.45	0.00	0.0%		
Subtotal (D)	5.85	3.85	65.8%	100.0%	0.0%
Total Project Cost (A+B+C+D)	235.00	118.00	50.2%	84.7%	15.3%
Notes:					
[a] In 2014 prices based on detail design.					
[b] Inclusive of local taxes and duties compute at 12.0% for civil works contract values, consulting services, and equipment, and 25% for foreign consultant remuneration.					
[c] Incremental administrative expenditures, including bank charges, local transport and insurance.					
[d] Computed at 10% for civil works.					
[e] Computed at about 2% for foreign currency costs, and 6-7% for local currency costs.					
[f] Capitalized during implementation period, consisting of interest of ADF loan at 2.0% per annum.					

Annex 3: Procurement Plan (Project 1)

(Linked Documents 4, Attachment B)

Annex 4: Resettlement Due Diligence Report for Project 1

(Linked Documents 16)

<http://www.adb.org/projects/documents/integrated-road-investment-program-project-1-southern-province-national-and-rural-roads-rpddr>

Annex 5: Initial Environmental Examination for Project 1

(Linked Documents 11)

<http://www.adb.org/projects/documents/integrated-road-investment-program-tranche-1-southern-province-iee>

Annex 6: Gender Action Plan for Project 1

(Linked Documents 10)