

The World Bank

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December 8, 2010

Mr. B.K. Patnaik
Chief Secretary & Chief Development Commissioner
Government of Orissa
Secretariat
Bhubaneswar

Dear Mr. Patnaik:

***Orissa-State Roads Project (Loan Number 7577-IN)
Interim Mission, November 18-20, 2010***

We thank the Government of Orissa (GoO) and the Orissa Works Department (OWD) for the support extended to the Bank team during the interim mission held in November 2010. An Interim Mission Note containing the Bank team's observations and suggestions related to implementation of civil works and a few other critical components of the project is attached.

As you would recall, following the last interim mission in August 2010 and the review meeting held at the Department of Economic affairs (DEA) in September 2010, we had shared with you a variety of factors that were impeding the implementation of civil works on all three Phase I contracts. The most notable implementation problems identified then were: (i) slow progress on pre-construction activities like Land Acquisition and Resettlement & Rehabilitation; (ii) finalization of interim supervision arrangements and procurement of supervision consultants for balance phase-I civil works; (iii) unsatisfactory performance of the contractors; and (iv) a variation proposal, advocated by the Project Management Unit (PMU) and the contractor to substitute a contract item for the construction of the Granular Sub Base (GSB) layer.

We are pleased to note that the PMU has expeditiously put in place fully functional interim supervision arrangements and has achieved good progress on the pre-construction activities including in making a sizeable 'work front' available for the contractors to expedite work on all three contracts.

Despite these positive developments, the mission noted that the progress of construction activities on all three contracts has been insignificant and is not commensurate with the level of work front available, the mobilization of equipment and the advances paid to the contractors. **In all three contracts, we noticed poor resource planning by the contractors as evidenced by the absence or paucity of qualified personnel and severe cash flow problems.**

The mission also noted with concern that despite various agreements reached in the past, the contractors on all the three roads have not been paying due attention to the **maintenance of existing pavement** which, in turn, has resulted in further deterioration of the pavements. The mission noted that in all three contracts, **the scarce participation of the lead partners is continuing.** Although a joint management meeting was held with the contractors, actions agreed are yet to be seen on the ground. The mission urges GoO to closely monitor this issue so that the benefit of the lead partners' experience and qualification that formed the basis of the contract award to the respective Joint Ventures can be drawn upon by the project.

Clearly, these are matters of serious concern, and we would like to take this opportunity to urge you to impress upon both the OWD and the PMU that this grave situation is untenable and unacceptable and guide them to achieve rapid progress in implementation of civil works,

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Compliance for all
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preferably through close monitoring at frequent intervals. The mission suggests that a resource-based work program with a clear target of achieving at least 2.5-3% of progress each month, for the next 6 months, needs to be agreed upon with contractors and closely monitored by the PMU. With increased land availability to the contractors in the near future, this rate of progress would need to go up to at least 5% afterwards.

We would like to draw your attention to the Attachment to this letter, which provides the status of actions agreed in August 2010 and the suggested actions to improve the implementation progress of the project. The Bank team will be closely monitoring the implementation of these actions and will be organizing a full Implementation Support Mission in January 2011. We are earnestly hoping to see positive progress in implementation of the civil works, so that the PMU and the task team can step up efforts on other key activities including the preparatory work for Phase II contracts and various institutional strengthening initiatives.

However, in case the project fails to achieve reasonable progress in all the contracts by the January 2011 mission, we propose to hold a joint high-level review with the State Level Empowered Committee, under your guidance, to discuss the case for recalibrating our engagement with this project. Accordingly, I will be requesting our Operations Advisor to join the next mission. We will be in touch with your office to agree on a mutual convenient date for this review during the next mission and will also request DEA to join.

Should you require any additional information or clarification, please do not hesitate to contact my colleagues Rajesh Rohatgi (rrohatgi@worldbank.org) or Sri Kumar Tadimalla (stadimalla@worldbank.org).

