

March 14, 2012

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

Dear Mr. Patnaik:

***India: Orissa State Roads Project (OSRP) - (Loan No. 7577-IN)
Implementation Supervision Mission, February, 2012***

We thank the Government of Orissa (GoO) and the Orissa Works Department (OWD) for the support extended to the Bank team during the Implementation Support Mission held during February, 2012. The primary objective of this mission was to ascertain the status of implementation of the project, with particular focus on the eight actions for lifting the suspension of loan disbursement as mentioned in the Bank's letter dated May 27, 2011.

We are concerned to note that after nine months since the suspension, three of the eight actions listed for lifting of suspension are yet to be completed. These are: *achievement of 20% physical progress in the three civil work contracts, ensuring adherence to quality & safeguards, and applying appropriate legal/contractual remedies to ensure active participation by lead JV partners.* Overall, the progress on the two main components of the project – namely, *civil works* and *institutional strengthening* – continues to be rated “Unsatisfactory.” While there has been little progress on the ongoing activities accounting for about 35% of the loan amount already committed (phase I), the planning and preparatory work for committing the balance amount of about 65% of the project (phase II) is still in nascent stages and, hence, the disbursements in the coming year are likely to be low.

Due to inordinate delays in meeting actions for lifting the suspension, we are not in a position to consider lifting of the suspension and, in fact, the situation appears to warrant consideration of a cancellation of the loan. However, we have observed that the GoO has recently completed a few actions, put together an Action Plan to bring the project back on track, and sought an additional four months to implement the same. Keeping this in view, we have decided to defer our decision regarding the lifting of suspension of loan by four more months, that is, until June 30, 2012. We believe that this would give adequate time to comply with all the earlier pending actions for lifting of suspension as well as for satisfactory implementation of your new action plan (enclosed in Attachment 1), which appears to be both logical and comprehensive. In addition, we also request you to expeditiously address key implementation issues highlighted by the recent mission, including the following (a) bridging the gaps in providing rehabilitation assistance as per the OSRP R&R Policy Entitlement; and (b) finalize the proposal for

restructuring the project including the roads to be taken under Phase II and submit the same to DEA.

We expect that the Project Management Unit (PMU) and the OWD will implement the Action Plan satisfactorily, within the specified timelines, and the GoO will soon make an actions/results-based case for lifting of suspension. Towards this end, we request you to ensure that the implementation of the action plan is closely monitored, including through frequent reviews by the State Level Empowered Committee (SLEC), preferably, on a monthly basis. I have also advised the Bank Task Team to intensify supervision efforts and hold interim missions on monthly basis to review the progress of the Action Plan.

I trust you would agree that if the Actions and the overall Action Plan are not implemented on time and to the satisfaction of the Bank, we will not be in a position to lift the suspension and might rather be left with no other option but to cancel the Loan.

Our task team stands ready to assist the GoO and can participate in any review/discussion meetings that you may want them to attend. Should you require any clarifications, please do not hesitate to contact my colleagues Mr. Rajesh Rohatgi (email: rrohatgi@worldbank.org) or Mr. Sri Kumar Tadimalla (email: stadimalla@worldbank.org).

With regards,

Sincerely yours,



Roberto Zagha
Country Director, India

Enclosure: Attachment 1 (Action Plan for next four months); Aide-Memoire

cc: Mr. A. K. Upadhyay, Secretary, Ministry of Road Transport & Highways,
Government of India, New Delhi
Mr. Venu Rajamony, Joint Secretary (MI), Department of Economic Affairs,
Ministry of Finance, Government of India, New Delhi
Mr. C. Kandasamy, Director General, Ministry of Road Transport & Highways,
Government of India, New Delhi
Mr. J. K. Mohapatra, Principal Secretary, Department of Finance, Government of
Orissa
Mr. S.K. Ray, Engineer-in-Chief-cum-Secretary, Orissa Works Department,
Government of Orissa

Mr. N.K. Pradhan, Chief Engineer, (World Bank Projects),
Orissa Works Department, Government of Orissa
Mr. Nilaya Mitash, Director (MI), Department of Economic Affairs, Ministry of
Finance, Government of India, New Delhi

Attachment 1

**Government of Odisha's Action Plan for the Odisha State Road Project
(submitted vide GoO letter No. PIU/WB-6233, dated February 28, 2012)**

| | Action | Timeline |
|----------|---|--|
| A | Compliance to pending actions to lift the suspension | |
| 1 | Applying appropriate legal/contractual Remedies to ensure active Participation by the Lead JV partners in all three contracts Take actions on the advise received by the law department and take appropriate action/issue notices | Mar 31, 2012 |
| 2 | In each of the Phase-1 contracts, achieving a minimum of 20% progress (total value of certified work done against the contract value), excluding advances P2 to achieve a minimum of 20% | Mar 15, 2012 |
| 3 | Request agency to sign the contract for Consulting Services for the Construction Supervision of the balance Civil Works in the three ongoing Phase-1 Contracts | Feb 29, 2012 |
| 4 | Request agency to sign the contract for Consulting Services for the Orissa Road Sector Institutional Development | Feb 29, 2012 |
| 5 | Ensuring that civil works are being executed with due regard to Quality, Safety and Environmental Safeguards <ul style="list-style-type: none"> • Completion of defect works identified by the Engineer • Deployment of Qualified Staff by the Contractor • Improvements in Safety and traffic management during construction | Mar 31, 2012 |
| B | Expediting the Phase I Progress | |
| 6 | Removal of all pending encumbrances <ul style="list-style-type: none"> • P01 • P02 • P03 | Jun 15, 2012 Jun 15, 2012 Jun 15, 2012 |
| 7 | Set a target of physical progress, based on land handed over to the contractor <ul style="list-style-type: none"> • P01 – 35% • P02 - 30% | May 31, 2012 May 31, 2012 |
| 8 | Monitor the progress closely – In case the contractor do not meet the targets, take appropriate actions in accordance with the contract and submit a remedial proposal to the Bank | May 31, 2012 |
| 9 | Engage third party in all three contracts, in accordance with the contractual provisions to carry out maintenance, which has been neglected by the contractor | March 31, 2012 |
| 10 | Expediting Procurement of P03 <ul style="list-style-type: none"> • Submission of draft bidding documents to the Bank • Submission of Bid Evaluation Report to the Bank | Feb 20, 2012 June 30, 2012 |
| C | Accelerating Procurement of Phase II | |
| 11 | Expediting Procurement of P04 <ul style="list-style-type: none"> • Submission of draft bidding documents to the Bank • Certification by PMU that the entire MS 1 is encumbrance free for clearance of the bid document as agreed during the Mission from February 2-10, 2012 • Clearance of bid document by Bank • Submission of updated RAP & EA/EMP for the balance stretches | Feb 29, 2012 Mar 15, 2012 Mar 31, 2012 April 30, 2012 |
| 12 | Award of NGO Contract | June 30, 2012 |

| D | Strengthen Project Management and Contract Management | |
|----|--|----------------|
| 13 | <p>A proposal to strengthen project and contract management, endorsed by the SLEC to be submitted to the Bank. The Proposal shall contain following time-bound action</p> <ul style="list-style-type: none"> • Engage and maintain a reputed and qualified Contract Management Expert • Monthly SLEC Meetings • Set and closely monitor target to award the P03, P04, CSC for P04, NGO for P04 • Deploy all required staff and resources to meet the target of procurement of various works/services | March 15, 2012 |

1. Advancing Phase II Procurement

- P04 - Draft Bidding Documents to be Shared with the Bank
- Submission of Updated RAP and EMP
- Award of NGO contract for P04
- Publish EOI for supervision services of P04
- Submission of draft RFP including short-list and estimated cost for supervision services of P04 to the Bank
- Submission of project design report, estimates, including the environment and social Screening for at least one pilot stretch

Detail action plan furnished at column 11.

2. Strengthen Project and Contract Management

- Engage a reputed Contract Management Expert
- Organize Monthly SLEC Meetings as suggested by the Chief Secretary
- Monthly Review Meetings/Interim Missions by the Bank during the grace period of four Months
- Take appropriate distribution of responsibilities and deploy additional staff to expedite various procurement activities.

Action plan furnished at column 13.

