Validation Report
October 2020

People’s Republic of Bangladesh:
Dhaka–Chittagong Expressway
Public–Private Partnership Design Project

Reference Number: PVR-718
Project Number: 45174-001
Loan Number: 2856
ABBREVIATIONS

ADB – Asian Development Bank
BBA – Bangladesh Bridge Authority
CPS – country partnership strategy
EDC – engineering design consultant
EIRR – economic internal rate of return
FIRR – financial internal rate of return.
FYP – five-year plan
MOF – Ministry of Finance
MORTB – Ministry of Road Transport and Bridges
OCC – opportunity cost of capital
PCR – project completion report
PIC – project implementation committee
PIU – project implementation unit
PPP – public–private partnership
PSC – project steering committee
RHD – Road and Highways Department
TA – technical assistance
TAC – transaction advisory consultant
VGF – viability gap funding

NOTE

In this report, “$” refers to United States dollars.

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<td>Director General</td>
<td>Marvin Taylor-Dormond, Independent Evaluation Department (IED)</td>
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I. PROJECT DESCRIPTION

A. Rationale

1. Dhaka and Chittagong (now called and hereinafter referred to as Chattogram) are two major metropolitan areas of Bangladesh. Dhaka is the commercial and administrative center, while Chattogram is the primary seaport handling about 90% of the country’s imports and exports. With a quarter of Bangladesh’s population living along the Dhaka–Chattogram corridor, road traffic between the two areas was impeded by congestion on the 250-kilometer highway and load restrictions on bridges. Road safety was poor with the interaction of different types of vehicles, and travel time between the two areas took as long as 10 hours.¹

2. In 2008, the Asian Development Bank (ADB) financed a feasibility study and a conceptual design for a four-lane Dhaka–Chattogram highway and a conceptual design for an access-controlled expressway. According to the study, daily traffic volume is expected to increase to about 35,000 in 2020, 66,000 in 2030, and more than 119,000 in 2040, depending on the highway section and traffic forecast scenario. Daily traffic volume on the Dhaka–Chattogram Highway in 2009 was between 20,000 and 25,000 of which 40% were trucks. The two-lane highway reached capacity and would have exceeded it after 2020 due to the increase in traffic volume and the number of intersections, villages, and towns along the highway’s area of influence. The highway required expansion to cope with the 7% to 8% expected traffic growth per annum.

3. To address the corridor’s transport needs, the Government of Bangladesh widened the two-lane sections of the Dhaka–Chattogram Highway to four-lanes and double-tracked the single-track sections of the railway in 2016. It also planned for the proposed new access-controlled Dhaka–Chattogram Expressway that would complement the capacity of the Dhaka–Chattogram Highway to meet future traffic growth and demand for safer road connections and serve domestic vehicle traffic. Following intergovernmental consultations, it was expected to improve access to Chattogram Port for Bhutan, India, and Nepal. This inter-regional traffic would utilize the Dhaka–Chattogram Highway and be included in planning for the road capacity requirements of the corridor.

4. The project built on the findings of the conceptual design study of the expressway, which determined the selected route alignment to be technically, economically, and financially viable, with a cost of $2.75 billion equivalent in 2011 prices. However, private investment was not attracted to the expressway project due to the uncertainty of the required land acquisition, as the detailed route alignment design had not been fixed. It also lacked an attractive legal framework and clear risk allocation arrangements between the partners, including that related to foreign currency exchange. As conditions had changed, the construction of the expressway required an updated detailed project preparation, which was financed by this technical assistance (TA) project.

B. Expected Impact, Outcome, and Outputs

5. The envisaged impact of the project was the Dhaka–Chattogram Expressway to be efficiently constructed, operated, and managed under a public–private partnership (PPP) scheme. The expected outcome was an agreed design of the Dhaka–Chattogram Expressway for implementation under a PPP scheme. The anticipated project outputs were a feasibility study with assessment of different route alignment options and an economic and financial analyses for the follow-on project, the structuring of the PPP, establishment of the financial model, and a recommendation of the PPP structure for the expressway. It also targeted to provide (i) capacity development for PPP project implementation; (ii) a detailed engineering design for the selected option, including the finalization of all safeguard documents; (iii) transaction advisory services for the preparation of the prequalification and bidding documents for the concession agreement, and support for the project executing agency during the bidding process; and (iv) support for safeguard implementation in follow-on project.

