

SBF Project Implementation Monitoring Report

India: Andhra Pradesh Rural Roads Connectivity Project

1. Project Information

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|-------------------------------|--|--------------------|-------------------------------|
| Project ID: | 000063 | Investment Number: | L0063A |
| Member: | India | Region: | Southern asia |
| Sector: | Transport | Sub-sector: | Roads (non-urban) |
| AIB Financing Type: | Loan: 455 USD million | Co-financier(s): | Stand-alone |
| E&S category: | B | Borrower: | Republic of India |
| Red Flags Assigned: | 2 (Q1: 1) | Monitoring Regime: | Enhanced Monitoring – Level I |
| Implementing Agency: | Government of Andhra Pradesh Panchayat Raj Engineering Department | | |
| Project Team Leader: | Wenyu Gu | | |
| Project Team Members: | Gerardo Pio Parco, Senior Environmental Specialist Georgi Georgiev Dzhartov, Social Development Specialist Jurminla Jurminla, Procurement Specialist Yogesh Malla, Financial Management Specialist Haiyan Wang, Senior Finance Officer Huiqian Alba Feng, Finance associate Mengmeng He, Finance associate Liu Yang, Counsel - Investment Operations Chang Tian, Project Assistant | | |
| Completed Site Visits by AIB: | 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 AIB: | Nov, 2021 Virtual mission | | |

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 works and bridges to complete missing links and structures, provide approaches to educational institutions and healthcare centers, construct rural roads passing through tribal areas and upgrade earthen/gravel roads to asphalt-based roads.

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 (million)

| | | | |
|-----------------|---------|---|-------------------|
| Currency: | USD | | |
| a) Committed: | 455 | b) Cancellation (if any): | |
| c) Disbursed: | 71.138 | d) Most recent disbursement: (amount / date) | 40, Jan. 25, 2021 |
| e) Undisbursed: | 383.863 | f) Disbursement Ratio(%) ¹ : | 15.6 |

¹ Disbursement Ratio is defined as the volume (i.e. the dollar amount) of total disbursed amount as a percentage of the net committed volume, i.e., $f = c / (a - b)$

5. Project Implementation Update

Overall implementation progress continues to be slow. Despite good progress on procurement of civil works (about 2/3rd of the works procured and under implementation), little progress was made during the last 18 months due to lockdowns induced by COVID-19, national elections, and state government reviews. Contractors were not allowed to start work during the review process. Despite some improvements during the last quarter, the pace of implementation is significantly slow. The team is working with the implementing agency (PMU) to identify the key issues resulting in slow progress and prepare an action plan to improve the implementation progress. PMU is in the process of revising the milestones and the closing date for the 44 awarded packages.

While COVID-19 lockdowns have seriously affected project implementation, little improvement has occurred since lockdowns were lifted—or during the ongoing working session. The key issue is the non-payment of contractors' bills totaling approximately US\$21 million, many of which remain unpaid for more than six months. The team raised the delayed payment issue with both GoAP and the Department of Economic Affairs (DEA) through management letters (dated April 15 and July 14, respectively) and TPRM meetings (May 24, 2021). However, no official responses to the management letters to date.

In addition, GoAP has not fully utilized the AIIB's advance of US\$70 million due to lack of counterpart funds (the bank will finance 70% of civil work expenditures; GoAP will finance the rest 30% and taxes). Delays in contractors' payments are leading to liabilities in terms of cost escalations and under-utilization of the project management consultant services.

Additionally, The Project team has noted the ongoing unsatisfactory progress on screening of ES risks/impacts and monitoring of mitigation measures. Coordination between PMU, PMC, and PIU, along with their internal capacity is insufficient. Cases, where civil works have been initiated prior to the required implementation of the mandatory Contractor's Environmental and Social Management Plans (CESMP), have been identified remotely using ultra-high satellite imagery.

Progress on the ES Monitoring, Evaluation and Audit (ESMEA) consultancy is satisfactory with the first field assessment to be undertaken in Q4 2021. The team has provided extensive guidance to enhance the proposed methodology considering overall Project progress, capacity constraints, and COVID-19 restrictions.

Revised Work-program and Project Scope: Due to long delays, the current mile-stone targets of the 44 initially awarded packages are late and need revision and time extension. Bank team is assisting PRED to revise the milestones, closing date, work program for these contracts using project management tools.

