



Periodic Financing Request Report

Project Number: 48226-004
MFF Number: 0104
September 2018

India: Second Rural Connectivity Investment Program (Tranche 2)

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CURRENCY EQUIVALENTS

(as of 28 August 2018)

| | | |
|---------------|---|-------------------|
| Currency unit | – | Indian rupees (₹) |
| ₹1.00 | = | \$0.01430 |
| \$1.00 | = | ₹69.9340 |

ABBREVIATIONS

| | | |
|--------|---|--|
| ADB | – | Asian Development Bank |
| APFS | – | audited project financial statement |
| CPF | – | community participation framework |
| EMP | – | environmental management plan |
| km | – | kilometer |
| MFF | – | multitranches financing facility |
| MORD | – | Ministry of Rural Development |
| MPRRDA | – | Madhya Pradesh Rural Road Development Authority |
| NRIDA | – | National Rural Infrastructure Development Agency |
| PIU | – | project implementation unit |
| PMGSY | – | Pradhan Mantri Gram Sadak Yojana |
| RCTRC | – | rural connectivity training and research center |
| RRNMU | – | rural road network management unit |

NOTES

- (i) The fiscal year (FY) of the Government of India and its agencies ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 31 March 2018.
- (ii) In this report, “\$” refers to United States dollars.

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TRANCHE AT A GLANCE

| | | | |
|--|---|--|---|
| 1. Basic Data | | Project Number: 48226-004 | |
| Project Name | Second Rural Connectivity Investment Program - Tranche 2 | Department/Division | SARD/SATC |
| Country | India | Executing Agency | Government of Madhya Pradesh, Ministry of Rural Development |
| Borrower | India | | |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Transport | Road transport (non-urban) | | 110.00 |
| | | Total | 110.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Medium |
| Environmentally sustainable growth (ESG) | Global and regional transboundary environmental concerns | ADB Financing | |
| | | Adaptation (\$ million) | 6.16 |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Governance and capacity development (GCD) | Organizational development | Effective gender mainstreaming (EGM) | ✓ |
| Private sector development (PSD) | Conducive policy and institutional environment | | |
| 5. Poverty and SDG Targeting | | Location Impact | |
| Geographic Targeting | No | Rural | High |
| Household Targeting | No | | |
| SDG Targeting | Yes | | |
| SDG Goals | SDG9 | | |
| 6. Risk Categorization: | Low | | |
| 7. Safeguard Categorization | Environment: B Involuntary Resettlement: C Indigenous Peoples: C | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 110.00 | |
| Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources | | 110.00 | |
| Cofinancing | | 0.00 | |
| None | | 0.00 | |
| Counterpart | | 193.00 | |
| Government | | 193.00 | |
| Total | | 303.00 | |

I. BACKGROUND

1. India and the Asian Development Bank (ADB) signed the framework financing agreement for the Second Rural Connectivity Investment Program on 27 September 2017. The ADB Board of Directors approved the multitranche financing facility (MFF) for \$500 million equivalent from its ordinary capital resources on 29 November 2017. The availability period of the MFF is up to 30 June 2024, and the last financing tranche is expected to be executed no later than 31 December 2020.¹

2. **Progress on road map.** The Government of India seeks to improve rural connectivity through the Prime Minister's Rural Road Program or Pradhan Mantri Gram Sadak Yojana (PMGSY). The program's first phase (PMGSY-I) started in 2000 to provide basic connectivity for about 134,000 rural habitations by constructing 531,500 kilometers (km) of rural roads to all-weather standards. By June 2018, the government had exceeded this target by completing about 554,000 km.² The states that have substantially completed the PMGSY-I will proceed to the second phase (PMGSY-II). The Ministry of Rural Development (MORD) estimates that 50,000 km of rural roads will be upgraded under PMGSY-II to improve access to district centers and rural hubs. As of 31 May 2018, about 19,000 km of rural roads had been upgraded under PMGSY-II. Ensuring the capacity of state governments to sustain the benefits of the program is critical. Accordingly, PMGSY requires states to assume responsibility for conducting maintenance beyond the 5-year post-construction maintenance provision, and requires states to ensure road safety through both technical measures and community awareness activities.