Drafted by: Mr. Rajesh Rohatgi, Sr. Transport Specialist and Task Team Leader,
Orissa State Roads Project (SASDT)
c/w & bcc: Mr. Binyam Reja, Sector Manager (Acting); Ms. Mei Wang, Sr. Legal
Counsel (LEGES)

bcc: M./M. Prasad, Maddirala, (EDS12); Zhu (SARVP); India CMU General; SASSD Core
Team; O'Brien (SARDE); Thomson (SARFM); Sefta (SARPS); Srivastava (SARDE);
Abushakra (LEGES); Stein, Eijbergen, Bandyopadhyay, Rohatgi, Tadimalla (SASSD);
Orissa State Roads Project Team;

IRIS

INDIA
Orissa State Roads Project
Fifth Implementation Support Mission, February 2-10, 2012

Aide Memoire

I. INTRODUCTION

1. Subsequent to the State Portfolio Review Meeting on January 30, 2012, A World Bank team¹ undertook the fifth implementation support mission for the Orissa State Roads Project (OSRP) during February 2-10, 2012. The primary purpose of this mission was to ascertain the status of the eight actions for lifting the suspension of loan disbursements, as mentioned in the Bank letter dated May 27, 2011. Accordingly, the mission visited civil work sites of three ongoing civil works contracts in Phase I and held discussions with the officers of the Project Management Unit (PMU), teams of Resident Engineers and Contractors. In addition, the mission also discussed preparation of Phase II.
2. A wrap-up meeting, chaired by Secretary, Orissa Works Department (OWD), was held on February 10, 2012. The mission also met with the Principal Secretary to the Chief Minister and briefed them on the mission’s preliminary findings.
3. This aide-memoire summarizes mission assessment, the findings and recommendations to improve the implementation status of the project.

II. KEY PROJECT DATA & PERFORMACNE RATING

| Key Project Date | | Project Performance | | |
|----------------------------|--------------------------|--|------|-----|
| <i>Loan Amount:</i> | US\$250 million | Summary Ratings | Last | Now |
| <i>Board Approval:</i> | Sep 30, 2008 | | | |
| <i>Effectiveness Date:</i> | April 15, 2009 | Development Objectives | U | U |
| <i>Project Age:</i> | 40 months | Implementation Progress | U | U |
| <i>Disbursed:</i> | US\$ 20million (8%) | | | |
| <i>Closing Date:</i> | <i>December 31, 2014</i> | Risk Flags: Project Management, Slow Disbursement, | | |
| <i>Loan Committed:</i> | 44% | Social Safeguards & Legal Covenant | | |

HS=Highly Satisfactory; **S**=Satisfactory; **MS**=Moderately Satisfactory; **MU**=Moderately Unsatisfactory; **U**=Unsatisfactory; **HU**=Highly Unsatisfactory; **NA**=Not Applicable; **NR**=Not Rated

III. SUMMARY

4. **Achievement of Project Development Objective (PDO):** The project’s overall development objective is to remove transport bottlenecks in targeted corridors for greater investment and economic and social development activities in the state of Orissa. Considering the current project implementation situation and delays in collecting baseline data on various indicators, the likelihood of achieving the PDO continues to be ‘Unsatisfactory’.

¹ Consisting of Messrs/Mmes Rajesh Rohatgi (Mission Leader), Sri Kumar Tadimalla (co-TTL and PPP Specialist), Manvinder Mamak (Financial Management Specialist), Neha Vyas (Environmental Specialist), Satya N. Mishra (Social Development Specialist), Sujit Das, Amrit Inder Singh (Consultants - Highway Engineering), Krishnan Srinivasan (Consultant, GAAP) and Yash Gupta (Procurement Specialist).

5. **Status of Activities for Lifting of Suspension of Loan Disbursements.** Disbursements to OSRP are under suspension since May 2011 due to continuous unsatisfactory project implementation and non-compliance to several legal covenants. At the time of suspension, Government of Orissa (GoO) was informed that the suspension will be lifted when the Bank is satisfied that the state government, through OWD, is implementing all components of the project satisfactorily in accordance with the provisions of the Project Agreement. Specifically, the Bank had set out eight actions which must be completed for considering the lifting of suspension.

6. The mission assessment indicates that three actions for lifting of suspension namely, achievement of physical progress, ensuring adherence to quality & safeguards, and applying appropriate legal/contractual remedies to ensure active participation by lead Joint Venture (JV) partners have not been complied fully. There also have been substantial delays in meeting two more conditions of awarding contracts to Institutional Strengthening Action Plan (ISAP) and supervision consultants for balance work of phase I due to delays in government approval and signing of contracts. A detailed listing of these actions and the status of their compliance is placed in Annexure I.

7. **Key Implementation Issues / Areas of Concern and Risks.** Even as PMU is working towards completion of the activities required for lifting the Suspension, the Mission expressed concerns and urges GoO to address following areas:

- *Contracting entities must demonstrate their commitment and seriousness to carry out Phase I Civil Works* by achieving reasonable physical progress, with due attention to quality, safety and other environmental safeguard aspects during ongoing peak working season. This concern is stemming from the fact that the Contractor for Berhampur-Taptapani (P-03) has opted to terminate the contract, and, in the remaining two contracts the physical progress has been very slow (progress on P-02 has been abysmally low about 0.5% monthly) and the attention to quality issues has been less than optimal. Although there were initial delays due to non-availability of unencumbered sites, OWD's reports highlight several shortcomings of the Contractors as reasons for the slow progress. Those include shortage of construction materials and POL, frequent breakdown of plant and machinery, and shortage of capable and experienced manpower for planning and execution. On the day of field visit by the Mission, practically no works were being carried out in P-02. In the absence of any commitment, particularly for providing increased resources towards completion of Bhawanipatna-Khariar (P-01) and Anandpur-Chandbali (P-02) contracts in a timely manner, GoO must strictly enforce all applicable remedies under the contract.
- *There is an urgent need to improve the Contract Management discipline*, especially with regards to key decisions that are likely to have significant financial implications for the state government. These, inter-alia, include invoking/enforcement of relevant contractual provisions with appropriate contractual/legal due diligence. Towards this end, OWD should engage a reputed Contract Management Specialist to advise and assist PMU in all contractual matters.
- *Supervision of construction works by the Resident Engineers' (REs') Teams needs major improvement.* The Mission observed major shortcomings in following supervision and quality control procedures by the REs' Teams. In addition, the mission suggests that head quarter of REs should be near the contract sites instead of operating from Bhubaneswar.
- *Approaches to Tel Bridge.* The mission was informed that the OWD has received the Report from Central Water and Power Research Station (CWPRS) Pune on study related to Tel Bridge approaches. The Mission was informed that CWPRS has confirmed the location, alignment, and

size of the bridges but has recommended minor modifications. This work for construction of the new approaches comprising three Major Bridges is currently part of Contract P-01. PMU now needs to revise the designs as necessary and submit the proposal to the Bank. Delays in these reconstruction works will prevent full achievement of the corridor improvement benefits to the road users.

- *Maintenance of Existing Roads.* Maintenance of the existing Phase-I Roads is not being made suitably by the Contractors, and the present condition is alarmingly poor and unsafe for vehicular movement. The PMU needs to make alternative arrangements for the same if the Contractors are not taking due actions.
- *Gaps in providing rehabilitation assistances relating to OSRP Rehabilitation and Resettlement (R&R) Policy Entitlements* The mission was concerned to note gaps in providing rehabilitation assistance to the affected agricultural land owners, titleholder shopkeepers, and displaced families on account of differing interpretations of relevant provisions in the OSRP R&R Entitlements Framework. The PMU has discussed some of these issues at the state level empowered committee, minutes of which have been shared with the Mission. The mission has reviewed these minutes but is not happy with some of the interpretation made therein, as these do not appropriately capture the safeguards issues involved as per the agreed policy framework. Please refer to social safeguard section for further details.
- *Procurement Delays.* The mission expressed its serious concerns over the continued delays in award of consultancies. The mission informed that the delay in decision making and award within the bid validity could have serious consequences should the successful bidder/firm refuses to extend the bid /proposal validity. Furthermore, the mission informed that as per the Procurement Guidelines of the Bank, the award details are required to be published on UNDB within two weeks of receiving the Banks “no objection” to the recommendation of contract award. The mission requested Government of Orissa and PMU to comply with these requirements.

8. **Other Implementation Issues.**

- **Contract P-03.** The Mission was informed that the OWD has completed the final measurement of the works carried out in the terminated contract P-03, in which the Contractor has preferred not to participate. The OWD needs to finalize the financial transaction with the Contractor. Although the September 2011 Bank Mission had advised OWD to make arrangement for Maintenance and Safety of the Road (in absence of the Contractor), no such arrangement has been made until now. The same needs to be arranged urgently for the period until the new Contractor is mobilized.
- **Proposed Project Restructuring, and Preparation for Phase II of the Road Corridor Improvement Component.** The Mission was informed that the GoO is considering proposing major changes in the Road Corridor Improvement Component of the Project. The GoO is required to urgently write to the Department of Economic Affairs (DEA) of the Government of India (GoI) detailing its proposed Restructuring of the Project, for endorsement by the DEA and onward submission to the Bank. Concurrently, OWD is required to expedite preparation for the Phase II activities of the Road Corridor Improvement Component.