With regards,

Yours sincerely,



Anna Wellenstein
Acting Country Director, India

Enclosure:

cc: Mr. Venu Rajamony, Joint Secretary, (MI), Department of Economic Affairs, Ministry of Finance, New Delhi
Mr. Nilaya Mitash, Director (MI), Department of Economic Affairs, Ministry of Finance, New Delhi
Mr. S.K. Puri, Director General, Ministry of Road, Transport and Highways, New Delhi

Mr. S. K. Ray, Secretary, Orissa Works Department, Government of Orissa, Bhubaneswar
Mr. J. K. Mohapatra, Principal Secretary, Department of Finance, Government of Orissa, Bhubaneswar
Mr. Raj Kumar Sharma, Commissioner and Secretary, Department of Revenue, Government of Orissa, Bhubaneswar
Mr. N. K. Pradhan, Chief Engineer and Project Director, Orissa State Roads Project, Government of Orissa, Bhubaneswar

Attachment

Status of Action Agreed in August 2010

S.No	Action	Was Due By	Status
1.	GoO's decision/guidance on GSB issue	Sep 15, 2010	Decision still awaited – Not complied with
2.	For Milestone 1 of Phase 1 Roads, complete land acquisition including clearance of all encumbrances and R&R (Action pending since project start)	Oct 30, 2010	Substantially Achieved
3.	Replacement of the 'Engineer' : Expeditious finalization of Interim Arrangements	Sep 15, 2010	Achieved
4.	Replacement of the 'Engineer' : Initiate procurement process of the new 'Engineer'	Sep 15, 2010	Achieved
5.	Take action on non-participation of lead partners in all contracts	Oct 30, 2010	Partially complied
6.	Ensure contractors mobilize all required key professionals including Environment/Safety Officers (Action pending since Oct 2009)	Sep 15, 2010	Not complied with
7.	Ensure contractors obtain all necessary regulatory consents/permissions to operate plants/machineries	Immediate	Not complied with
8.	Finalization and issuance of the Contract Management and Quality Assurance Manual (Action Pending since Oct 2009)	Sep 15, 2010	Achieved
9.	Ensure proper maintenance of contract roads through existing contract (Action pending since project start)	Sep 15, 2010	Not complied with
10.	For each contract, arrange fortnightly tripartite management meetings between OWD/PMU, the Contractor(s) and the Engineer	Immediate	Achieved

Suggested/Agreed Actions to Improve Project Performance

S.No.	Action	Due By
1.	GoO's decision/guidance on GSB issue	
2.	For Milestone 1 of Phase 1 Roads, complete land acquisition including clearance of all encumbrances and R&R (Action pending since project start)	Jan 31, 2011
3.	Expedite and complete land acquisition including clearance of all encumbrances and R&R for Milestone 2 of Phase 1 Roads.	Apr 30, 2011
4.	Award contract to the new 'Engineer' for phase I balance work	Mar 31, 2010
5.	Non-participation of lead partners in all contracts – Monitor agreement reached in the meeting and update the status to the Bank	Dec 31, 2010
6.	Ensure contractors mobilize all required key professionals including Environment/Safety Officers (Action pending since Oct 2009)	Immediate
7.	Ensure contractors obtain all necessary regulatory consents/permissions to operate plants/machineries	Immediate
8.	Ensure proper maintenance of contract roads through existing contract (Action pending since project start)	Immediate
9.	Continue arranging tripartite management meetings between OWD/PMU, the Contractor(s) and the Engineer	Continuous
10.	Document all non-obligations by the contractor and issue appropriate notices as per the contract	Dec 31, 2010
11.	Mobilize an additional AE and JE on packages P01 and P03	Dec 31, 2010
12.	Agree on a resourced based work plan and minimum progress to be achieved for next four months.	Dec 15, 2010
13.	Rectify DBM Layer on package P01	Immediate
13.	Inform the status of preparation and plan for Phase – II of the Project	Dec 31, 2010
14.	Submit the RFP with short-list to the Bank for supervision of balance phase-I work	Dec 15, 2010
15.	Submit TOR and cost estimates of the RUSS to the Bank	Jan 15, 2011

ORISSA STATE ROADS PROJECT (P096023)

