

India : Andhra Pradesh Rural Roads

1. Project Information

Project ID:	P000063	Instrument ID:	L0063A
Member:	India	Region:	Southern Asia
Sector:	Transport	Sub-sector:	Roads
Instrument type:	<input checked="" type="checkbox"/> Loan:455.00 USD million <input type="checkbox"/> Guarantee	Co-financier(s):	
ES category:	B	Borrower:	Republic of India
Implementing Entity:	Panchayat Raj Engineering Department (PRED), Andhra Pradesh Panchayat Raj Department		
Project Team Leader:	Farhad Ahmed		
Project Team Members:	Liu Yang, Project Counsel; Aditi Khosla, Alternate Counsel; Yogesh Malla, OSD - Financial Management Specialist; Georgi Georgiev Dzhartov, OSD - Social Development Specialist; Gerardo Pio Parco, OSD - Environment Specialist; Jurminla Jurminla, OSD - Procurement Specialist;		
Completed Site Visits by AIIB:	Jun, 2019 June 24-26, 2019 Nov, 2019 Nov. 12-14, 2019 Jan, 2021 Jan. 27 to Feb. 2, 2021 virtual mission		
Planned Site Visits by AIIB:	Jan, 2022 Jan. 27-28 and Feb. 7-11		
Current Red Flags Assigned:	2		
Current Monitoring Regime:	Enhanced Monitoring- Level I		
Previous Red Flags Assigned:	2		
Previous Red Flags Assigned Date:	2021 Q3		

2. Project Summary and Objectives

The objective of the project is to improve road transport connectivity in previously unserved communities by providing all-weather rural roads in all 13 districts of the state of Andhra Pradesh. The plan is to construct rural roads to provide first connectivity, construct cross drainage structures to bridge gaps on roads, provide approaches to educational institutions and healthcare centers, construct rural roads passing through tribal areas and upgrade earthen/gravel roads to roads with durable surfaces.

Component 1a. Construction of new connectivity consisting of:

- (i) BT Roads: Construction of about 2,350 km of bitumen paved roads in the locations with normal soil;
- (ii) CC Roads: Construction of about 2,450 km of CC paved roads, in the locations with soft soil; and
- (iii) Bridges and Structures: Construction of bridges and hydraulic structures (culverts and drainage channels), including 18 major bridges, to increase connectivity of the roads during the monsoon season

Component 1b. Upgradation of existing roads including:

- (i) Upgradation of about 1,500 km of existing water-bound macadam or metal roads and earthen roads into asphalt-based blacktop roads.
- (ii) Construction of culverts or small bridges (where necessary) in order to prevent flooding and isolation of the habitations during the monsoon season and to improve connectivity.

Component 2. Technical Assistance consisting of:

- (i) Engagement of a Project Management Consultant firm (PMC);
- (ii) Engagement of a consulting firm to conduct technical reviews/audits of the project;
- (iii) Engagement of a consulting firm to monitor implementation of Environmental and Social Management Plan and other actions defined during the project preparation;
- (iv) A pilot project using modern technology;
- (v) Development of a digitized map of A.P's rural road network and connection to a geographic information system for real-time communication;
- (vi) Institutional development and capacity building of the PRED through training, workshops, and study tours in overseas locations.

Two million people to benefit from the project. 3,300 habitations will be provided with connectivity covering previously unserved communities in 13 districts under the project.

3. Key Dates

Approval:	Sep. 28, 2018	Signing:	Feb. 25, 2019
Effective:	Apr. 22, 2019	Restructured (if any):	
Orig. Closing:	Apr. 30, 2024	Rev. Closing (if any):	

4. Disbursement Summary (USD million)

Contract Awarded:	418.86	Cancellation (if any):	0.00
Disbursed:	71.14	Most recent disbursement (amount/date):	40.00/Jan. 25, 2021
Undisbursed:	383.86	Disbursement Ratio (%) ¹ :	15.60

5. Project Implementation Update

The project currently contains two red flags. The overall implementation progress continues to be slow. As of mid-January, 2022 approximately two-thirds (61 percent) of the implementation time passed (project was effective in late April 2019 and is scheduled to be closed in end-October 2023) with a disbursement of only a sixth (16 percent) of the available funds (USD71.14m against a total AIIB funding of USD455m). Out of 6,323km rural roads, only approximately 1,000km have so far been constructed (estimated expenditure of approximately US\$95 million; the total allocation for road construction is US\$600 million). Currently, an average monthly progress, in financial terms is less than US\$3 million/month compared with the required rate of about US\$25 million/per month to complete the project on time.