IV. ROAD CORRIDOR IMPROVEMENT COMPONENT

9. **Physical Progress and Overall Status.** The mission visited all the three works contracts undertaken in Phase-I of the Component, and noted very slow progress on all contracts. Contract P-03 was terminated on September 15, 2011, the progress was 10.6% at termination. Based on the information provided to the Mission, the cumulative progress is 25.8% and 16.9% (15.8% as per draft IPC at end-Jan 2012 provided by the RE) for P-01 (Bhawanipatna-Kharia) and P-02 (Chandabali-Bhadra-Anandpur) respectively, as on January 31, 2012. Monthly progress of P-01 during November 2011 to January 2012 has been 1.8% on average, whereas P-02 progressed at abysmally low 0.6% per month on average during November 2011 to January 2012.

10. Although P-01 and P-02 contracts started on February 20 and February 3, 2009 respectively, OWD was unable to hand over unencumbered site to the Contractors. OWD and the Contractors then agreed on revised Milestones considering likely availability of various road stretches. OWD handed the full revised 1st Milestone stretches on May 4, 2011, to P-01 (28.5 kms out of the total contract length of 68 kms) and progressively by May 31, 2011, to P-02 (34.71 kms out of the total contract length of 95 kms now reduced to 87.5 kms). OWD also handed 50% (12 kms) of the revised 2nd Milestone stretches to P-01 on October 24, 2011, and 17.908 kms of revised 2nd Milestone stretches to P-02 on October 31, 2011. OWD also agreed to Extension of Time (EoT) claimed by the Contractors because of non-availability of unencumbered sites.

11. The Bank Missions have been observing from the start of these contracts that the participation of the Lead Partners of the Joint Venture (JV) Contractors has been absent or very minimal violating the contract. That has very seriously affected the capability of the Contractors to progress the works satisfactorily. The Mission understands that both the ongoing contracts are effectively being run by the Junior Partner of the JVs (which is the same entity for both the contracts), and the resources (money, machinery, materials) are being provided from its head office at Bhubaneswar with very little or no authority of the site Project Managers to arrange resources.

12. It is understood that, during a recent review of Contract P-02 by the PMU, the Management of the Junior Partner of the JV expressed its inability to increase the resources and informed of its intention to arrange additional resources from the Lead Partner. But, during the Mission's field visit, the Lead Partner's Management Representative advised (in presence of the Junior Partner's Management Representative) that it would not provide any resource (no financial support) except technical and contractual support. He also informed that the Contract is being managed by the Junior Partner, and his company has no role in managing it. With 0.6% monthly progress during the working season and no assurance by any of the partners of the JV Contractor to increase resources, the situation of P-02 contract appears to be hopeless. OWD needs to review, and attempt to take actions towards completion of these works within a reasonable time period.

13. **Work Programs.** Planning by both the Contractors is very weak. No Resource-based Work Program exists for any of the contracts. The Mission was presented with a Work Program for P-02 which is a very broad one without any linkage with the resources available with the Contractor and also outdated. In spite of repeated instruction by the REs, the Contractors have failed to submit any updated Resource-based Work Program.

14. **Completion of 1st Milestone and Delay Damages.** As per the information provided to the Mission, P-01 has completed 56% of the 1st Milestone works until January 31, 2012. Major works remaining are bituminous works, structures, and drainage and protection works. As per the Extension of Time granted, 1st Milestone of both P-01 and P-02 is scheduled to be completed by February 28, 2012,

which none of the Contracts will be able to achieve. The mission was informed that in the event of delay beyond the agreed schedule both the Contracts will be subjected to 'Delay Damages'.

15. **Scheduled Completion.** As per the Extension of Time agreed by the parties, P-01 and P-02 are scheduled to be completed by October 28, 2013, and May 28, 2013, respectively. The mission informed that as per Procurement Guidelines, prior no objection is required for substantial extension of time which has not been done. PMU informed that while the issue of extension was discussed in several missions, there is inadvertent miss for not seeking prior clearance of Bank. It was agreed that PMU will make formal request forward for ex post facto clearance as one time exception.

16. **Quality of Ongoing Contract Works.** Quality of works continues to be poor especially of the Structure works (lines, levels, finish, cover to reinforcement, etc) as pointed out by the earlier Missions. At some locations, quality of Bituminous works also noted to be poor (finish/poor joints, riding quality, irregularity at edges, camber/superelevation, hungry surface, etc). Unsatisfactory works should be rejected by the Engineer, and replacement / rectification of those to acceptable standards should be made by the Contractors. As observed earlier, the time gap between various operations continues to be excessive causing damages to the works. Wet Mix Macadam (WMM) are being left open to vehicular traffic without priming and covering with Dense Bituminous Macadam (DBM) thus causing major damages in WMM. Similarly, DBM are being left open to vehicular traffic for long periods causing damages in the DBM. More details are presented in Annexure-3.

17. **Construction Supervision and Quality Control.** Construction Supervision and Quality Control by the REs' teams are much below expectation. The quality of works being produced by the Contractors amply demonstrates the lax supervision by the REs' teams. The Mission observed major shortcomings in following supervision and quality control procedures by the REs' teams. There is need of strict monitoring and required action by the PMU in this respect. If necessary, staff may need to be replaced with more experienced and dedicated staff.

18. The mission was informed at P01 site that the contractors are not following the standard practice of prior Request For Inspection (RFI) on occasions, and also some works are being carried out by the contractors without notifying the REs' team. If it is so, such works are subject to rejection unless found / tested to be satisfying the specification requirements. However, such practice by the Contractors cannot be continued, and the REs should take appropriate contractual action in this respect. The Mission was provided with copy of the RE (P-02)'s a few letters of rejection of works on the ground of non-submission / non-approval of RFIs and/or non-conformity to specifications. Such letters should be written with reference to the contract clause/provision under which such action was being taken by the RE.

19. **Third Party Quality Review.** Third party review through National Institute of Technology (NIT) Rourkela is progressing much behind schedule. The scope of the assignment broadly includes review of (i) Quality Assurance systems adopted by various parties, (ii) Quality of Works carried out, and (iii) Implementation of Environmental, Health and Safety Aspects. NIT carried out the field Audit of P-01 during August 27-30, 2011, report of which was forwarded to the PMU on October 19, 2011. Observations of the Bank team on the said report were received by the NIT team on November 9, 2011, and the NIT's Report of Compliance to which reached the PMU in the last week of January 2012 (it took 2.5 months for NIT to respond). NIT carried out field Audit of P-02 and P-03 during November 11-14 and December 6-9, 2011, but the reports on those have not been received by the PMU yet. During the Mission, the NIT team assured that it would forward those reports to the PMU by February 20 and 1st week of March 2012 respectively, thus taking about 3 months time in preparing the reports after the field audits. The Mission noted that, although the NIT was engaged in July 2011, the 1st round of Audit Reports are still not available in 7 months. The Mission expressed its concern in such inordinately long time taken, and thus the usefulness of such Audits is getting diminished.

20. PMU informed that it has forwarded the Audit Report of P-01 to both P-01 and P-02 sites for taking necessary actions. The Mission suggests that relevant parts of the NIT's Report of Compliance to the Bank's observations on P-01 Audit report may also be forwarded to the contract sites for taking actions.

21. The NIT team expressed, during a joint meeting with the Mission, its full satisfaction on the Quality Assurance System being implemented at the sites. The Mission's observations are however in contrary to the same, as mentioned at paras 16 to 18 above, and also the produced quality of works does not support such finding by the NIT team.

22. **Non-contribution by the Lead Partners of the respective JVs.** As observed earlier, participation of the Lead Partner of the JV Contractors appears to be either absent or minimal in both the ongoing contracts, violating the contracts. There has not been much effort by the OWD to establish this fact documentarily, although the earlier Mission had advised OWD to formally investigate into the participation of both partners in each contract. OWD had however referred the matter to the Law Department of the GoO, and has received the Law Department's opinion / advice in this respect. OWD needs to now take action in this respect. Please refer to Annexure-3 for more details. PMU will share the advice of its Law department and keep the Bank informed of the action taken.

23. **Contractors' Staffing.** Majority of the key staff of the Contractors are not qualified as per contractual requirements and are not approved by the Engineer. This issue is ongoing since the start of the contracts, and needs urgent resolution and application of remedies if the Contractors fail to provide manpower as per contract.