3. **Multitranche financing facility.** Encompassing PMGSY-I and PMGSY-II, the Second Rural Connectivity Investment Program will improve about 12,000 km of rural roads in the states of Assam, Chhattisgarh, Madhya Pradesh, Odisha, and West Bengal (the investment program states).³ The investment program builds on the first Rural Connectivity Investment Program and includes capacity development components to strengthen the operations of 25 rural road network management units (RRNMUs) and rural connectivity training and research centers (RCTRCs) in the investment program states.⁴ The program will support these institutions to sustain rural road maintenance and safety in line with PMGSY guidelines. The investment program is estimated to cost about \$1.225 billion, including taxes and duties, physical and price contingencies, interest, and other charges during implementation.

4. **Tranches.** The initial design of the investment program was as a two-tranche MFF, with each tranche designed to improve selected rural roads in the investment program states. The first tranche, worth \$250 million and approved on 4 December 2017, was designed to finance the upgrading of about 6,200 km of rural roads in the investment program states to all-weather standards. Tranche 1 includes training programs for 2,000 PMGSY engineers and provides institutional support to the state rural road development agencies to sustain rural road safety and maintenance.⁵ The loan was signed on 30 January 2018, declared effective on 20 March 2018, and will close on 30 June 2021.

¹ ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility and Technical Assistance Grant to India for the Second Rural Connectivity Investment Program](#). Manila.

² Pradhan Mantri Gram Yojana. [Online Management, Monitoring and Accounting System](#) (accessed on 23 June 2018).

³ ADB. 2014. [Technical Assistance to India for the Second Rural Connectivity Investment Program](#). Manila. ADB provided project preparatory technical assistance for the Second Rural Connectivity Investment Program.

⁴ ADB. 2012. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility, Technical Assistance, and Administration of Technical Assistance to India for the Rural Connectivity Investment Program](#). Manila.

⁵ ADB. 2017. [Periodic Financing Request Report: India: Second Rural Connectivity Investment Program \(Tranche 1\)](#). Manila.

5. To meet the development priorities of the state of Madhya Pradesh, the Madhya Pradesh Rural Road Development Authority (MPRRDA) carried out advanced project preparation for tranche 2 of the MFF and obtained MORD approval for ADB financing on 30 January 2018. The government proposed that tranche 2 covers Madhya Pradesh only, while the scope for the remaining investment program states will be financed under a third tranche (para 11). ADB received the second periodic financing request, for \$110 million, from the government on 5 July 2018. Tranche 2 will finance the upgrading of 2,800 km rural roads in Madhya Pradesh. In addition, tranche 2 will support the training of 500 PMGSY engineers and road safety audits (RSA) on the project roads. Tranche 2 is included in ADB's country operations business plan for India, 2018–2020.⁶

II. ASSESSMENT OF MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

6. **Project 1.** The physical component of the first project (tranche 1) covers the upgrading of about 3,140 km of rural roads to all-weather standards, in line with PMGSY-I guidelines (970 km in Assam, 1,570 km in Odisha, and 600 km in West Bengal), and the upgrading of about 3,100 km rural roads in line with PMGSY-II guidelines (1,000 km in Chhattisgarh and 2,100 km in Madhya Pradesh). The nonphysical components cover the training of about 2,000 PMGSY engineers, including the staff of project implementation units (PIUs), RRNMUs, *panchayat raj* institutions; and technical support for conducting RSAs and road maintenance.⁷ Consulting services for the physical component have been mobilized, whereas consulting services to support the training program, RSAs, and road maintenance will be mobilized by 15 September 2018.