Revised Project Scope and Project Costs: Some roads are being canceled from the project scope as these were funded under other projects. PRED is working to finalize the revised scope and the associated costs considering the final roads and bridges to be funded under the project, cost escalations, design changes, and tender premium.

Bank's implementation support: Bank team is working with PRED to resolve the above issues through regular monthly meetings, professional advice, and reviews with field staff and contractors. However, non-payment of contract invoices largely offsets the team's effort.

| Component s | Physical Progress | Environmental & Social Compliance | Procurement |
|--|---|---|--|
| Component 1a: Construction of new connectivity (USD385 million) | 52 contracts for 4412 km roads are under implementation. 967.92 km roads have been completed and are in use by rural communities. | The implementation and monitoring of ES mitigation plans continue to be adversely affected by weak PMU, PMC and PIU capacity. In certain cases, civil works have been initiated prior to finalization of the required Contractor's Environmental and Social Management Plans (CESMP). Stakeholder engagement and functionality of the GRM require significant improvement. Twelve court cases have been filed alleging various adverse ES impacts on project affected people. | Out of 90 packages, 52 contracts signed, LOA issued for 13 packages and another 18 packages were under technical evaluation. Remaining 15 packages are at various stages of procurement. Overall, about 80% of procurement is completed. |
| 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 consultant is already working. ESMEA: Kick-off meeting held on May 5, 2021; the bank team is reviewing the inception report. | - | PMC: Awarded ESMEA: Agreement was signed on April 8, 2021 TRACS: shortlist could not be finalized as the single firm who submitted EOI did not meet shortlisting criteria, therefore, recommended for retender. |
| Contingencie s (USD26.5 | 0% | - | - |

| | | | |
|----------|--|--|--|
| million) | | | |
|----------|--|--|--|

Financial Management:

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. A management letter was sent to Chief Secretary to GOAP to address the issue. However, there has been no substantial improvement in project liquidity.

There are no outstanding IUFs. IUF for Q1 of FY2021-22 has been submitted in compliance with AIIB requirements on August 19, 2021.

The project audited financial statement for FY2019-20 has been received with some delay. The project audited financial statement for FY2020-21 is due on December 31, 2021.

There are expenditures incurred for DPR charges totaling INR 53.49 million. These expenditures are incurred from the Govt. counterpart funds. However, there has been no audit carried out to date.

The Monthly Progress Reports have been submitted in a timely manner.

6. Status of the Grievance Redress Mechanism (GRM)

The operation of the GRM remains unsatisfactory as Bank's guidance on specific cases is required for their resolution, which points to insufficient PMU ownership of the GRM. PMU has reported a total of 16 resolved grievances in the latest Quarterly Progress Report, and a total of 103 grievance committee meetings conducted up to September 2021.

In addition, 12 court cases related to alleged moderate ES impacts have been filed against the Project (one already withdrawn by petitioner following a negotiation with the PMU). The GRM functionality requires significant strengthening.

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.

Baseline Year: Nov. 1, 2018 End Target Year: Oct. 30, 2023

Project Objective Indicators #1

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

| Year | Target | Actual | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2019 | 500 | 0.75 | |
| Dec. 31, 2020 | 2300 | 499.49 | |
| Dec. 31, 2021 | 4600 | 967.93 | |
| Dec. 31, 2022 | 6000 | N/A | |

Project Objective Indicators #2

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

| Year | Target | Actual | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2019 | 300 | 1 | |
| Dec. 31, 2020 | 1200 | 471 | |
| Sep. 30, 2021 | 2300 | 874 | |
| 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 | Others, 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 | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2019 | 270 | 0 | |
| Dec. 31, 2020 | 1000 | 250.15 | |
| Dec. 31, 2021 | 1800 | 410.1 | |
| Dec. 31, 2022 | 2350 | N/A | |

Intermediate Result Indicators #2

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

| Year | Target | Actual | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2019 | 230 | 0.75 | |
| Dec. 31, 2020 | 800 | 249.34 | |
| Dec. 31, 2021 | 1800 | 537.83 | |
| Dec. 31, 2022 | 2450 | N/A | |

Intermediate Result Indicators #3

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

| Year | Target | Actual | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2020 | 0 | 0 | |
| Dec. 31, 2021 | 500 | N/A | |
| 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 | Others, if any |
|---------------|--------|--------|----------------|
| Dec. 31, 2021 | 6 | N/A | |
| Dec. 31, 2022 | 18 | N/A | |

Remarks: Information updates are up to Q3 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.