24. **Contract Administration.** Since termination of the contract of the Construction Supervision Consultant (CSC), the OWD is carrying out the Contract Administration and Construction Supervision of the Phase-I civil work contracts with some manpower hired from an agency. It will continue so until the new CSC is mobilized. Contract Administration is continuing unsatisfactorily, as observed by the earlier Missions also. Correspondence and actions by the REs are weak, and not being exercised with reference to the contractual provisions on majority occasions. Such shortcomings are likely to place the Employer / OWD in a weaker position, and may not be able to protect the interests of the Employer / OWD adequately. The Bank had mobilized a Senior Contract Management Specialist who delivered a 2-day training to the OWD's senior staff during February 1-2, 2012. It is suggested that the proposed Contract Management Specialist (see para 7 second bullet therein before), besides assisting the PMU, should assist the REs in contract administration and correspondence. Please refer to Annexure-3 for more details.

25. **Monthly Progress Reports (MPRs).** As the earlier Mission observed, quality of the MPRs produced by the REs' offices is not satisfactory. Quality and contents of MPRs for each works contract are varying and different. Those are not always updated and neither presents the facts correctly at places and fails to include important matters. There is a need of preparation of comprehensive MPRs by each of the REs in an improved standardized format and in a balanced manner. The MPRs are expected to be the main source of information for the Chief Engineer World Bank Project for his project management.

26. **Phase-II of the Component.** OWD is considering replacing the Widening and Strengthening of remaining about 150 kms of Taptapani-J K Pur (Rayagada) State Highway (SH) with Rehabilitation/ Strengthening (followed by 4-5 years of maintenance) of Eight Roads totaling about 375 kms. The Mission advised the GoO to forward its Project Restructuring proposal to the DEA. Assuming that such restructuring might get accepted by the DEA and subsequently by the Bank, OWD needs to expedite survey, investigation, environmental and social screening, and designs of the said eight Roads.

V. PPP ENABLING SUPPORT, SECTOR POLICY AND INSTITUTIONAL DEVELOPMENT, AND IMPLEMENTATION SUPPORT COMPONENT

PPP Enabling Support

27. In view of gaps in the application of the Bank's safeguard policies in preparation of the Public-Private Partnership (PPP) roads, and the government's communication of June 9, 2011, conveying that "OSRP resettlement policy shall not be applied for the PPP roads implementation", the Bank has already communicated its intent to not to support any activity associated with the preparatory work for the PPP component including the Sambalpur-Rourkela road, and the same will be formalized as and when the Project will be restructured.

Institutional Development

28. The ISAP consultants could not be mobilized due to inordinate delays in contract award. There will be a detail review of institutional development activities during an interim mission planned in March 2012.

29. *Orissa - Road Asset Management System (O - RAMS)*. The mission had an interaction with the consultants and PMU cell responsible for Asset Management System consultancy services. The mission also attended a data collection workshop organized by consultants for OWD. The mission was informed that a recent visit of asset management cell to Delhi and Tamilndau has been very successful. The mission discussed key implementation issues affecting these services which need urgent resolution by the PMU. These include – finalization of data collection proposal with CRRRI and consultants, procurement of the COTS as well as procurement of hardware/computers. The mission urges PMU to expedite these aspects at the earliest.

Governance & Accountability Action Plan (GAAP)

30. The mission reviewed the status of the major GAAP elements, particularly the Project-focused Complaints Handling Process, ongoing Project 'public information / disclosure' arrangements and capacity and the performance of the OSRP-centered website operations, and concluded that the overall GAAP implementation progress is **Satisfactory**. Following issues were jointly identified, which require progressive OWD / PMU attention.

31. Under the Right to Information (RTI) / disclosure requirements, the mission was pleased to note that the PMU is disclosing more and more project related information on the OSRP website (e.g., monthly OSRP progress reports until November 2011 and list of PAPs for first milestone of Phase-I roads and their entitlements are now available online). However, information on disqualification criteria for bidders who engage on fraud/misrepresentation is still not on the website. The mission noted that the GOO website has information on blacklisted bidders² and suggested that there could be link to this through the OSRP website. It was agreed that the criteria along with the link of banned contractors would be made available on the OSRP website by March 15, 2012.

32. The mission was also concerned that very few training workshops have been conducted on RTI Act for OWD staff since February 2010. The mission recommended that the PMU and OWD should take

² http://orissa.gov.in/portal/Black_Contractors/bannedcontractors.pdf

up the issue of obtaining further such RTI Act (RTIA) training more proactively, by contacting the Orissa State Information Commission that is mandated to conduct such training annually, and/or possibly inviting trainers from the AP Centre for Good Governance and/or the Administrative Staff College of India (ASCI) to conduct such training in Orissa. The PMU has indicated that such training is scheduled to be now conducted on March 15, 2012.

33. While the online Complaint Handling System (CHS) that was approved by GOO last year was successfully tested by the National Informatics Center (NIC) in September 2011, its hosting and full operation online is still pending subject to an NIC security audit. This action has been pending for a long time now and the mission urged the PMU to enhance its efforts to take this up with the NIC to expedite the security audit. In this regard, the mission also met with the consultant who is developing the CHS, whose contract is slated to end by February 2012 and urged the consultant to also follow up with the NIC so that the hosting of the CHS and subsequent training to the PMU officials on the same is not unduly delayed. It was agreed that the security audit and hosting of the CHS on the OSRP website would be completed latest by March 2012. The mission also agreed that the consultant's contract may now need to be extended by at least 6 months post February 2012 to enable them to train the PMU officials on both website and CHS maintenance.

34. The mission was pleased to note that all OSRP-related complaints have now been transferred from the existing manual register(s) into a computerized system for easy retrieval and monitoring. The mission noted that most complaints pertain to R&R or entitlement issues, which appear to have been resolved. However, the mission still urged the PMU to disseminate information about the Grievance Redressal Committees (GRCs) and procedures for grievance redress widely through the website, implementing NGOs and other mechanisms as laid out in the disclosure policy of the project. Also, given that all complaints can now be easily classified through the electronic system, the mission urged the PMU to conduct an analysis of the complaints to identify issues that may need to be resolved at a systemic level. In addition, the mission also suggested that the statistics pertaining to both complaint handling and RTI Act requests should be made available on the website and the monthly progress reports to the Bank.

35. The mission noted with concern that essential socio economic baseline data collected over 2009-2010 by OWD field units along project corridors for future OSRP monitoring / evaluation purposes is still awaiting compilation in PMU. This is needed for various OSRP monitoring and evaluation purposes (as per the Project Agreement). The PMU needs to finish this task (now with the assistance of the Road User Satisfaction Survey - RUSS consultant) by end-March 2012.

36. As the Project is getting close to its mid-term stage, the mission and the OWD agreed that it is now becoming timely for the ISAP Cell to convene an OWD meeting(s) aimed at reviewing the GAAP matrix (established in 2008) to ensure it still reflects ground realities and priorities in the Governance and Accountability (G&A) field relevant to the Project and the OWD, and based on such a review, to further evolve targets and actions that may be more relevant, actionable and effective in the remaining project period. This 'GAAP review / update' initiative should be undertaken by end-March 2012.

37. As a follow-up to the first workshop on quality and vigilance aspects conducted jointly by the OSRP and the Research Development and Quality Promotion Wing (RDQP) of the OWD, the mission had some discussions with the CE, RDQP on organizing a similar workshop this year, possibly this April. The RDQP informed the mission that about 500 engineers were given training in various aspects in December 2011. The mission was pleased to note that the OWD and OSRP are keen on expanding the scope of the workshop this year to include contractors and possibly experts from other states that may have tackled issues of relevance. In this regard, the mission offered to facilitate such knowledge transfer

(once the pertinent issues are identified through an analysis of works in the last 5 years in OWD) through its counterparts on other Bank funded state road projects such as Andhra Pradesh, Karnataka, and Gujarat.

VI SOCIAL SAFEGUARDS AND MANAGEMENT

38. The mission discussed regarding social safeguards issues raised during the two previous missions of September and December 2011 and identified four critical areas requiring urgent attention: (a) updating land acquisition (LA) and resettlement and rehabilitation (R&R) status with required data; (b) clarifying issues relating to OSRP R&R policy entitlements; (c) updating and disseminating functioning of the grievance redress mechanism (GRM); (d) independent social safeguards monitoring and evaluation; and (e) undertaking preparatory work for Phase-II roads.

39. **Updating LA and R&R Status:** The PMU was requested to update the status of LA with information regarding land holdings/plots notified, compensated for and acquired, status of R&R with village-wise information on structures affected, compensated for and resettled, and status of impediments yet to be cleared for the Phase-I roads in formats shared with the PMU during September 2011. The PMU should clarify the process for certifying the completion of LA and R&R activities prior to the site handover for civil work as required by the legal covenants.