7. The implementing agencies in all investment program states performed advance contracting activities for the civil works. As of 30 April 2018, all 42 civil works contracts in Chhattisgarh had been awarded. In Madhya Pradesh, 118 out of 122 civil works packages had been awarded, and the remaining 4 packages are likely to be awarded by 1 October 2018. In West Bengal, 50 out of 150 civil works contracts had been awarded; in Assam, 139 out of 303 civil work contracts had been awarded; and in Odisha, 164 out of 393 civil work contracts had been awarded. The cumulative contract award is about \$47 million (19% of the loan amount).⁸ A cumulative disbursement of \$10 million (4% of the loan amount) will likely be achieved by 1 October 2018. Based on the progress of the ongoing procurement activities and physical works, project 1 is on track in achieving its contract award and disbursement targets for 2018. In terms of nonphysical components, all states have completed their design-stage RSAs and are preparing their construction-stage RSAs in accordance with the physical progress of each subproject road. It is only in Madhya Pradesh where training programs for PMGSY engineers have been started. Recruitment of consultants for the training program, and for the road maintenance enhancement, innovation, and disaster resilience is in progress. Notwithstanding the slight delay in recruitment of consultants, the project is expected to deliver its intended outputs within the original implementation period.

⁶ ADB. 2017. [Country Operations Business Plan: India, 2018–2020](#). Manila.

⁷ A *panchayat* is a body of directly elected people responsible for development activities in an area. There are three levels: *gram panchayat* at the village level, intermediate *panchayat* at the block level, and *zilla panchayat* at the district level. These are collectively called *panchayat raj* institution. In some states, these institutions are involved in rural road maintenance.

⁸ Excluding the contracts that have been awarded but yet to be recorded in the ADB system. The amount fluctuates based on the prevailing exchange rate.

8. **Safeguard implementation.** All safeguards requirements for project 1 have been satisfactorily met in terms of the progress of physical works. Monitoring activities and compilation of monitoring checklists on-site have been initiated for the investment program states in accordance with the procedures set out in the community participation framework (CPF) and environmental assessment and review framework. Project implementation consultants provide effective support for safeguard compliance.

9. **Compliance with undertakings and loan covenants.** The government and investment program states are compliant with loan covenants and undertakings set out in the loan agreement and project agreement for tranche 1, and with the framework financing agreement.⁹

10. **Improvements in policy framework.** The government's policy framework, including the institutional setup at both the national and state levels, and the guidelines that underpin the planning and implementation of the PMGSY by the states, remain relevant. The MORD established the National Rural Infrastructure Development Agency (NRIDA) in 2002 to oversee and support state governments' implementation of the PMGSY.¹⁰ The NRIDA continues to act as the nodal agency in charge of (i) overseeing the technical aspects of the PMGSY, (ii) conducting quality control and monitoring, and (iii) facilitating coordination between implementing agencies in the states. The PMGSY guidelines will remain the key reference for (i) selection and approval of subprojects, (ii) rural road maintenance, (iii) rural road safety, and (iv) funding flow between central and state governments. The investment program will strengthen the implementation of the PMGSY in terms of road safety and maintenance in the investment program states.

11. **Tranche sequencing.** The government will propose a third tranche to cover the improvement of about 3,000 km of rural roads in the states of Assam, Chhattisgarh, Odisha, and West Bengal. The government plans to submit the periodic financing request for tranche 3 in 2019. Despite the sequencing of MFF financing through three tranches, rather than two, the overall impact, outcome, outputs, and implementation arrangements of the investment program will remain unchanged, and will be achieved within the original MFF availability period.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

12. Project 2 is aligned with the following impact: mobility and accessibility in India improved.¹¹ Project 2 will have the following outcome: rural connectivity in Madhya Pradesh improved.¹²

B. Outputs

13. **Output 1: Rural roads in Madhya Pradesh improved.** The project will upgrade at least 2,800 km of rural roads in Madhya Pradesh according to PMGSY-II standards.¹³ In accordance with the sector lending approach, the proposed roads have been selected to meet the criteria set out in the framework financing agreement. The rural road design will include climate change adaptation measures, such as increased capacity of side and cross drains, and slope protection.