Mission Note

Implementation Support Mission (November 18-20, 2010)

Civil Works Component

1. **Interim Supervision Arrangement is in Place.** Subsequent to the termination of the services of the supervision consultant firm M/s SMEC in August 2010, an interim supervision arrangements has been put in place with effect from November 1, 2010, on all three contracts as agreed with the Bank by the OWD. The supervision team at each site comprises of a dedicated Executive Engineer acting as the "Engineer", supported by one Assistant Engineer and one Junior Engineer (except on package P02, where two AEs and 2 JEs have been deputed). The supervision team is further supported by key professional and support staff, outsourced through a consulting firm M/s Theme Engineering Services. While this is a positive early development, the mission suggested that the supervision teams for packages P02 and P03 may be urgently strengthened through deputing an additional AE and JE for each team.
2. The mission visited the laboratories and reviewed quality control documentation. Many instances of missing signatures of the supervision team or of the contractors in the test results and consequent acceptance/approvals were observed. The mission highlighted these inconsistencies to the REs and Materials Engineer for immediate attention and urges PMU to ensure strengthening of quality control systems and documentation.
3. **Land acquisition (LA): The project is progressing well with regards to the LA process.** The mission was informed that, out of the revised 152 villages in 1st year packages, LA process has been completed and land handed over for construction in 140 villages. In the balance villages, the LA process is in various stages and it was agreed that the entire LA would be completed by December 31, 2010 except 5 villages (which require very small extent of land), where the process has been just initiated. Acquisition of land for 2nd Year package (Jagatpur-Chandbali) is also reported to be progressing – out of the 115 villages involving LA, section 4(1) notification has been issued in 99 villages and 6(1) notification in 50 villages.
4. **Resettlement and Rehabilitation (R&R) Assistance:** The verification process of project affected families (PAFs) for establishing their eligibilities for R&R entitlements for 1st milestone stretches is almost complete. So far, 308 families have been verified and R&R assistance (including compensation for unauthorized structures) has been extended to 173 eligible PAF. It was agreed that R&R assistance to the remaining PAFs would be released in the joint accounts by January 31, 2010. The mission was informed that the project has been receiving a number of new claims for the R&R assistance. The claimants include new entrants in the project area after the cut-off date; those covered in the census survey but not included in the Resettlement Action Plan and; those left out during the census survey. The mission was informed that the PMU has constituted a Joint Verification Committee to examine the cases of new claimants (for R&R assistance) and the verified cases would be referred to the Rehabilitation and Peripheral Development Advisory Committee (RPDAC) for a final decision. It was agreed that the project would ensure that final decision from the RPDAC would be obtained by January 15, 2011 on all such cases. The mission pointed out that for the partially affected structures, where affected families are not required to be relocated, notices should be issued for dismantling the affected portion of their structures and losses need to be compensated appropriately.
5. The mission noted that there have been **delays in crediting the demand draft to the beneficiary joint account by local banks.** This matter need to be urgently resolved with the Banks. The mission also suggested, starting parallel R&R activities in the second mile stone of contracts.

6. One of the issues that came up during the discussion was the **relocation of community infrastructure**, particularly bus shelters, some portions of schools and temples. The mission advised that the rehabilitation of schools should be undertaken in consultation with the School Management Committees, and bus shelters in consultation with Panchayats/Samitis. With regard to temples, the concerned Panchayat/Samitis and the Endowment Department need to be consulted.

7. The mission was informed that there has been a significant improvement in the work front availability in last six months. However, **the contractors are now failing to make use of the improved work front availability** in milestone-1 stretches and the peak working season available to deliver on the quantum of progress. The mission did not observe sufficient construction activities on any of the three sites.

8. Even after more than 21 months of contract award, the progress observed is extremely slow. The financial progress which includes the mobilisation and material advances is reported at about 16% (package P-01), 15.4% (package P-02) and 10% (package P-03). The progress in terms of actual works executed (i.e., after deducting the advance payments) is about 6%, 7.1% and 6% respectively, which is **insignificant and unacceptable**.