40. **Issues Relating to OSRP R&R Policy Entitlements:** There have been gaps in providing rehabilitation assistances to the affected agricultural land owners, titleholder shopkeepers, and displaced families on account of differing interpretations of relevant provisions in the OSRP R&R Entitlements Framework. The PMU has discussed some of these issues at the state level empowered committee, minutes of which have been shared with the Mission. The mission has reviewed these minutes and clarifications have been provided below including pending issues, which need to be resolved at the earliest.

- i. The OSRP R&R Entitlements Framework provides for payment of rehabilitation grant to agricultural land losers at Indian Rupees (INR) 50,000 per acre of un-irrigated and INR 100,000 per acre of irrigated land with a minimum of INR 2,500. This has not been disbursed supplementary to the LA process and needs to be completed in a time bound manner.
- ii. The R&R Framework provides for the affected land and structure owners in the commercial category: an alternate site of 100 sq.mtr. or cash equivalent of INR 10,000; and construction assistance of INR 25,000; or the provision of an alternative shop/workplace. In the changed market scenario, the fixed value assistance of INR 10000 in lieu of an alternative commercial plot of 100 sq. mtrs. appears redundant as a commercial plot of 100 square meters size is no more available to buy for INR 10,000 in the market. It is, therefore, advised to offer an alternative site, shops as promised, or cash equivalent in lieu thereof at existing market rates. This step is critical to ensuring equitable provision of R&R assistance to the losers of comparable land and structures, residential or commercial, at similar locations.
- iii. With regard to eligible residential and commercial squatter families displaced losing one third or more of their built structure, the R&R Framework provides for (x) alternate housing from the government housing program/shopping place, or equivalent cash in lieu thereof; or (y) compensation for the structure and an alternate site or cash in lieu thereof. These provisions aimed to ensure sustainable resettlement of the displaced squatters with the provision of tenure. OSRP has only provided structure compensation to the displaced squatters so far without giving any alternative site/or site allowance on the grounds that they have (a) rebuilt structures on the

remaining plots, or (b) have occupied adjacent public plots to build their new structures. In this regard, the PMU is advised the following:

- In case of (a) and (b), provide a report with Project Affected Person (PAP) names where resettlement on the remaining or adjacent plots has already taken place; and ensure regularization of such new shops and houses;
 - Provide a list of displaced households/shopkeepers that have not been able to construct house/shop until now, and allot to them alternative plot of minimum size; OR provide upfront cash allowance in lieu thereof at the current market price, OR, the difference of the compensation already paid and the cash allowance payable in lieu of an alternative shop or house (see x above).
- iv. The OSRP R&R entitlements matrix has to be updated with completing the bi-annual revision of the entitlements for all the Phase-II roads.

41. **Functioning of the Grievance Redress Mechanism (GRM):** The Project has a multi-stage GRM proposed to function at village, district, Rehabilitation and Periphery Development Advisory Committee (RPDAC), PMU and state levels. In practice, grievance redress seems to have been managed by the PMU through its complaints handling mechanism. However, in view of the persistent lack of public awareness regarding the GRM, the PMU is advised the following: (i) document how the GRM has functioned so far at each level with data on number of cases registered and resolved; (ii) simplify the GRM, and disseminate the procedure and contact information at the village level through public notification.

42. **Independent Social Safeguards Monitoring and Evaluation:** The Project provides for “monitoring by RPDAC, and six-monthly social audits to be carried out by an external agency hired by OWD” (page 61 of PAD). In this context, the PMU is advised to: (i) document and share a Note on how the Monitoring and Evaluation (M&E) process has been carried out so far and undertake an interim external review of the quality of LA and R&R implementation and outcomes thereof. The Terms of Reference (ToR) for such a review was provided in the Bank mission note of November 2011.

43. **Preparatory Work for Phase-II Roads:** The updating of the resettlement action plan (RAP) for Jagatpur-Chandbali road and social screening for other proposed road works was discussed and the following steps were agreed: (i) The PMU will mobilize a team comprising a Resettlement Specialist and a groups of few surveyors and engineers to review PAP impact data and update the RAP for the Jagatpur-Chandbali road. The PMU will organize consultations at market places and at thick residential areas to finalize the RAP explaining to the people the proposed road work, its benefits, adverse impacts, proposed impact minimizing and mitigation measures, and the resettlement framework. The PMU with the help of its staff will carry out social screening for other road rehabilitation/strengthening works.

44. The rating is being maintained at “**Moderately Unsatisfactory**” due to pending issues as described above. The mission suggest PMU to resolve these issues to the satisfaction of the Bank at the earliest, pending which the rating may be downgraded to Unsatisfactory level including other implications in accordance with the legal covenants.

VII ENVIRONMENTAL MANAGEMENT AND SAFEGUARDS

45. The mission focused on the following: (a) review of Environmental Management Plan (EMP) implementation to ascertain the status and progress made on worksite safety and environment safeguards for Phase I works and; (b) assessment of preparatory activities for both upgrading and rehabilitation

works proposed under Phase II; (c) pre-construction activities, particularly tree cutting and relocation of water sources like hand-pumps for both Phase I and Phase II works; (d) compensatory afforestation/plantation works and; (e) institutional aspects. Following paragraphs summarize the key mission findings.

Phase I works

46. *Implementation of EMP by the Contractor:* The mission assessed the adequacy and quality of EMP implementation in the Project to ascertain the status and progress made on safety and environment safeguards, one of the eight actions agreed as part of the action plan related to the lifting the suspension of loan disbursements. In this context, the mission visited all the three Phase I road contracts and had detailed discussions with the officers of the PMU at Bhubaneswar, Project Implementation Units (PIUs) at the field (including REs and supporting consultant staff) and Contractors on P01 and P02.

47. This assessment included a review of key activities that have to be carried out by the Contractors, which include: (i) deployment of qualified and experienced environment and safety officers; (ii) compliance with regulatory norms/requirements; (iii) traffic management and safety arrangements; (iv) workers' safety arrangements; (v) provisions for first aid and emergency response; (vi) debris/waste management; (vii) compliance with EMP stipulations related to management of material sources; (viii) pollution monitoring and; (ix) reporting/documentation.

48. *Environmental Management:* The mission observed improvements in both ongoing contracts and noted that many actions agreed during previous missions have been either been completed or have shown improvements. This includes: (a) mobilization of Environment and Safety Officers on P02; (b) obtaining of required regulatory clearances/ permissions/consents for operational camp and plant sites (such as NOC/Consents from State Pollution Control Board - SPCB; license/permit for crusher operation and; Diesel Pump related permits); (c) re-use/clearance of debris/construction waste; (d) borrow area management, including rehabilitation (where barren/ undulating lands have been converted into farm lands or ponds for community's use); (e) improved housekeeping at camp/plant sites; (f) preservation of trees on P02; (g) provision of temporary waterways for ensuring drainage during construction; (h) initiation of pollution monitoring and; (i) improved reporting/documentation.

49. *Worksite Safety Management:* The mission noted with concern that there has been no improvements on implementing Traffic Safety and Management Plans following the Indian Roads Congress (IRC) guidelines. Proper signage at diversions and continuous dust control measures must be ensured, including through application of contractual remedies.

50. *Specific Actions Required on Work Sites of P01 and P02:* Some key actions that have not yet been fully complied and need focused attention include: (a) enforcement/strengthening of worksite safety management measures (including signage, dust control, and delineation) in both P01 and P02; (b) ensuring continuous availability of Environment and Safety Officer in P01; and (c) regular pollution monitoring. The mission also reiterated that 'documentation' pertaining to EMP compliance (including timely renewal of statutory consents/permissions) should be submitted/maintained/updated regularly as per requirements laid out in the EMP.

51. Considering the early signs of improvements in over-all environment management on the two on-going works (P01 and P02), the rating is being upgraded to 'moderately satisfactory'. However, the mission repeatedly emphasized that it is important to 'sustain' this improvement in EMP implementation (including documentation) and if worksite safety management do not improve, there is a risk of this rating being downgraded again.

52. *Specific Action Required on Contract P03:* The mission once again reminded OWD/PMU to identify/prepare the detailed list of pending actions related to environment management, prior to final settlement of the payment. Some such key acts/activities have already been listed in the previous aide

memoire but limited action has been taken and the list/report to this effect is still awaited by the Bank. The mission reiterated that this action should be completed at the earliest.