⁹ The status of loan covenants is in Appendix 15.

¹⁰ Established as the National Rural Road Development Agency. The agency was renamed the National Rural Infrastructure Development Agency in May 2018.

¹¹ Government of India, National Institution for Transforming India Aayog. 2017. [India: Three Year Action Agenda, 2017–18 to 2019–20](#). New Delhi.

¹² The design and monitoring framework is in Appendix 1.

¹³ PMGSY-II road refers to a 5.50-meter wide all-weather rural road: PMGSY-I roads are 3.75 meters wide.

The scope will also include the use of innovative approaches (such as the use of plastic waste for rural road construction) for about 15% of the total length of the rural roads.

14. **Output 2: Institutional capacity of Pradhan Mantri Gram Sadak Yojana implementing agencies strengthened.** The project will cover training on various aspects of rural road development, including road maintenance and safety, of about 500 PMGSY engineers in Madhya Pradesh, including the project implementation units (PIUs) and RRNMU staff, *panchayat raj institution* staff, consultants, and contractors.

15. **Output 3: Safety of Pradhan Mantri Gram Sadak Yojana roads sustained.** The project will provide technical support for the MPRRDA to manage and conduct RSAs on all subproject roads at the design, construction, and operation stages. Road safety awareness sessions will be carried out in schools along all subproject roads.

C. Summary Cost Estimates and Financing Plan

16. Project 2 is estimated to cost \$303 million (Table 1).

Table 1: Summary Cost Estimates
(\$ million)

| Item | Amount ^a |
|---|---------------------|
| A. Base Cost^b | |
| 1. Rural roads in Madhya Pradesh improved | 277.0 |
| 2. Institutional capacity of PMGSY implementing agencies strengthened | 0.3 |
| 3. Safety of PMGSY roads sustained | 0.2 |
| Subtotal (A) | 277.4 |
| B. Contingencies^c | 16.1 |
| C. Financial Charges During Implementation^d | 9.5 |
| Total (A+B+C) | 303.0 |

Note: Numbers may not sum precisely due to rounding.

^a Includes taxes and duties of about \$22 million. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties through cash contribution.

^b In mid-2018 prices as of 30 January 2018.

^c Physical contingencies computed at 1% for civil works. Price contingencies computed at an average of 1.4% on foreign exchange costs and 5.2% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the ordinary capital resources (OCR) loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and a maturity premium of 0.10%. Commitment charges for the OCR loan are 0.15% per year, to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

17. The government has requested a loan in an amount of up to \$110 million from ADB's ordinary capital resources to help finance a part of the investment program. The loan will have a 25-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 15.25 years, and the maturity premium payable to ADB is 0.10% per year.

18. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to civil works for rural road construction. The government will finance utility works, social mitigations, and project management. The government will also assume all costs for capacity strengthening

activities and road safety enhancement under the investment program, reflected in outputs 2 and 3 of the project to ensure the continuity and sustainability of support for capacity-building activities. The government will finance the shortfall of finances, if required. Climate adaptation is estimated to cost about \$17 million, and ADB will finance 36% of adaptation costs. The climate adaptation measures include: (i) greater elevation of road embankments in flood-prone areas; (ii) increased capacity of side and cross drains; and (iii) slope protection.

Table 2: Summary Financing Plan

| Source | Amount (\$ million) | Share of Total (%) |
|---|------------------------|-----------------------|
| Asian Development Bank | 110.0 | 36.3 |
| Ordinary capital resources (regular loan) | 110.0 | 36.3 |
| Government | 193.0 | 63.7 |
| Total | 303.0 | 100.0 |

Source: Asian Development Bank estimates.

D. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3 and described in detail in the updated facility administration manual (Appendix 4).