9. Based on various discussions at the site with all parties and the PMU, the mission identified **following key issues, which need to be urgently addressed to improve the situation** : (i) Absence of qualified professionals in contractors' teams, (ii) Severe lack of delegation of decision-making and financial powers to the contractors' project managers by the management; (iii) Poor contract planning and scheduling (resource based project plans are still not available from the contractors' side; (iii) Very poor support by the lead JV partners to the local JV partner, and (iv) Absence of adequate labour gangs and key equipments (e.g., shortage of paver in case of P-02). **The mission suggested PMU and the 'Engineers' to take up these issues with the management of contractors and issue appropriate contract notices to the contractors for non-fulfilment of their obligations under the contract and slow work progress, despite availability of work fronts in the first mile stone.**

10. The mission noted with concern that the contractors have claimed the mobilisation advance and adequate material advances as per the contract but have not been able to achieve the work progress commensurate with respect to neither the time elapsed nor the quantum of work fronts available. As of today, huge amounts of advance are still retained by the contractors without being actually utilized on this project. The contract provides powers to the employer to examine contractor's accounts to examine utilization of advances, which PMU should exercise.

11. **Poor maintenance of road sections under the contract.** The mission was concerned to note that despite several assurances on the part of the contractors, all of them continue to pay scant or no attention to regular maintenance to keep road sections in a motorable state. As a result, the condition of road sections has further deteriorated on all three contracts. The PMU, too, has so far not taken any action on this non-fulfilment of a key contractual obligation by the contractor. The PMU assured the mission that the contractor will complete this activity by November 30, 2010. The mission suggested that, in case the contractors fails to perform this activity by the end of November, 2010, the PMU should invoke the contractual provision for getting the work done by third party and deducting the amount from the main contractors' payments.

12. There is a need to strengthen contract management by PMU and the 'Engineers'. All cases of non-fulfilment of contractual obligations by the contractors need to be properly documented and communicated to them including through issuance of notices for slow progress as per applicable contractual clauses.

13. The mission noted that GSB layers are being executed with the proposed new specification (crushed rock). The mission was informed that IIT Kharagpur has been requested to undertake independent testing of the material.

14. **Worksite Safety Management needs strengthening.** The mission noted with concern that the contractor on all three packages is ignoring the worksite safety requirements, including those pertaining to traffic management. Proper diversion signs and barricading at construction sites and safety measures at other excavated sites are not being adequately provided as per the standards and this needs urgent attention both from the Engineers as well as Contractors. The mission, once again, advised the 'Engineers' to impose the penalty provisions available in the contracts when such safety provisions are found missing at site even after warnings issued.

15. On the package P-02, in spite of DBM layers having been completed on nearly 8.5km on P-02, BC works have not started due to reported lack of bitumen and availability of only one sensor paver which is being used for DBM. Similarly, work on CD structures is making very slow progress on account of reported non-availability of steel, labour and skilled manpower. In case of WMM laying, too, one more mechanical paver needs to be provided to ensure quality and timely implementation.

16. On the package P-01, DBM layer has been laid for a length of about 5.80 kms.(Ch.35.020 to 41.650). However the mission noted that the quality of work is sub-standard in general and extremely poor in some stretches. The mission urged PMU/Engineer to get this rectified on urgent basis.

17. **Phase-II roads** The mission expressed its concerns over the delays in the finalization of the Phase-II roads and obtaining the environment clearance for the Jagatpur-Kendrapara-Chandbali road. It was agreed that the Government of Orissa will inform the status and its plan for the phase -2 roads by December 31, 2010.

18. **Tel River Bridge on Package P01.** The mission was informed that the contractor has been requested to suspend all works on the bridge section as the hydrological study, being undertaken by Central Water and Power Research Station, Pune, is under progress. The mission urged PMU to expedite the progress on this front and get the study completed as soon as possible and submit the report to the Bank for its consideration. Any additional/incremental impacts to the Environmental and Social aspects, due to the changes suggested by the study, will also need to be assessed and shared with the Bank.