Phase II works

53. *Jagatpur-Chandbali:* The PMU informed that the design review, both from the drainage and safety perspective has been completed and the Environmental Impact Assessment (EIA) and corridor-specific EMP prepared earlier are being currently updated. It was agreed that these documents will be shared with the Bank by February 29, 2012. Based on the learning from the experience of Phase I works, it was also agreed that the certain environmental mitigation and enhancement measures that were originally a part of civil works will now be executed through the OWD's local divisions to enable timely implementation of such measures (assured to local communities by the Project).

54. *Rehabilitation/Strengthening Works:* The PMU informed that eight (8) roads have been short-listed from the core network for the proposed rehabilitation/strengthening works under Phase II. An Environment Screening exercise is being initiated (the format was provided along with mission note in November 2011) to identify roads without any critical environment/wildlife issues. A report summarizing the results from this exercise would be shared with the Bank for safeguards clearance. The draft report submission is expected by March 15, 2012. Based on findings of the screening exercise, further preparation (as outlined in the November 2011 mission note) would be carried out.

55. *Institutional Aspects:* The mission was informed that PMU has already taken the required action towards the formation of Independent Environmental Committee constituting officials/experts from Department of Forests/Wildlife Wing and State Pollution Control Board and Environmental Management Cell of the OWD/PMU. The first round of monitoring and evaluation is expected to commence soon, and a report to this effect will be shared with the Bank by March 31, 2012.

VIII FINANCIAL MANAGEMENT

56. *Disbursement Status:* Against the original Loan allocation of USD 250 million, the disbursements as on 27-Jan-2012 stands at USD 20.069 million reflecting approx. 8.03% disbursement [status unchanged since May-2011]. The funds disbursed to date reflect (a) PPF expenditures of USD 0.547 million, (b) IBRD Front end fee of USD 0.625 million, (c) reported and documented project expenditures up to 30-Jun-2011 amounting to USD 17.210 million, and (d) advances against forecast and to be adjusted against project future expenditure amounts to USD 1.686 million.

57. Post the suspension of the disbursements under the project, expenditures aggregating to INR 30.2658 crores [for the three quarters ended 31-Mar-2011 and 30-Jun-2011], equivalent of USD 6.097 million have been adjusted with the Advances leaving a balance of USD 1.686 million in the Designated Account;

58. The Interim Un-audited Financial Reports (IUFs) for the quarter ending 30-Sep-2011 has been received and is presently being reviewed by the Bank. This entails documentation of expenditures for INR 76.874 million [equivalent of approx. USD 1.568 million] to Controller of Aid Accounts and Audit (CAAA). This however, does not alter the disbursement profile, as the project stands suspended with effect from 27-May-2011. On documentation of the aforesaid expenditure claim, the amount of unadjusted advances shall stand at INR `5.758 million [equivalent of approx. USD 0.117 million].

59. *Fund flows and Project Expenditures:* Against the original budget of INR 150 crores provided in the State Budget for the year 2011-12, PMU, OSRP surrendered INR 50 crores and have reported expenditures of INR 54.516 crores up to 29-Jan-2012. For the year 2012-13, GoO has proposed an annual budget provision of INR 105 crores for the Project. On the overall, fund releases by GoO have been reported to be timely and adequate.

60. As per the IUFs for the quarter ended 30-Sep-2011, total project expenditures during the quarter have been reported as INR 10.280 crores (with Bank's share being INR 7.687 crores) and

cumulative expenditures for the project as INR 199.967 crores (with Bank's share being INR 90.032 crores). The financial progress (in INR) as on 30-Sep-2011 is summarized as follows:

(in `)

| | For quarter ended 30-Sep-2011 | | | Cumulative till date | | |
|---|-------------------------------|-------------------|--------------------|----------------------|----------------------|----------------------|
| | Bank Share | GoO Share | Total | Bank Share | GoO Share | Total |
| Road Improvement Component | 43,441,600 | 10,860,400 | 54,302,000 | 806,057,118 | 400,923,950 | 1,206,981,068 |
| PPP Component | - | - | | 11,575,974 | 5,209,190 | 16,785,164 |
| ISAP and Operating Costs | 3,117,601 | 779,399 | 3,897,000 | 27,223,905 | 11,553,995 | 38,777,900 |
| Rehabilitation & Resettlement | 30,315,200 | 7,578,800 | 37,894,000 | 55,463,366 | 46,951,803 | 102,415,169 |
| LA, utility shifting and other non eligible exp | - | 6,711,000 | 6,711,000 | - | 628,002,956 | 628,002,956 |
| Total | 76,874,401 | 25,929,599 | 102,804,000 | 900,320,363 | 1,092,641,894 | 1,992,962,257 |

Some of the key points of note and observations are as follows:

- The cumulative expenditures of INR 80.606 crores (Bank's share) reported under Roads Improvement Component relate to (a) mobilization and material advances paid to contractors for Packages 1, 2 & 3; (b) payments to construction supervision consultants; (c) expenditures on fixing of boundary stones; and (d) payments made against running contractor bills for Packages 1, 2 & 3;
- Expenditures of INR 1.158 crores (Bank's share) reported under PPP Component relate to payments to PPP transaction advisor;
- Expenditures of INR 2.722 crores (Bank's share) reported under ISAP and Operating Costs Component relate to payments for (a) consulting services for establishment of asset management system; (b) training of OWD staff; (c) consultancy fee to social advisor & environment audit; (d) contractual salaries for PMU staff; (e) hire of vehicles; (f) office maintenance; and (g) procurement of office equipment etc.
- Expenditure of INR 5.546 crores (Bank's share) reported under Rehabilitation and Resettlement Component relate to payments for (a) sanctioned payments made to Project Affected Persons (PAPs); and (b) contractual payments made to NGOs.

61. **Reporting of Expenditure on Interim arrangements for construction supervision of Ist year Roads:** As per the agreement with the Bank, a separate worksheet has been added in the IUFRRs to report the expenditures on interim arrangements for construction supervision of Ist year Roads. As reported by the project, expenditures totaling to INR 1.520 crores has been reported for FY 2010-11 and INR 2.174 crores for FY 2011-12 [April - Sep 2011]. These expenditures comprise of salaries, logistical support, office rentals, computers etc. required for the dedicated supervision team offices and their operations at the three work locations. A provision of INR 4 crores has been made in the State budget for FY2011-12 for the purpose.

62. **Settlement of terminated CSC Account:** The mission was informed that based on the documentation provided, OWD has completed the process of determining the amount payable to the terminated CSC on final settlement of the contract. The terminated CSC's representatives have since visited OWD offices and have requested for additional time up to mid-March 2012 to provide the necessary supporting documentation for the direct expenditures claimed by them. The mission has requested that the Bank be kept informed on the developments with respect to the final settlement.

63. **External Audit:** The revised audit report for FY 2010-11 and the additional information requested by the Bank has been submitted and considered acceptable by the Bank.

64. **Adequacy of Financial Management (FM) Arrangements:** The FM system operates well and needs only moderate supervision and Bank input. Several project level contractual issues have been observed – these however, do not prevent the system from providing timely and reliable information to manage and monitor implementation of the Project. Based on the above and the resolution of the audit related issues, the FM performance is upgraded to Satisfactory (S).

IX PROCUREMENT

65. **Delay in selection of consultants:** The mission expressed its serious concerns over the continued delays in award of consultancies for ISAP and Construction Supervision of the balance Civil Works in the three ongoing Phase-1 Contracts, even though Bank's No objection was issued on Dec 24, 2011 and Jan 27, 2012 respectively. *The mission informed that the delay in decision making and award within the bid validity could have serious consequences should the successful bidder/firm refuses to extend the bid /proposal validity.* Furthermore, the mission informed that as per the Procurement Guidelines of the Bank, the award details are required to be published on UNDB within two weeks of receiving the Banks "no objection" to the recommendation of contract award. The mission requested PMU to comply with these requirements.

66. **Termination of Contract for Package P-03:** The mission expressed its concern over delay in further process for bidding and award as a result of termination of the contract. The mission also requested PMU to expedite its response to Bank's letter of Oct 20, 2011.

67. **Procurement and Contract Management Training:** The Bank staff conducted two days workshop from Jan 31-Feb 01, 2012 on Procurement in Bank Financed Projects and Contracts Management for the PMU and the officers from GoO. This workshop was well appreciated by PMU and GoO officers. The Bank staff will continue to arrange such workshops at intervals on need basis.

68. **Complaint against NGO (KASS):** The mission was informed that as the complaint pertained to Fraud and Corruption (F&C) issues, Vigilance Department of GoO carried out the investigations. Based on the investigations, PMU has recommended termination of contract to the GoO. However, approval from GoO is awaited which is being followed up by the PMU. PMU will keep the Bank informed on this.