Table 3: Implementation Arrangements for Project 2

| Aspects | Arrangements |
|---|--|
| Implementation period | September 2018–December 2022 |
| Estimated completion date | 30 December 2022 |
| Estimated loan closing date | 30 June 2023 |
| Management | |
| (i) Oversight body | Coordination Committee–National level: Joint secretary (rural connectivity) and director general of the NRIDA, MORD State level: Secretary of the Panchayat and Rural Development Department or chief executive officer of the MPRRDA |
| (ii) Executing agency | National level: MORD (through NRIDA) State level: Government of Madhya Pradesh through the Panchayat and Rural Development Department |
| (iii) Key implementing agencies | MPRRDA |
| (iv) Implementation unit | Project implementation units established at the district level (83 in Madhya Pradesh). Each unit has about 10 staff. |
| Procurement | National competitive bidding 168 contracts \$275 million |
| Retroactive financing and advance contracting | Civil works |
| Disbursement | The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB. |

ADB = Asian Development Bank, MORD = Ministry of Rural Development, MPRRDA = Madhya Pradesh Rural Road Development Authority, NRIDA = National Rural Infrastructure Development Agency.

Source: Asian Development Bank.

E. Project Readiness

20. Readiness of project 2 is expected to be high. Under advance contracting, ADB approved the financial bid evaluation report of the sample package submitted by the MPRRDA on 8 May 2018. As of 25 June 2018, MPRRDA has awarded 114 of 168 civil works packages (68%), amounting to \$59.4 million (54% of the proposed loan amount). Consulting services for

construction supervision, project implementation and monitoring, and RSAs are in place. All environmental clearances have been obtained, no land acquisitions are required.

IV. DUE DILIGENCE

A. Technical

21. The rural roads to be upgraded are selected on a priority basis following the PMGSY-II guidelines.¹⁴ Rural road design follows the criteria that are in line with applicable Indian Road Congress regulations, particularly regarding road safety aspects.¹⁵ It also considers site-specific information gathered during transect walks such as accident black spots and local flooding areas. The NRIDA has recruited road safety experts to support the RRNMUs in rolling out RSAs. The project implementation consultant employs safeguard experts to ensure the proper incorporation of safeguard requirements in the bidding documents. The technical support consultant will monitor the implementation of the safeguard and road safety requirements.

B. Economic and Financial

22. Rural road upgrades under PMGSY-II include widening single-lane roads to intermediate-lane width where traffic projections indicate the need for capacity augmentation. The project team conducted economic analysis for project 2 on the sample roads in Madhya Pradesh. The benefits considered in the analysis are vehicle-operating-cost savings for motorized vehicles and travel-time savings for passengers of motorized vehicles. The analysis indicated that, overall, the investment program is economically viable—with an economic internal rate of return of 14.1%, which is well above the acceptable rate of 9%. Sensitivity analysis indicated that with a 10% increase in capital costs and/or a 10% decrease in benefits, the overall investment program remains economically viable. The improved level of service with the upgrades and capacity augmentation will accommodate traffic growth and sustain economic development in the project area—these additional benefits are not included in the economic analysis.

23. The project will not generate revenue. Sustainability is ensured through the 5-year post-construction maintenance included in each civil works contract. After this period, road maintenance will be managed by the MPRRDA through the operations of the RRNMUs. The state government will finance road maintenance in accordance with the PMGSY-II guidelines (footnote 14). In FY2018, the MPRRDA spent a total of about \$145 million on maintenance of PMGSY roads, about a 10% increase from the previous financial year. The state government's incremental recurring cost on the rural roads to be built under project 2 is estimated to be about 2.3% of the state's total expenditure on the maintenance of PMGSY roads.