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2 Traffic forecast prepared as part of the ADB-financed feasibility study and conceptual design for a four-lane Dhaka–Chittagong access-controlled expressway in 2008.
C. Provision of Inputs

6. The TA loan was approved in March 2012 and was effective in June 2013, a month earlier than planned. The loan closed in March 2018 with a 2-year delay. To avoid start-up pauses, the government requested ADB to undertake the recruitment of the international consultants. For the engineering design consultant (EDC), ADB referred the first-ranked bidder to the Roads and Highways Department (RHD) in November 2013. The RHD negotiated with the bidder but both parties failed to agree on the level of outputs required for the detailed design. With ADB guidance, the RHD and bidder signed the contract in July 2014, with a delay of 18 months from the projected selection date. In September 2014, the RHD requested ADB’s support to commence recruitment of the transaction advisory consultant (TAC) to synchronize PPP project procurement with EDC work. The TAC contract was signed in September 2015, 30 months behind schedule. Upon the recommendation of the TAC, the RHD submitted the viability gap funding (VGF) application to the Ministry of Finance (MOF) to ensure the feasibility of the PPP expressway project. However, the RHD and the Bangladesh Bridge Authority (BBA) disagreed on which should be the executing authority for the expressway and as a consequence, the MOF delayed its approval of the VGF. Considering these uncertainties, ADB denied the request for the second extension of the loan closing date.

7. At completion, the project cost was $9.9 million, which was lower than the $12.5 million estimated at appraisal. ADB disbursed $7.2 million, while the government’s share was $2.7 million. The lower project cost was attributed to the savings from the two consulting services contracts. Also, there were uncompleted components under the TAC service and the cancelled safeguard implementation support consulting service that also contributed to cost savings. The project completion report (PCR) indicated that the undisbursed loan proceeds of SDR1.3 million ($1.9 million equivalent) were canceled.

8. At appraisal, the targeted consulting services were 115 person-months of international and 390 person-months of national inputs for EDC, five person-months of international and 10 person-months of national inputs for TAC, and 240 person-months of national inputs for safeguards implementation support. The PCR did not provide details on the actual number of consultant person-month inputs utilized.

D. Implementation Arrangements

9. The Ministry of Communications (renamed the Ministry of Road Transport and Bridges or MORTB) was the executing agency, while the RHD was the project implementation unit (PIU) headed by a project director. A project steering committee (PSC) was created, consisting of representatives from the ministries or government agencies overseeing national planning, commerce, trade, finance, and energy; two municipalities; and concerned districts. The PSC was responsible for making high-level and cross-sectional policy decisions, including the selection of the expressway alignment and the PPP scheme. While not envisaged at appraisal, the RHD established a project implementation committee (PIC) which included the RHD chief engineer and representatives from the planning commissions of the MORTB and RHD. The PIC monitored the progress of the project, resolved issues and problems during implementation, and recommended project implementation improvements to the PSC, among other things.

3 The VGF can be defined as financial support in the form of grants (one time or deferred) to infrastructure projects undertaken through PPPs with a view to make them commercially viable. http://www.ijscer.com/uploadfile/2015/0429/20150429081547223.pdf

10. The PCR indicated that the PSC was not effective in making high-level decisions due to the complexity and unique character of the PPP project. A compact steering committee with key policy-level decision makers from the MOF, MORTB, Office of the Prime Minister, and ADB could have focused on key issues and made appropriate and quicker decisions. This validation notes the additional institutional layer created by the unplanned PIC. The conflict between RHD and BBA on the executing authority for the PPP project surfaced as an issue on PPP project implementation, which was not considered in the project design.