69. **Procurement Rating:** In view of (a) delays in decision making leading to delay in award of two consultancies linked with lifting of suspension, (b) no appreciable action/progress on bidding and award for balance works of Package P-03 since termination of contract, and (c) no further action on bidding for Phase-II works, the mission downgraded the Procurement Rating to 'Moderately Unsatisfactory'.

X LOAN COVENANTS

70. The mission noted with concern that several legal covenants are out of compliance and need urgent attention by the PMU.

XI IMPLEMENTATION PROGRESS RATINGS

71. **Overall Outlook for the Project.** The mission noted that the state government and PMU have been able to substantially comply with and achieve decent pace of progress on actions to lift suspension under their control, although with substantial delays. On the other hand, the progress on all the actions that require enforcement of contractual conditions by the Government and contractors' own effort has been very slow, to the point of being a virtual standstill. For instance, in P-03, only 11% progress was made and since the contractor has terminated the same in September 2011, it would take at least nine months before the new contractor is engaged and resumes work. In P-01 and P-02, too, the work has progressed at a very slow pace but, in relative terms, P-01 seems to be doing slightly better with an average monthly progress of 1.5% as compared to just 0.5 % in P-02. Reportedly, this slow progress is

mainly attributable to the severe financial crunch being faced by a local firm which is a common partner in all the three JVs and, in the absence of lead partners, has been and continues to be the principal force in implementation of all the three contracts.

72. In summary, the task team’s assessment is that under the prevailing scenario, the disbursement outlook of the project looks grim - 35% of the loan (phase I) has been a virtually standstill due to very slow progress on both ongoing packages and the remaining 65% (phase II) procurement has yet to begin indicating that for the coming year there will be hardly any disbursements and the project is unlikely to achieve its Development Objectives. The implementation progress rating of the Project therefore continue to be rated as **Unsatisfactory**. Following is the Mission’s assessment of Components and Management.

Table 2: Mission’s Assessment of Components and Management

| Field | Rating | |
|---|--------------|----------------|
| | Last Mission | Current Rating |
| Road Corridor Improvement Component | U | U |
| PPP Enabling Support, Sector Policy and Institutional Development, and Implementation Support Component | U | U |
| Environmental Safeguard Management | U | MS |
| Social Safeguard Management | MU | MU |
| Project Management | U | U |
| Financial Management | MS | S |
| Procurement quality/timeliness | MS | MU |

HS highly satisfactory, S satisfactory, MS Moderately Satisfactory, MU Moderately Unsatisfactory, U unsatisfactory, NA not applicable.

73. The Bank will increase its supervision efforts and undertake monthly interim missions for next four months.

Annexure-1

Status of the Actions Required for Lifting Suspension of Disbursement by the Bank

| Sl. No. | Required Action by the GOO | Findings by the Mission | Remarks |
|---------|---|--|---|
| (a) | In each of the Phase-1 contracts, completion of Pre-Construction Activities and Handing Over Encumbrance-free Land for all stretches under the 1 st Milestone and at least 50% stretches under the 2 nd milestone | Target for milestone I has been substantially achieved in P01 and P02 but not in P03 (80%). Milestone-II target (50% length encumbrance-free) has been substantially completed in all three contracts and the progress is satisfactory to complete the balance. | Substantially Complied |
| (b) | In each of the Phase-1 contracts, achieving a minimum of 20% progress (total value of certified work done against the contract value), excluding advances | The mission noted that despite the continuing improving situation on completion of pre-construction activities, the rate of progress in last six month (peak working season) has been extremely slow – 1.5% per month on P01 and 0.5% on P02. This situation is not tenable and is a serious risk going forward for achievement of project development objective and implementation progress. As on January 31, 2012, the cumulative progress achieved is about 26% in P-01(Bhawanipatna-Khariar), about 17% in P-02 (Anandpur-Bhadrak-Chandbali), and about 11% in P-03 (Berhampur-Taptapani). No further progress is expected in P-03 in near future, as the same was terminated on September 15, 2011. | Not Complied High Implementation Risks Exist |
| (c) | Ensuring that civil works are being executed with due regard to Quality, Safety and Environmental Safeguards | The mission noted that rectification of defective works has been started, and there have been improvements in ongoing works. However, the worksite safety management is sub-standard. On EMP implementation, while some improvements have been noted in the field, specific actions on institutional arrangements (particularly with regard to deployment of Environment and Safety Officers, documentation/reporting, and pollution monitoring by the Contractors) are still pending | Partially Complied– Significant Risks exist |
| (d) | Applying appropriate legal/contractual Remedies to ensure active Participation by the Lead JV partners in all three contracts | On the request of the Orissa Works Department (OWD), the Law Department of the Government of Orissa (GoO) has given its opinion on rights, duties and liabilities of individual partners of the Joint Ventures and suggested actions to ensure participation of the Lead Partners. The OWD is now required to take necessary actions. | Not Complied |
| (e) | Implementation of Independent Third | Independent Third Party Reviewer has been mobilized. | Complied |

| Sl. No. | Required Action by the GOO | Findings by the Mission | Remarks |
|---------|---|---|----------|
| | Party Review of the Quality Assurance System and Quality of Works including Construction Zone Safety | | |
| (f) | Full-fledged Staffing of the dedicated Road Asset Management Cell, Institutional Strengthening Cell and IT-ICT-MIS Cell in OWD | Cells have been created and have been staffed. | Complied |
| (g) | Awarding of Contract for the Consulting Services for the Construction Supervision of the balance Civil Works in the three ongoing Phase-1 Contracts | Bank conveyed No Objection for award on Jan 27, 2012 after receipt of clarifications from PMU on Jan 27, 2012. Contract has been awarded on March 12, 2012 with substantial delays. | Complied |
| (h) | Awarding of Contract for the Consulting Services for the Orissa Road Sector Institutional Development | Bank conveyed No Objection for award on Dec 24, 2011 after receipt of clarifications from PMU on Dec 21 2011. Approval from Govt of Orissa has been received with inordinate delays. The contract is being signed on March 16, 2012 | Complied |

Action Agreed during the Mission**(In addition to the four month action plan submitted by GoO, attached to Management Letter)**

| No. | Action Required.... | Agency | By Date |
|--|--|--------------------|-----------------|
| Project Management and Civil works | | | |
| 1 | Completion of rectification / replacement of unsatisfactory quality works. | PMU/Engineer | Immediate |
| 2 | Complete reports for 1 st round of quality audit, take all rectifying actions, complete 2 nd round of quality audit for P-01 and reporting of the same | PMU / NIT Rourkela | Mar 31, 2012 |
| 3 | 'Engineer' to confirm with details that contractors on P01 and P02 have mobilized key professionals as per contract | PMU | Mar 31, 2012 |
| 4 | Finalize and submit to the Bank, proposal and arrangements for implementation of approaches to Tel Bridge | PMU | Mar 31, 2012 |
| IS & GAAP Matters | | | |
| 1 | Security audit of the CHS system and hosting online (on OSRP website) | PMU | Mar 15, 2012 |
| 2 | Training of PMU staff under RTIA | PMU | Mar 15, 2012 |
| 3 | Uploading of information on disqualification of bidders and related links, complaint handling and RTIA related statistics on OSRP website | PMU | Mar 15, 2012 |
| 4 | Ensure Compilation of collected baseline project data along OSRP corridors at PMU | PMU | Mar 31, 2012 |
| 5 | Convening of the ISAP cell to update the GAAP matrix | ISAP Cell | Mar 31, 2012 |
| Environment Management and Safeguard Issues | | | |
| 1 | Ensure contractor improve/strengthen Worksite Safety Management | PMU | Continuous |
| 2 | Ensure contractor deploy Environment and Safety Officer for P01 | PMU | At the earliest |
| 3 | Prepare list of pending activities prior to settlement of final bill for P03 | PMU | At the earliest |
| 4 | Submission of updated/revised EIA and EMP for Jagatpur-Chandbali Road | PMU | Mar 31, 2012 |
| 5 | Prepare/submit Environment Screening Report for identified Phase II new Roads | PMU | Mar 15, 2012 |
| Procurement | | | |
| 1 | Submit formal request forward for ex post facto clearance as one time exception for time extension of both P01 and P02 | PMU | Mar 31, 2012 |

| Social Development Issues | | | |
|----------------------------------|---|-----|----------------|
| 1 | Review/Update Social Assessments/RAP and forward relevant documents / reports to the Bank | PMU | March 31, 2012 |
| 2 | Provide update on LA, RR, and Impediments | PMU | Mar 31, 2012 |
| 3 | Provide pending Entitlements | PMU | Apr 30, 2012 |
| 4 | Update Entitlements Matrix for Phase-II roads | PMU | May 2012 |
| 5 | Simplify and Disseminate Information regarding GRM | PMU | Mar 31, 2012 |
| 6 | Initiate independent safeguards review | PMU | Mar 31, 2012 |
| 7 | Mobilize team and start updating RAP for Jagatpur-Chandbali road | PMU | Mar 31, 2012 |
| 8 | Complete Social Screening for Phase II roads | PMU | May 2012 |