C. Governance

24. **Institutional capacity.** The MPRRDA and field PIUs manage the implementation of PMGSY in Madhya Pradesh, with technical support provided by the project implementation consultant. The MPRRDA has much experience in implementing PMGSY since the program was launched in 2000, and has qualified staff in place to continue implementing the program. The project implementation consultant will support the MPRRDA in implementing safeguard

¹⁴ Government of India, Ministry of Rural Development. 2013. *Pradhan Mantri Gram Sadak Yojana Program Guidelines (PMGSY-II)*. New Delhi. A rural road to be upgraded under PMGSY-II is proposed by the state as part of a district rural road plan to be approved by the MORD.

¹⁵ The Indian Road Congress is the national body that promotes the use of standard specifications conforming best practices in technologies for construction and maintenance of transport infrastructure, including roads and bridges.

frameworks and RSAs. The official and supporting staff of the RRNMUs and RCTRCs are in place. A road maintenance expert recruited under ADB technical assistance will support the operation of the RRNMUs.¹⁶ An institutional strengthening consultant recruited under project 1 will support the operation of the RCTRC. The NRIDA will provide technical support to the MPRRDA and will work with ADB to monitor project implementation. The technical support consultant will support the NRIDA in overall due diligence and compliance monitoring.

25. **Financial management.** The fund flow from the central to the state governments will follow the pattern of grants-in-aid under the centrally sponsored schemes of the government, and the government's financial rules will apply. All states use the PMGSY's online management, monitoring, and accounting system for project accounting and reporting. For project 2, the project team reviewed the financial management assessment of state rural road development agencies for project 1. The assessment covered fund-flow arrangements, governance, staffing, budgeting, accounting and financial reporting systems, internal control procedures, financial information systems, and internal and external auditing arrangements. The review for Madhya Pradesh concluded that (i) the minimum required policies and procedures are in place; and that (ii) the statutory audit function of the MPRRDA is carried out by an independent auditor appointed according to PMGSY guidelines. However, under the first Rural Connectivity Investment Program, concerns about the quality of audited project financial statements (APFS) were raised.¹⁷ The assessment found that the overall financial management risk remains *moderate*, but continuous efforts are required to (i) improve the records of financial transactions, (ii) ensure regular submission of reliable financial statements, (iii) ensure reliable monitoring reports, (iv) reconcile the subsidiary ledger periodically, and (v) maintain financial assets.

26. **Procurement of civil works.** The procurement of civil works will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). It will follow national competitive bidding procedures and use the standard bidding document used for the first Rural Connectivity Investment Program as well as an electronic procurement system (e-procurement) that has been improved as needed, in agreement with ADB.¹⁸ The procurement procedures adopted under the investment program are detailed in the updated facility administration manual (Appendix 4).

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the Government of India, the Government of Madhya Pradesh, the MORD (through the NRIDA), and the Panchayat and Rural Development Department of Madhya Pradesh. The specific policy requirements and supplementary measures are described in the updated facility administration manual (Appendix 4).

D. Poverty, Social, and Gender

28. **Poverty and social.** Madhya Pradesh lags in various development indicators. The provision of all-weather roads in rural areas will be one key to reducing poverty. Specifically, (i) farmers will benefit from better access to rural markets, which combined with stronger agricultural

¹⁶ Attached to ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility and Technical Assistance Grant to India for the Second Rural Connectivity Investment Program](#). Manila.

¹⁷ The APFS for the loans under the first Rural Connectivity Investment Program did not comply with ADB's reporting requirements. The issue has been discussed with the government. Efforts by the implementing agencies to improve the reports are ongoing and some states have shown progress. ADB has asked the MPRRDA to resubmit the APFS for FY2014 to FY2017.

¹⁸ ADB approved e-procurement for national competitive bidding in all investment program states during 2009–2011.

productivity will increase their incomes; (ii) rural communities will be able to shift from subsistence farming to more commercially oriented agricultural production; (iii) production of high-value perishable products will be possible; (iv) poor households will be able to access better-paying jobs outside their villages; (v) women will enjoy better access to services and livelihood opportunities; (vi) investments in nonagricultural enterprises will grow at a faster pace; and (vii) the investment program itself will create labor opportunities for the rural poor.