11. Of the 29 loan covenants, 15 were complied with, two were not complied with, three were considered not relevant, and nine were considered not applicable. Noncompliance related to the 3-month delay in the establishment of the PIU, the appointment of the project director, and the three staff changes in key positions due to retirement. The covenants noted as neither relevant nor applicable were attributed to the cancellation of the expressway under a PPP.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

12. The PCR rated the project relevant in view of the growth in traffic demand and capacity constraint along the Dhaka–Chattogram Highway. The government’s Sixth and Seventh Five-Year Plans (FYP) prioritized increasing the capacity of the Dhaka–Chattogram Highway, a part of the Asian Highway network, by road widening and construction of the expressway. It was committed to promote PPP projects through the PPP Authority established in 2010 and under the PPP Act (2015). The expressway was aligned with ADB’s country partnership strategy (CPS) for Bangladesh 2011–2015, which supported private sector investments.

13. This validation notes that the project design supporting the implementation of the expressway under PPP and the project preparation outputs were intended to attract private sector investors by resolving issues encountered during the initial attempt to implement the expressway in 2011. Considering the novelty and magnitude of the envisioned PPP project, the project provided capacity development of staff involved in the implementation. This validation assesses the project relevant since the expressway was a priority under the Sixth and Seventh Five-Year Plans (FYPs) and was aligned with ADB’s CPS for Bangladesh.

B. Effectiveness in Achieving Project Outcomes and Outputs

14. The PCR rated the project less than effective as only one of the two outcome indicators was fully achieved, which was the submission and approval of the feasibility study and the

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5 The PCR indicated that schedule 5, para. 4 of the loan agreement stipulated that, “the Borrower and the Project Executing Agency shall undertake best efforts to ensure that the same persons will continue to be assigned to key positions (including the position of Project Director) in the PIU throughout the Project Implementation Period.”
7 ADB. 2000. Report and Recommendation of the President to the Board of Directors on the Proposed Loan to the People’s Republic of Bangladesh for the Road Maintenance and Improvement Project. Manila. The Corridor Improvement Component under the Project involved the four-laning of sections of the Southeast Road Corridor between Dhaka and Chattogram for a total of 110 kilometers (km), of which 113.24 km was completed.
recommended PPP modality. The PPP contract documents were not prepared and delivered. The project delivered four of the six planned outputs. It developed the feasibility study with assessment of different route alignment options, including detailed design and tender documents. It prepared the economic and financial analyses, established the financial model, and recommended the structures for PPP and build-operate-transfer schemes for this project and the follow-on.

15. The project also prepared the detailed engineering design for the preferred option and submitted this along with all safeguard documents to RHD. In addition, it conducted two training programs on the operation, maintenance, and overall performance of the expressway to develop capacity for PPP project implementation. Two outputs were not achieved as the government cancelled the expressway project as a PPP. First, the transaction advisory services to prepare the prequalification and bidding documents for the concession agreement was not prepared. Second, the safeguard support service of the follow-on project was not provided. This validation notes that the TAC should have completed the bidding documents and concession agreement so that these could be useful in case the government would revisit the expressway project as a PPP, or as a model for future PPP projects.

16. At appraisal, the expressway was conditionally classified category C for environment, involuntary resettlement, and indigenous peoples. The EDC prepared the required safeguard documents, assessed gender consultation and participation, labor, HIV/AIDS, and other social risks to the project, and prepared a mitigation plan to address the risks. While the PCR did not discuss whether a reclassification of the safeguards categories was made or not, the feasibility study noted that (i) the expressway project would have been category A for environment, requiring an environmental impact assessment or environmental management plan; (ii) the area was predominantly rural and used primarily for paddy cultivation and aquaculture; and (iii) there were densely populated areas with mixed land uses. The potential environmental impacts of the expressway alignment varied significantly.¹⁰

17. The feasibility study determined the resettlement impacts to be significant, as the project required a full resettlement action plan and classified under involuntary resettlement category A.¹¹ The expressway project would have affected about 15,042 non-titled and 6,050 titled households, including 26,123 persons. To the extent possible, road designs and land acquisition plans were prepared to minimize displacement of people and resettlement impacts. However, the project was anticipated to create severe impact due to different types of private land acquisitions and structure losses. The affected structures would have consisted of 48% residential, 46% commercial, 3% religious, and 3% community owned.¹²