The main project progress obstacle is the lack of availability of counterpart funds. Contractors' bills remain unpaid for months (as of end-December 2021 a total of US\$ 24m worth of bills remain outstanding). Given the non-receipt of the payments, contractors become demotivated to complete the contracts on time and in some cases, they have halted construction works. Out of the total AIIB's advance of USD71 million, about 10 million remain unspent. Another USD50m worth of additional physical work already delivered by the contractors, which will require to be paid when the invoices are raised.

¹ Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

The above issue has been highlighted to the Department of Economic Affairs (DEA) and Government of Andhra Pradesh (GOAP) in management letters and review meetings. DEA expressed serious concerns regarding the slow disbursement and progress of the project.

Nonetheless, the Government has made some progress regarding resolving this impasse. The Government has opened a dedicated project account. However, the GOAP is yet to deposit funds into the account. Discussions are ongoing between the GOAP and the DEA. However, the outcome is yet to be reported by the GOAP. The project implementation pace is expected to improve significantly once the counterpart funding issue is resolved. It is highly unlikely that the project objectives will be achieved within the scheduled closing date of October 2023.

In the backdrop of the above, the Team (AIIB) is planning a comprehensive implementation review between end-January and mid-February 2022. The overall objective of the review is establishing the implementation status of the project, identifying issues, and devising strategies and an action plan for successful completion of the project achieving all objectives. The review intends to establish, amongst others, contract-wise procurement and implementation status and issues linked to them; establish revised project scope and costs including any potential savings/deficits; assessing financial management compliance and status including counterpart funds and operationalization of the dedicated project account; determining the achievement of project objectives and results and devising strategies for their achievements; assessing the extent of compliance with the social and environmental requirements and strengthening the Government's capacity for the implementation of the relevant safeguards instruments. The review will develop a detailed roadmap with short- (up to 6-month) and medium-term (up to one & a half years) targets for the project to achieve. The Bank management will be informed about the outcome of the review. The team also planning to closely monitor the project using monitoring tool which is under preparation. The PMIR will be updated based on the review findings and agreements with the GOAP.

Components	Physical Progress	Environmental & Social Compliance	Procurement	Financial Management
Component 1a: Construction of new connectivity (USD385 million)	Out of 6323km, only approximately 1000 km roads have been constructed.	There are a couple of environmental and social issues that need flagging in the PIMR. They are: the team cannot confirm the availability of E&S instruments, or their summaries. The issue has been taken up with the project and being addressed. The awareness and training of the grievance redressal committee were judged as insufficient by the	The progress of contract procurement is somewhat satisfactory. Out of a total of 102 civil works packages, 78 are already awarded and 24 are yet to be awarded. Of these, 12 packages have not received any bid despite repeated calls. These 12 packages have now been divided into 25 packages based on the feedback from a workshop with	The Project has been facing liquidity constraints throughout FY2020-21. This has caused substantial delays in the timely payments to contractors/consultants. Despite the advance funds provided under this loan, they have remained under-utilized mainly due to mismatch in timely availability of counterpart funds. There are no outstanding IUFRs. IUFR for Q1 of FY2021-22 has been submitted in compliance with AIIB requirements on August 19, 2021. The Monthly Progress Reports have