29. **Gender and development.** During preparation of project 2, more than 2,700 women participated in transect walks, representing about 25% of participants in these activities. Gender analysis highlighted several key benefits that the all-weather roads constructed under the investment program will bring, including an increase in the rate of safe child deliveries, a reduction in maternal and prenatal deaths and mortality of children, and increased enrollment of girls in schools and universities. The gender action plan incorporates several gender mainstreaming targets: (i) participation of women in the transect walks to be at least 20%; (ii) 100% of vulnerable households led by women and affected by the investment program to be identified and to directly benefit from appropriate mitigation measures, and/or to be linked to poverty alleviation and/or livelihood restoration programs; (iii) at least 33% of workers hired in road construction and road maintenance works to be women; (iv) 15% of PMGSY engineers trained are women; and (v) at least 30% of members in the grievance redress committees are women.

30. **Health and labor.** The investment program's social assessments do not anticipate a rise in the incidence of sexually transmitted infections (STIs), including HIV. Madhya Pradesh will ensure that works contracts follow all applicable national labor laws and regulations and include provisions requiring contractors to conduct awareness programs for those employed during road construction. The PIUs will closely monitor and, along with the contractors, coordinate with the State AIDS Control Societies in carrying out awareness programs. National core labor standards will be followed. Men and women will be paid equal wages for work of equal value.

E. Safeguards

31. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.¹⁹

32. **Environment (category B).** Project 2, which consists of 168 packages and includes upgrading of 204 rural roads (with a total distance of at least 2,800 km) in Madhya Pradesh, is categorized *B* in accordance with the Safeguard Policy Statement. Similar to project 1, the roads will be upgraded on existing alignments and no environmentally sensitive areas will be affected. All roads under project 2 have been assessed in accordance with the environmental assessment and review framework requirements. No category A road is proposed under project 2, consistent with the environmental assessment and review framework. A state-level initial environmental examination has been prepared and disclosed on the ADB website. The project team carried out environmental due diligence for project 1 covering the five investment program states, and the compliance level was found to be satisfactory in accordance with the requirements of the loan agreement, project agreements, and initial environmental examinations for each state. The environmental due diligence report was disclosed on the ADB website. All bidding documents are required to have a standard environmental management plan (EMP) and environmental monitoring plan, and detailed project reports are required to have road-specific EMPs based on road-specific environmental checklists.

¹⁹ ADB. [Safeguard Categories](#).

33. Potential impacts under project 2 include increased air and water pollution, health and safety impacts on workers and the community, waste generation from workers, construction debris generation, removal of trees, and removal of utilities, among others. These can be mitigated through engineering measures and through implementation of the EMP, which will be mandatory for the contractor. It is expected that the upgraded rural roads will lead to an increase in traffic-related emissions and noise. Consultations have been conducted, and affected communities perceive that, in addition to providing all-weather connectivity, rural roads will bring about positive socioeconomic changes in their communities. A grievance redress mechanism has been established in areas not previously covered by the program.

34. Institutional arrangements from the central to project levels have been set up for the entire MFF. The technical support consultant will support the NRIDA to provide technical assistance on environmental safeguards to the MPRRDA and the PIUs, while the project implementation consultant will monitor implementation of EMPs by the contractor and will prepare periodic monitoring reports. The RCTRC will continue to provide staff training, knowledge management, and research on rural roads.