Additional Observations relating to Road Corridor Improvement Component

1. **Approaches to Tel Bridge.** CWPRS has recommended constructing circular foundations and substructures for the new Bridges to be constructed in the Approaches to Tel Bridge, in order to take care of little oblique water flows. In addition, Project Management Unit (PMU) informed that it proposes to make little modifications in the approach alignments, in order to continue traffic movement through the existing alignment during the construction of the new approach alignments. OWD now needs to urgently revise the designs accordingly.
2. **Cross-drainage (CD) Structures.** There is ample scope for speeding up on these. Wherever feasible and land is available for constructing diversions, construction of CD structures should be taken up on 2nd Milestone and 3rd Milestone stretches in addition to those remaining in 1st Milestone stretches. That would help improve the cash flow situation of the Contractors as well as help in accelerated progress of road works in such stretches.
3. **Quality of Ongoing Works.** The finishes and workmanship of the structure works continues to be very poor. The Mission noted the structural components out of plumb, levels, and alignment, non-uniform surfaces, hungry concrete surfaces / honeycombing, poor edges, shuttering joint marks, concrete protruding out at shuttering joints, exposed reinforcement, less than required cover to reinforcement, etc. The surface defects are being covered with plastering and cement wash. The mission suggested the Contractors to focus on horizontal and vertical alignments and levels, quality of shuttering plates and joints, alignment of shuttering plates, and reinforcement placing, besides on concreting. The REs' teams should mandatorily make thorough check of the alignments, levels, shuttering, reinforcement cage, etc, prior to concreting, as standard practice, and concreting should be done only after approval by the REs' team. There has been some attempt in P-01 to improve the quality of structure works, but still much further improvement are required in P-01 to produce satisfactory quality structure works.
4. The Mission noted poor quality bituminous works with respect to poor / visibly prominent longitudinal joint at the centre of the Bituminous Concrete (BC), irregular surface / finish of BC at some places, not properly finished / hugely hungry surface of BC near centre at places, in P-01, and poor / visibly prominent longitudinal joint at the centre of BC, poor riding surface of BC in some stretches, non-uniform superelevation in both BC and Dense Bituminous Macadam (DBM), poorly laid edges of DBM in superelevated sections, in P-02. The Mission also noted the surface texture of DBM in P-01 appeared to contain too much fines. Even if the present DBM mix satisfies all specification requirements, attempt may be made to use coarser materials subject to satisfying the specifications.
5. **Planning and Execution of Pavement Works.** Prime Coat is not being laid over Wet Mix Macadam (WMM) within couple of days as required, and being laid just prior to laying Tack Coat and DBM. That is not correct. Prime Coat is required to be laid over WMM within couple of days of laying top layer of WMM when the WMM layer has set and the top has reasonably dried, in order to stabilize and protect the WMM.

6. WMM is getting damaged by vehicular traffic and weather conditions because of allowing vehicular traffic over it for long period. Vehicular traffic should not be allowed to ply over WMM, and WMM is required to be covered with DBM at the earliest. All damaged WMM should be suitably rectified / re-laid and primed before laying DBM.
7. Similarly, vehicular traffic is being allowed over DBM for long period without overlaying with BC. DBM is thus getting damaged by running traffic and weather conditions. DBM is required to be covered with BC at the earliest, to enable the full pavement structure to carry the traffic loads. Major damages in DBM should be suitably rectified (not by a thin layer of DBM) prior to laying BC. Minor damages in DBM like irregularity in levels may be rectified through BC layer.
8. The pavement works should be planned and executed in such a way that all pavement layers are quickly built up in whatever stretch the pavement works are taken up, instead of leaving a lower / intermediate layer open to traffic for long. The Contractors may consider building the pavement up to DBM in half width, thereafter build the other half, and then lay the BC over the full width without delay.
9. **Traffic Management and Road Safety.** Safe traffic management along the contract roads continues to remain poor. The Mission noted some freshly made 'Diversion' boards temporarily placed at some locations, obviously only for the purpose of displaying during the Mission's field visits. Such boards are not made and placed as per the Indian Roads Congress (IRC) guidelines. There is practically complete absence of barricading the construction zones suitably. There is huge danger of accidents especially during the dark hours. Presently the accidents are avoided because of cautious driving by the road users. There is practically no attempt by the Contractors to provide a safe passage to the road users. Besides levying penalty for non-conformity of traffic safety measures, the Contractors should not be allowed to carry out works at locations not having satisfactory traffic safety measures. The Resident Engineers (REs) should notify the Contractors in advance wherever satisfactory traffic safety measures have not been taken by the Contractors.
10. **Contract Administration by the REs.** The REs need to be fully conversant with the Works Contract they are administering. They are required to take necessary actions as per the contract provisions, with mention of applicable contract provision(s). Some examples follow.
 - (i) Although the progress of works has been very slow and far behind schedule for last several months and there is no likelihood of completing the 1st Milestone by any of the Contractors by February 28, 2012 (the scheduled extended date for completion of 1st Milestone for both P-01 and P-02), the REs have not instructed the Contractors as per contract sub-clause 8.6 'Rate of Progress'. A few letters regarding Delay in Project Activities / Slow Progress / Progress of Work have been written by the REs very late in the last week of January 2012 but not as per sub-clause 8.6. The REs have never instructed the Contractors to submit revised program and supporting report as per sub-clause 8.6, neither the RE (P-02) advised the Contractor to submit revised program as per sub-clause 8.3.
 - (ii) Although it is obvious that the Contractors will be unable to complete the 1st Milestone within the scheduled extended date, the REs or the Employer have not notified the Contractors regarding the 'Employer's Claim' for Delay Damages as per sub-clause 2.5.

- (iii) A few letters have been written by the RE (P-02), in November 2011, rejecting and/or requesting removal / rectification of works, but none of those has been notice / instruction as per sub-clause 7.5 'Rejection' and/or sub-clause 7.6 'Remedial Work'. In absence of the Engineer / RE's Instruction to remove and re-execute work(s) as per sub-clause 7.6, follow up action such as the Employer being entitled to employ and pay other persons as per sub-clause 7.6 in case of the Contractor failing to comply with the Engineer /RE's Instruction, has also not been taken.
- (iv) REs are not recommending to the Employer to levy penalties for non-conformity of maintenance of the handed over (to Contractor) road stretches and for non-conformity of traffic safety measures by the Contractors as per sub-clause 17.2.

11. **Non-contribution by the Lead Partners of the respective Joint Ventures (JVs).** As per the JV Agreement of the Contractor for P-01 submitted along with the Bid (and part of the Contract between the Employer OWD and the Contractor), the Lead Partner is responsible for 51% Financial, 51% Construction Equipment, three Key Technical Staff, support staff, and for execution of approximately 51% of the contract value. The Contractor's Technical Proposal submitted along with the Bid (and part of the Contract) proposed 18 numbers of Plants and Equipment owned by the Lead Partner, for use in the Contract. The Technical Proposal also included CV of two Senior Technical Staff including the Project Manager to be provided by the Lead Partner. However, it is understood that the Lead Partner has practically no role in financing and/or providing construction equipment and key technical staff as well as in executing the works.
12. As per the JV Agreement of the Contractor for P-02 submitted along with the Bid (and part of the Contract), the Lead Partner is responsible for 51% in execution of all works. The Contractor's Technical Proposal submitted along with the Bid (and part of the Contract) proposed 20 numbers of Plants and Equipment owned by the Lead Partner and 3 numbers of Plants and Equipment to be purchased by the Lead Partner, for use in the Contract. The Technical Proposal also included CV of 12 Senior Technical Staff including the Project Manager to be provided by the Lead Partner. However, it is understood and also confirmed by the Management Representative of the Lead Partner during the Mission, that the Lead Partner is neither taking part in execution of the works nor providing Plants and Equipment and Senior Technical Staff.
13. As per the Contracts between the Employer and the Contractors as well as the JV Agreements, both the partners of respective JVs are jointly and severally (separately) liable to the Employer for the performance of their respective Contracts. As brought out in the foregoing paragraphs, the Lead Partners are not participating as per respective Contracts thus violating the Contracts. The Mission is not aware whether the Employer / OWD has notified the Contractors for violation of Contract for failure by the respective Lead Partners in contributing / participating as per Contract.