18. The expressway project was categorized C for indigenous peoples. The expressway influence area had low tribal population of 3,678, representing only 0.02% of the total population of the project districts. These communities lived in specific pockets but stayed in various districts for employment, education, or business. Based on the poverty and social assessment survey, no

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¹¹ The project estimated around 644.93 hectares (ha) of land, of which 38.22 ha were commercial, 82.61 ha were homestead, 69.88 ha were highland, 393.78 ha were agricultural land, and 60.45 ha were waterbodies. The extent of affected structures would have been 1,252,971.2 square meters in total, of which 412,484 were pucca, 185,052 semi- pucca, 600,265 of corrugated iron sheet, and 55,171 kacha. In South Asia, pucca refers to housing of substantial material such as stone, brick, cement, concrete, or timber. Kacha refers to a small, simple one-story mud structure, housing both people and livestock in one or with just a few rooms.

indigenous peoples were identified throughout the project corridor and its impact zone. Given that
the government cancelled the expressway project as a PPP, and that only one outcome indicator
was fully achieved and two output indicators not fully achieved, this validation assesses the
project less than effective.

C. Efficiency of Resource Use

19. The PCR rated the project less than efficient. The PCR determined that the project did not
require an economic evaluation at appraisal or completion since it was a TA loan. The actual cost
of consulting services was less than estimated at appraisal, with savings of $2.6 million.
The project incurred cumulative delays of 2 years as the procurement of the EDC and the TAC
took longer than planned. The actual implementation period was 58 months, or about 24 months
longer than scheduled.

20. This validation notes that the PCR should have discussed the evaluation results of the
feasibility study including the alignment options considered, the findings on the assessment of
these options, and the recommendations approved by the MORTB. Of interest were the results
of the economic internal rate of return (EIRR) computation and the VGF request to the MOF. The
feasibility study would help determine if the expressway’s EIRR is equal to or higher than the
opportunity cost of capital (OCC) and if the financial internal rate of return (FIRR) was higher than
the weighted average cost of capital. The request for VGF would indicate that the computed FIRR
was less than the weighted average cost of capital. Otherwise, the expressway would not be
implemented as a PPP.

21. This validation finds that, based on the government’s PCR, the shortest and most direct route
among the three alignment options studied was recommended and approved. The approved
alignment for conceptual design reduced the distance between Dhaka and Chattogram by about
15 kilometers with total development cost without land acquisition estimated at Tk13,158 and with
land acquisition at Tk21,158. The land requirement cost was about Tk8,000 for 1,544 hectares
together with the resettlement of 97,136 affected people. The estimated EIRR for 25 years of
operation was 11.9%, slightly lower than the prevailing 12% OCC. The implementation of the
expressway was recommended using the build–operate–transfer modality, provided that
government would shoulder the cost of land acquisition and resettlement of affected persons and
support the tax holiday of 25 years for the concessionaire during the applicable period. Given
delays in the procurement of the EDC and TAC, the computed EIRR being less than the OCC
and additional delays on deciding which agency would be the executing authority for the follow-
on project, this validation assesses the project less than efficient.

D. Preliminary Assessment of Sustainability

22. The PCR rated the project less than likely sustainable, based on the government’s
decision to cancel the project as a PPP. The partially delivered project outputs were not fully
utilized, although some of the project’s delivered outputs contributed to enhancing RHD’s
knowledge of PPPs for future relevant projects.