35. **Involuntary resettlement (category C).** Project 2 is categorized *C* in accordance with ADB's Safeguard Policy Statement. Activities under the investment program are not expected to involve involuntary resettlement and the state government will ensure that no involuntary land acquisition will take place. Road works will be mostly within existing rights-of-way, with minor cases of widening and realignment that will require only narrow strips of land. In such cases, voluntary land donation will be provided as an option, as with project 1. In case of refusal to donate land, there will be no recourse to expropriation. Specific procedural requirements involving comprehensive consultations with the communities are provided in the state-specific community participation frameworks (CPFs), which are disclosed on the ADB website. Social due diligence for project 2 confirmed that the communities and individuals affected were consulted about the project roads. In accordance with the CPF, the program team conducted transect walks for all project roads. Affected persons are aware that they have the option to refuse land donation and, as a result, some of the road designs have been slightly altered. The implementing agencies conducted census surveys and identified 556 persons who have already donated land; 288 of them are considered vulnerable affected persons. Vulnerable persons will be linked to government-sponsored poverty alleviation schemes through the investment program. The surveys indicate that no physical relocations have nor will result from the program as impacts identified were minor—affecting 5% or less of an individual's plot of land and, in rare instances, external sections of privately owned structures, which the *panchayats* will support in rebuilding. Affected persons will directly benefit from better roads and land donations have not adversely impacted their living standards. The PIUs have secured memoranda of understanding with each affected individual, verified by a third party. A grievance redress committee was set up for each project road. For more information, state-specific social compliance reports for the project 2 roads have been disclosed on the ADB website.

36. **Indigenous peoples (category C).** Project 2 is categorized *C* in accordance with ADB's Safeguard Policy Statement. According to a social impact assessment, scheduled tribe households in project areas do not fall under the meaning of indigenous peoples as defined in the Safeguard Policy Statement. The households are assimilated into the local population and they do not have collective attachment to land. The construction will not have any differential impact on scheduled tribes—they will receive similar benefits from the investment program as nonscheduled tribe households. The CPFs contain special provisions to mitigate any risks to the living standards of scheduled tribe households that might arise during project implementation—either because of land donation or loss of nonland assets.

F. Summary of Risk Assessment and Risk Management Plan

37. Significant risks and mitigating measures for project 2 are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁰

Table 4: Summary of Risks and Mitigating Measures

| Risks | Mitigation Measures |
|---|---|
| Low response by contractors during the initial stage of procurement | Advance contracting will be used. E-procurement with ADB-approved standard bidding documents will be used. Experienced PIU staff are in place with sufficient support from the project implementation consultant to ensure that design issues are properly addressed, which will attract more qualified contractors to participate in the biddings. |
| Inadequate post-investment road maintenance | All contracts for civil works will require contractors to perform 5-year post-construction maintenance. The maintenance component is separately financed by the states, as required in the PMGSY guidelines. |
| Extreme weather conditions beyond projections cause significant damage to project roads | Negative impacts of extreme weather conditions were identified as part of the climate risk assessment and management plan, and mitigation measures were incorporated in the project design. |
| APFS for the first RCIP do not follow ADB’s reporting requirements | The standardized TOR for the audit of ADB-funded projects agreed between the CAG, India and ADB will be followed. |

ADB = Asian Development Bank, APFS = audited project financial statements, CAG = Comptroller and Auditor General, PIU = program implementation unit, PMGSY = Pradhan Mantri Gram Sadak Yojana, RCIP = Rural Connectivity Investment Program, TOR = terms of reference.

Source: Asian Development Bank.

V. ASSURANCES AND CONDITIONS

38. The Government of India and the Government of Madhya Pradesh have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the updated facility administration manual and loan documents.

39. The Government of India and the Government of Madhya Pradesh have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement. The Government of India has also agreed with ADB on a condition to the effectiveness of the loan agreement, providing that in connection with projects 1, 2, and 3 of the first Rural Connectivity Investment Program (footnote 4), the Government of Madhya Pradesh shall have resubmitted to ADB, separately for each such project, the audited project financial statements in compliance with the provisions of the applicable project agreement for specified fiscal years.²¹

VI. THE PRESIDENT’S DECISION

40. On the basis of the approval by ADB’s Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$500,000,000 to India for the Second Rural Connectivity Investment Program, the President has approved the tranche as described in para. 17 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.

²⁰ The risk assessment and risk management plan for tranche 2 is in Appendix 13.

²¹ Loan Numbers 2881-IND, 3065-IND, and 3306-IND.