Consultant Procurement Aspects

19. **Road Asset Management System:** Mission was informed that the file is now with the GOO for approval after which the consultant work order would be issued and agreement signed.

20. **Road User Satisfaction Surveys (RUSS):** The mission was concerned to note delays in procurement of RUSS survey. It was agreed during the discussions that the scope of the road user satisfaction surveys will include about 450-500 km of roads – upgrading roads of about 350km and PPP component roads of about 100km. **The TOR and the final cost estimate would need to be sent to the Bank for concurrence by January 15, 2011** and subsequently, if the cost estimates are within than the threshold values specified in the legal procurement for post-review, the procurement can proceed on a post-review basis.

21. **Institutional Strengthening:** In the first round of procurement, selected consultant was not able to mobilise an appropriately qualified Team Leader as per its proposal and the next lowest highest ranked proposal was substantially higher in financial terms. Accordingly, it was agreed with the Bank to initiate re-procurement and the OWD is currently evaluating the shortlist. The Terms of Reference for these services also need to be modified. It was agreed that the modified TOR would be sent to the Bank for review by December 15, 2010.

22. **IT and ICT Advisory Services:** The short listing has been completed and approved by the Bank. The procurement has to now proceed under the post review method of procurement using the Bank's guidelines.

23. *Supervision Consultant Procurement:* The procurement of supervision consultants for the balance Phase-1 works has been initiated, after the termination of contract with M/s SMEC. The mission urged PMU to expedite the short-listing and submit the RFP to the Bank for no objection by Dec 15, 2010. During the mission, it was discussed that the scope of services could now include the current phase -1 roads as well as one phase-2 road i.e. Chandbali-Jagatpur road section. It was agreed that there could be one CSC with 4 Resident Engineers and key personnel for the 4 road sections. The ToR would need to clearly specify the likely commencement date of the phase-2 road works and that the client retains the right to execute services for phase-2 road depending on the consultant's performance as well as the final decision to execute the road works.

Implementation of Governance and Accountability Action Plan (GAAP)

24. The mission also reviewed the progress on GAAP and the proposed Workshop on Quality and Vigilance roles in the OWD.

25. Under the disclosure requirements, **the mission was pleased to learn that GOO has recently approved the web based complaint handling mechanism to address complaints from the public and other stakeholders on project procurement, quality and fraud and corruption issues.** This should clear the way for dissemination of the complaint handling process on the OSRP website and making the online complaint handling module operational. In the interim, the PMU has agreed to put a link to the GOO's online grievance monitoring system (cmgcorissa.gov.in), to facilitate posting of complaints by the public. As regards to the linking of vigilance information on the OWD site with the OSRP website, the mission was informed that this would be accomplished once the ongoing revision of the OWD website is completed.

26. The mission also had extensive discussions regarding the rationale, content and agenda of the proposed workshop on quality and vigilance roles of the OWD on road works in January 2011. As a result of the discussions, a tentative agenda and schedule has been forwarded to the Secretary, OWD for consideration of the government. The mission appreciates efforts of PMU and the CE(RDQP) for organizing the workshop.

27. With regard to the independent quality monitoring by the state quality monitors, the mission was informed that the terms of reference of the quality monitoring personnel (QMP) have now also been approved by the GOO. However, the implementation of such monitoring of all OWD works is lagging behind because of the paucity of qualified experts in the state, especially considering the relatively low remuneration for the monitoring. Even so, the PMU informed the Bank that they have succeeded in appointing an expert¹ for monitoring all OSRP works.

28. The baseline road user satisfaction survey is still overdue – the mission was informed that three firms have been shortlisted for the same along with the corridors to be surveyed. The PMU had sought a clarification from two of the shortlisted firms as to their independence from each other (ORG-Marg and ORG-India), which they have just recently received. The award of contracts would probably only happen now by May 2011 after receipt of the bids by end February 2011. Regarding the impact of the delay on the survey, the PMU was of the opinion that it would be minimal as the physical progress of works has been minimal thus far.

¹ The former Secretary of OWD