

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION
REPORT FOR THE FLOOD DAMAGE REHABILITATION PROJECT IN BANGLADESH
(Loan 1666-BAN[SF])**

On 5 September 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management has reviewed OED's Project Performance Evaluation Report (PPER) for the Project. The Project aimed at assisting the Government in rehabilitating flood-damaged infrastructure in Bangladesh and included six components: (i) roads and bridges, (ii) flood control and irrigation, (iii) rural infrastructure, (iv) railways, (v) urban development, and (vi) secondary and higher education.

2. We appreciate that some of the lessons learned and recommendations in the Project Completion Report (PCR) have been addressed by the PPER. While the overall assessment and rating of the PPER ("successful") differs from the PCR ("highly successful"), Management response focuses on this issue, along with some lessons learned and OED recommendations.

A. Overall Assessment: PCR and PPER Rating

The PCR assessed the Project as likely to be sustainable, though it noted weakness in ensuring sustainability, while the PPER concluded that the Project is now less likely to be sustainable.

3. At the time of preparing the PCR, there were good signs that the Government would carry out the needed maintenance aided by the establishment of a road maintenance fund as agreed with major development partners—including ADB—and execution of a periodic road maintenance program, partly funded by ADB. The PCR, therefore, assessed the Project and its components as likely to be sustainable.

4. Later on, the Government felt it was necessary to have wider consultation within the Government and with external stakeholders to discuss modalities and other key issues in relation to the road maintenance fund. While seen as a positive sign of ownership, this affected the process and altered the schedule for the establishment of a road maintenance fund. Similarly, the periodic road maintenance program suffered a substantial delay due to protracted Government approvals and severe delays in the recruitment of consultants for Government and ADB-financed road maintenance components of road projects. In addition, many of the project roads experienced much higher and heavier traffic than envisaged, but ADB's emergency assistance was restricted to restoring infrastructure to "pre-flood level" in accordance with ADB's guidelines for emergency assistance at the time of project design and implementation. With these developments, it is logical that the PPER rating for sustainability would become lower than the PCR rating given three years earlier.

B. Issues and Lessons

5. **Governance and Corruption.** Governance and corruption are key development challenges emphasized in the Country Strategy and Program for Bangladesh. While ADB is supporting operationalization of the Anticorruption Commission (ACC) through TAs, positive results of ongoing reform of public procurement are now becoming more visible following the Government's adoption of new Public Procurement Regulations in September 2003. ADB and World Bank are collaborating on governance issues, including anticorruption efforts, and have formed an operational risk mitigation team. To address fiduciary risks including corruption risks for new and ongoing projects, an operational risk and mitigation plan (ORMAP) has been prepared. Subsequent emergency flood damage rehabilitation assistance projects have incorporated strengthened anticorruption measures, including stronger supervision by ADB and consultants, independent third party monitoring, and performance auditing.

6. **Community Participation.** Community participation is important under emergency assistance rehabilitation projects. While executing agencies (EAs) were and are being encouraged to involve communities in implementing subsequent flood emergency assistance projects in Bangladesh, a pragmatic approach would need to be followed to achieve this goal in practice.

7. **Response Time.** We agree that short response time and, in particular, speedy mobilization of consultants and early start up of emergency assistance works on the ground, are essential for realization of benefits, particularly for the poor. In this context, ADB's Bangladesh Resident Mission (BRM) has taken measures to streamline and fine-tune systems and procedures for speedier implementation of similar types of emergency assistance. This greatly helped to expedite implementation of the most recently approved emergency flood damage assistance project (Loan 2156-BAN), which is currently progressing well ahead of schedule with expected substantial completion of only two years. ADB has also appointed a focal point for emergency assistance and adopted a standard operating procedure for quick response to any future needs for emergency assistance.

8. **Contract Packaging and Realistic Implementation Schedule.** As reflected in the PCR and the PPER, Management agrees that appropriate contract packaging is important. Accordingly, larger contracts have been adopted for subsequent emergency flood rehabilitation assistance projects in Bangladesh and realistic implementation schedules prepared.

9. **Administration by Resident Mission (RM).** Management agrees that emergency assistance projects are best administrated by RMs following the practice observed by BRM and other RMs within ADB South Asia Department (SARD).

10. **Loan Covenant for Insurance.** As highlighted in the PCR and the PPER, we agree that loan covenants requiring borrowers to insure projects facilities are not practical for this and similar types of projects involving multiple subprojects.

11. **Restoring and Upgrading Infrastructure.** Restoring infrastructure to pre-flood levels is generally insufficient to withstand damage from subsequent floods or increased economic activity following the floods. In view of this, Management agrees with that where appropriate and subject to availability of funding, future emergency assistance loans could incorporate TA to review, study, design, and prepare a follow-on reconstruction program for upgrading of critical infrastructure in key sector(s)/subsector(s) for external and ADB funding.

12. **Timing of PPER.** Management agrees that PPER should be prepared within two years of project completion to ensure precise assessment. This was recommended in the PCR.

C. Follow-up Actions

13. The PPER observes lapses in the maintenance of tracks in Sirajganj area. This maintenance concern is being addressed by the EA, Bangladesh Railway. A separate railway sector loan is also being processed during 2006, addressing, inter alia, worn out and outdated railway infrastructure at strategic key locations in Bangladesh.

14. The PPER recommends that the loan processing time should be trimmed by preparing a flood rehabilitation work plan to provide emergency assistance to the Government more quickly and effectively. While acknowledging the merit of this recommendation and efforts undertaken in subsequent emergency assistance projects (para. 9), ADB's current business process offers somewhat limited scope to substantially trim loan processing time. Management observes, however, that apart from preparing a flood rehabilitation work plan, further improvements in implementation can be achieved by taking measures toward (i) speedier start up of emergency rehabilitation works on the ground by (a) fully utilizing advance action for early fielding of consultants, (b) early completion of damage assessment by EAs for key sector infrastructure sectors/subsectors with the possibility of ADB providing technical support through TA, staff consultant or by other external financier, where justified and appropriate, and (c) ADB's timely endorsement and selection of prioritized sectors/subsectors; and (ii) effective utilization of retroactive financing for Government's emergency rehabilitation works carried out immediately after the floods by accepting the most critical and urgent repairs and rehabilitation works carried out by the Government subject to verification and compliance with pre-defined criteria and standards, ADB's requirements and subject to independent post-assessment by ADB (para. 10).

15. The PPER recommends that ADB works closely with the Government in setting up and financing a road fund. We agree with this recommendation and are currently working with developments partners active in the road sector in Bangladesh to establish a road fund or equivalent mechanism for sustainable funding of road maintenance.

D. Conclusions

16. Management observes that while the overall project rating is successful, several issues and developments have adversely affected project sustainability since preparation of the PCR in 2003. These include (i) delay in establishing a road maintenance fund, (ii) delayed implementation of periodic road maintenance program, (iii) higher-than-envisaged heavy traffic on rehabilitated roads, and (iv) inability to restore infrastructure beyond pre-flood level as per ADB's guidelines for emergency assistance. In view of this, we agree with the PPER's overall assessment.