		Team.	<p>contractors. A good response from the contractors is expected this time and these packages could be awarded by end-February 2022. The Government will use the EPC method for bridges (three packages) that will allow the bidders to suggest their own design. The civil work contracts are expected to be procured by mid-2022, including the bridge packages.</p> <p>However, the contract implementation is slow due to the reasons mentioned earlier. The team has been analyzing the current status and expects that an agreement will be reached with the client on measures for the quick implementation of the contracts.</p>	been submitted in a timely manner.
Component 1b: Upgradation of existing roads (USD35 million)	Works are yet to be procured.	-	Tender notice released and tenders are in process for - 12 Packages. Completion date of all packages expecting as December 31, 2022.	
Component 2 Technical Assistance (USD 7.36 million)	PMC and ESMEA consultants are working	-	PMC: Awarded ESMEA: Awarded	

	TRACS: facing procurement delays.		TRACS: REOI to be invited afresh. Financial Expert: Awarded External and Internal Auditor: Awarded	
Contingencies	N/A	N/A	N/A	

6. Status of the Grievance Redress Mechanism (GRM)

The operation of the GRM appears to have improved as per the November 2021 project progress report. The project has received a total of 16 grievances and reported to have resolved all of them (as indicated in November 2021 progress report). There has been a total of 13 court cases and, so far, only one has been resolved. The GRM training and meetings are continuing: 11 GRM meetings and similar number of GRM training events took place in November 2021.

7. Results Monitoring

Given the nature of the project is about rural roads construction, with a rough km-target agreed in the loan agreement, the revision of the project scope would not be a material change. The finalized km target, with a more precise km number, will lead to a formal change to the indicators in the remaining years. Once no objection to the finalized work scope is issued by the Bank, PIMR will be updated accordingly.

Project Objective Indicators #1

Indicator #1 Length of roads constructed / upgraded (Km)

Year	Target	Actual	Comments, if any
Dec. 31, 2019	500	0.75	
Dec. 31, 2020	2300	499.49	
Dec. 31, 2021	4600	1059.37	
Dec. 31, 2022	6000	N/A	

Project Objective Indicators #2

Indicator #2: Habitations with new /upgraded connectivity (number)

Year	Target	Actual	Comments, if any
Dec. 31, 2019	300	1	
Dec. 31, 2020	1200	471	
Sep. 30, 2021	2300	912	
Dec. 31, 2022	3300	N/A	

Project Objective Indicators #3

Indicator #3: No. of people with direct access to all-weather rural roads (People'000)

Year	Target	Actual	Comments, if any
Dec. 31, 2019	200	0.77	
Dec. 31, 2020	700	153.64	
Dec. 31, 2021	1300	326.33	
Dec. 31, 2022	2000	N/A	

Intermediate Result Indicators #1

Indicator #1: Length of BT roads constructed (Km)

Year	Target	Actual	Comments, if any
Dec. 31, 2019	270	0	
Dec. 31, 2020	1000	250.15	
Dec. 31, 2021	1800	462.14	
Dec. 31, 2022	2350	N/A	

Intermediate Result Indicators #2

Indicator #2: Length of CC roads constructed (Km)

Year	Target	Actual	Comments, if any
Dec. 31, 2019	230	0.75	
Dec. 31, 2020	800	249.34	
Dec. 31, 2021	1800	597.23	
Dec. 31, 2022	2450	N/A	

Intermediate Result Indicators #3

Indicator #3: Length of roads upgraded to BT roads (Km)

Year	Target	Actual	Comments, if any
Dec. 31, 2020	0	0	
Dec. 31, 2021	500	Nil	
Dec. 31, 2022	1000	N/A	
Dec. 31, 2023	1500	N/A	

Intermediate Result Indicators #4

Indicator #4 No. of bridges to be constructed

Year	Target	Actual	Comments, if any
Dec. 31, 2021	6	Nil	DPR and design review 24 bridges completed
Dec. 31, 2022	18	N/A	

Remarks:

Information updates are up to Q4 2021.

Main reasons for the differences between targets and actual achievements exceeding 20% from 2020 to date.

1. The project review required by the government after the re-election in 2019.
 2. COVID-19 lockdown.
 3. Delay in payment for around 6-12 months affecting contractors due to lack of liquidity.
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