13 Government of Bangladesh, Ministry of Road Transport and Bridges, Road Transport and Highways Division, Roads
Chattogram Expressway Public–Private Partnership Design Project. Dhaka. Route alignment options considered
Jatrabari (Dhaka)–Daudkandi–Cumilla–Feni–Chattogram route parallel to the existing Dhaka–Chattogram Highway
with maximum utilization of right-of-way as option 1. Option 2 is the Narayanganj–Munshiganj–Chandpur–
Laxmipur–Sonagazi–Chattogram Route. Lastly, option 3 is the Jatrabari (Dhaka)–Hasanpur (Daudkandi)–Kachua–
Laximipur–Nangalkot–Rampur (Feni)–Chattogram Route.
23. This validation notes that the government did not explain the reasons for the cancellation of the expressway project as a PPP and what alternative financing it considered to implement it. The PCR should have confirmed the reasons for the cancellation. This validation finds that without the VGF, the expressway would not be financially viable under a PPP arrangement. The result of the FIRR calculation was not provided. This validation assesses the project less than likely sustainable.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

24. The PCR rated the project’s development impact unsatisfactory. With the government’s cancellation of the expressway project as a PPP, the expected project impact which was the expressway efficiently constructed, operated, and managed under a PPP scheme is no longer achievable. Some of the project outputs would still be useable if the government decides to pursue the project even if not as a PPP. The follow-on project would help relieve traffic vehicular congestion on the Dhaka–Chattogram Highway, although not necessarily as a PPP. This validation assesses the project’s development impact unsatisfactory.

B. Performance of the Borrower and Executing Agency

25. The PCR rated the performance of the borrower and executing agency less than satisfactory. Although it found the implementation arrangements well prepared, the PCR indicated that a smaller PSC would have led to a more timely decision-making. Also, the RHD as the PIU could not take full control of the expressway project due to conflicts within the MORTB on the proper executing authority. The MOF withheld the approval of the VGF while this issue was unresolved. By the time it was resolved, ADB had already denied the request for the second extension of the loan closing date.

26. The PCR noted the RHD’s shortcoming in maintaining close coordination with ADB to keep the project on track and in submitting the required reports. This validation finds the performance of MORTB to be deficient, as it did not resolve expeditiously the intra-agency conflict on the appropriate executing agency. The issue was unclear given that BBA was not identified as a relevant office in the project implementation arrangements.

27. With the government’s cancellation of the expressway as a PPP in October 2019, the way forward in pursuing the expressway project needed to be identified. The cancellation was unexpected and rendered some outputs of the project unusable. This validation assesses the performance of the borrower and the executing agency less than satisfactory.

C. Performance of the Asian Development Bank and Cofinanciers

28. The PCR rated the performance of ADB satisfactory. It noted that ADB fielded one fact-finding, one inception, two review missions, and a project completion review mission. However, missions were not fielded from 2016 to 2018 during the implementation of EDC and TAC, as a result of the conflict within MORTB regarding the executing authority for the expressway project and the RHD’s inability to actively discuss project implementation and financing of the expressway with ADB. Despite these, ADB communicated with RHD to monitor the project status on a limited basis while conducting missions for other projects.
29. ADB could have been proactive in working with MORTB to resolve the executing authority issue, as this affected project implementation and the status of the follow-on project. It was important to keep communicating with the designated executing authority to assess the project status and develop appropriate countermeasures to support the government in addressing challenges in a timely manner. The government notified ADB of the cancellation of the expressway project as a PPP and opted to pursue a still undecided track on financing the follow-on project. Considering the preceding discussions, this validation assesses ADB performance less than satisfactory.

D. Others

30. The government’s PCR did not rate the project’s relevance, effectiveness, efficiency, sustainability, impact, performance of the borrower and executing agency, and ADB performance. It also did not provide an overall rating.14

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

31. The PCR rated the project less than successful. It rated the project relevant as it was aligned with the government’s Sixth and Seventh FYPs and ADB’s CPS for Bangladesh 2011–2015. It rated the project less than effective as it failed to achieve two of its six target outputs, while one of its two target outcomes was only partially achieved. The PCR rated the project less than efficient as it incurred cumulative delays of 2 years, although costs were lower than planned. It rated the project less than likely sustainable with the government’s cancellation of the expressway project as a PPP.

32. Overall, this validation assesses the project less than successful. It was relevant, less than effective, less than efficient, and less than likely sustainable. Its project design was in accordance with implementing the expressway project as a PPP and attracting private investors. However, some of the expected output indicators and an outcome target were not fully achieved. The project implementation was delayed, but actual cost was lower than planned and the EIRR of the expressway was lower than the OCC. With the cancellation of the expressway as a PPP and without the VGF, the expressway would not be financially viable and attractive to investors.

