

**TA 4013-IND: Institutional Strengthening and Capacity Building
for Madhya Pradesh State Road Sector
Increase in Technical Assistance Amount by \$600,000**

1. The Technical Assistance (TA) for Institutional Strengthening and Capacity Building for Madhya Pradesh State Road Sector, financed by the Government of the United Kingdom in an amount of \$1,500,000, was approved¹ by the Asian Development Bank (ADB) on 5 December 2002 and declared effective on 1 January 2003. The total cost of the TA is \$1,900,000, with the government of Madhya Pradesh (GoMP) financing \$400,000. The TA was designed to assist GoMP implement the institutional reform in the road subsector under the Madhya Pradesh State Roads Sector Development Program (the Program). The scope of the TA includes (i) a review of the diagnosed deficiencies and bottlenecks in Madhya Pradesh's road sector development planning and management, road maintenance planning and financing, and demands of institutional strengthening for accountability and sustainable sector development; (ii) assistance to the Public Works Department (PWD), GoMP in implementing the institutional reform; (iii) assistance to PWD in establishing the proposed social and environmental monitoring unit; (iv) assistance to PWD in implementing the labor rationalization and social safety net programs for employees to be retrenched; and (v) provision of training programs, in the country and overseas, to disseminate findings and recommendations on further reforms and institutional improvements for the road sector. The TA closing date is 31 August 2005.

2. Under the TA, a consulting firm, N.D.Lea Consultants Ltd., Canada, was engaged on 17 September 2003 for \$1,440,000, consisting of \$1,058,900 in foreign currency and \$381,100 in local currency cost.

3. The Program's first tranche of \$12 million was released on 18 December 2002, and the second tranche of \$18 million is scheduled for June 2005 upon the fulfillment of release conditions. Owing to the change of the state government in December 2003, turnover of key staff in the state administration, and slow decision-making processes in the government, program implementation has been difficult. ADB has been in continuous policy dialogue with GoMP and frequently interacts with the consulting firm to expedite the implementation of the Program. A key condition for the release of the second tranche is reduction of staff by about 7,800 permanent and 8,000 nonpermanent employees by March 2005 in accordance with the GoMP voluntary retirement scheme and the Industrial Dispute Act 1947 under the Labor Rationalization Plan acceptable to ADB. In January 2004, GoMP decided to restore to their original status—subject to eligibility criteria—nonpermanent staff (staff on daily wages) who had been taken off the daily roll as far back as 1988. ADB has formally communicated to GoMP that the action was essentially contrary to the spirit and terms of the Program agreed on with ADB, as well as to the public resource management reforms that needed to be implemented in the fiscal interest of the state. GoMP is emphatic that in the current political circumstances, PWD is not in a position to initiate any steps toward the compulsory retrenchment of labor and to reduce staff. However, GoMP has expressed its willingness and commitment to explore together with ADB innovative and pragmatic options for labor rationalization and effective utilization of the labor resources within PWD. GoMP is expected to meet all the second-tranche release

¹ The TA was approved concurrently with Loan 1958-IND Madhya Pradesh State Roads Sector Development Program (Program) in an amount of \$30 million, and Loan 1959-IND Madhya Pradesh State Roads Sector Development Project (Project) in an amount of \$150 million

conditions during 2005, except that for labor rationalization—a key aspect that will require close analysis and continuing technical support and policy dialogue.

4. Significant progress has been achieved in fulfilling the second-tranche release conditions under the Program, including incorporation of the Madhya Pradesh Road Development Corporation (MPRDC), GoMP approval of the State Highway Bill, and training and building capacity of PWD staff during 2004. MPRDC, which will eventually be declared the highway authority, has yet to be adequately staffed and become fully operational to allow it to effectively manage the 8000 kilometers of state highways for which it will be responsible.

5. Apart from assisting GoMP develop and establish various business processes, the consulting services will continue to be invaluable in providing day-to-day technical support to the newly formed institutions to ensure sustainability. The consulting firm's inputs will also be valuable in assisting GoMP explore innovative and pragmatic options for labor rationalization. To address the potential resettlement and social impacts, including the impacts on indigenous people, due to road rehabilitation works under the Project, a structured resettlement planning process has been initiated using TA resources. Additional resources will be required to assist PWD complete surveys and consultations with project-affected persons and communities for social development and resettlement activities for the entire Project.

6. ADB requested the Department of International Development (DFID) for an increase in the TA amount by \$600,000 from the Government of the United Kingdom to cover the additional technical inputs for 9 months. DFID has concurred with ADB's request for an increase in the TA amount by \$600,000. Apart from the overall support to GoMP to meet program objectives, the increase in TA resources will focus on strengthening MPRDC's capacity. To undertake the activities effectively and efficiently, the enhanced TA ceiling will be applied to the current contract with N.D. Lea Consultants Ltd. GoMP will continue to provide counterpart support and facilities, including office accommodations, local transportation and logistical services, information, and materials necessary to implement the TA. GoMP's contribution will increase by \$160,000 equivalent. The total TA cost has been enhanced to \$2,660,000. The enhancement is fully consistent with the overall TA purpose and objectives and does not represent any change in scope under the TA.

7. The Board is notified of the increase in the TA amount by \$600,000 from the Government of the United Kingdom, and the continued administration by ADB of the increase in the TA amount by \$600,000.