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<td>Borrower and executing agency</td>
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ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report, PPP = public–private partnership.

Source: ADB (IED).

B. Lessons

33. The PCR identified two project level lessons. First, a clear and precise terms of reference for detailed design helps to prevent misinterpretation of the requirements and outputs for the services. Second, the expeditious procurement of consultants, especially the detailed design consultant, helps in facilitating better project implementation.

34. This validation offers two project-level lessons. First, a well-programmed procurement plan and design could help avoid unnecessary costs and delays. The borrowers and executing agencies may consider the consultancy requirements and their capabilities ahead of time to undertake the procurement activities. Executing agencies could opt for a single agency to alternatively handle the consultant procurement. This arrangement could minimize implementation delays resulting from longer contract negotiation, awarding, and recruitment. This was evident from the project’s substantial delays in awarding the EDC contract.

35. Second, ADB’s active intervention upfront as a project financier could help resolve potential implementation issues and avoid any complications in project implementation. In this project, ADB could have worked with MORTB to resolve the executing authority issue. A period of 3 years to resolve the issue may also have partly resulted from the limited ADB review missions fielded. ADB relied on its other project missions to monitor project implementation performance. The MOF delayed the issuance of the VGF until the issue was resolved. By then, ADB had already denied the request for extension of loan closing and the government decided to cancel the expressway project as a PPP. On the whole, the responsibility for delivering a successful project as planned rests with the borrowers, executing agencies, and project financiers.

C. Recommendations for Follow-Up

36. The PCR recommended that the RHD considers PPP and public sector financing during the preparation of feasibility studies of future projects. If PPP was determined to be the viable project financing modality, then the RHD could collaborate with ADB’s Office of Public–Private Partnership. The implementation capacity developed under the project should be retained for future PPP projects. The RHD could also discuss with ADB the way forward about transport capacity deficiencies on the Dhaka–Chattogram Highway without PPP and suggest alternative financing arrangements.
V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

37. The PCR noted that the MORTB did not submit the quarterly progress reports or consolidated annual reports as required. The MORTB stated that it did not recognize the requirements. This validation finds the MORTB’s response to be without basis, and ADB would have presumably sent several reminders to the executing agency and PIU on the required submissions. It was unclear whether these requirements were not submitted throughout project implementation. This oversight amounted to a non-compliance with ADB requirements.

38. The PCR also stated that RHD submitted all the required annual project financial statements in a timely manner except the first, which was 0.5 months late. Upon review, ADB requested for action to make the annual project financial statements compliant with the loan agreement. However, RHD did not address ADB’s requests, including the responses to ADB’s observations. The PCR explained that this was due to RHD’s being “constrained by existing project reporting templates.” Also, this validation notes that the PCR could have elaborated on why MORTB had repeatedly failed to submit quarterly reports and consolidated annual reports.

B. Comments on PCR Quality

39. This validation accepts the fact that per ADB’s Project Administration Instruction 6.07, para. 21, a simplified PCR was prepared accordingly for TA loans that did not result in an ADB-financed project as planned. Also, the PCR candidly discussed the project’s shortcomings and this validation assesses the PCR quality satisfactory. However, the PCR lacks details on certain subject matters.

C. Data Sources for Validation

40. The data sources used for this validation included the report and recommendation of the President, PCR and back-to-office reports of ADB, Bangladesh’s Sixth and Seventh FYPs, ADB CPS for Bangladesh 2011–2015, National Strategy for Accelerated Poverty Reduction II, the Road Master Plan, and the Perspective Plan of Bangladesh 2010–2021: Making Vision 2021 A Reality.

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17 ADB South Asia Department provided additional information during the preparation of this validation explaining that the information provided were considered sufficient in the simplified PCR prepared for this TA project.


D. Recommendation for Independent Evaluation Department Follow-Up

41. The PCR recommended the preparation of the project performance evaluation report as soon as possible. With the cancellation of the expressway project as a PPP, this validation finds that there is no need for the preparation of the project performance evaluation report.