

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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भौतिक योजना - मन्त्रालय
संख्या १६०४,
मूल दस्तावेज - १-६६/६०४
मिति
समय

September 23, 2010

Mr. Purna Kadariya
Secretary
Ministry of Physical Planning and Works
Government of Nepal
Singh Durbar
Kathmandu

श्री वैदेशिक महाशक्ति

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Dear Mr. Kadariya:

NEPAL: Road Sector Development Project (IDA Grant: H339-NEP):
Mid-Term Review, August 30-September 6, 2010
Aide-Memoire

Please find enclosed a copy of the Aide-memoire of the World Bank Mid Term Review (MTR) during August 30-September 6, 2010, to assess the project achievements to-date and preparation status of the proposed Additional Financing (AF) of the Road Sector Development Project, and discuss on further actions for the satisfactory implementation of the project. We would like to take this opportunity to thank you for the courtesies and cooperation extended by the Government of Nepal (GoN) to the MTR team.

The attached Aide-memoire (AM) provides an overview of the status of project implementation, an assessment of the likely achievement of project development objectives, and status of the preparation of the proposed AF. It also flags policy issues requiring government attention, and summarizes actions agreed to advance implementation in the coming 3-6 months. The AM was discussed at a wrap up meeting held at the Department of Roads (DoR) on September 6, 2010, and reflects discussions and comments made at that time. We would particularly like to bring the following issues to your attention as they are on the critical path for further processing of the project:

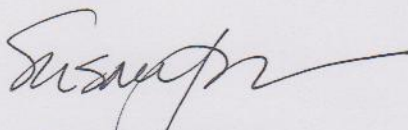
- Progress of the project is overall satisfactory, with good implementation performance including physical progress and compliance with safeguard and fiduciary requirements.
- The review team recommends to (i) add specific outcome indicator target on "percent reduction in travel time to social services"; this will ensure that the impact factors specified in the Project Development Objective (PDO) are fully assessed; and (ii) modify the outcome target for the condition of blacktop roads as of the revised end of project (June 30, 2015) from 10% to a more realistic 15%. The assessment of percent reduction in travel time to social services will be completed by end of the project, as part of the planned impact evaluation study.
- Regarding the finalization of the Financial Management Information System (FMIS) before appraisal of AF, the software has been prepared and is almost in the final stage, which will be reviewed during appraisal.

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- The review team agreed with the Project Coordination Unit (PCU) to take some concrete steps towards completing the remaining payments to the project affected families (absentees and with ownership disputes) through different options: i) re-notification of the people to collect compensation ii) facilitating people in getting their ownership certificate from concerned Land Revenue Offices, and iii) providing open access to compensation claims for the late comers upon submission of valid documents.
- There is substantial compliance with the agreed arrangements of GAAP but DoR still needs to be proactive in taking note of the potential indicators of fraud without waiting for IDA's intervention.
- The overall procurement performance is highly satisfactory in terms of competition in bidding. DoR has proved to be a pioneer in implementing e-bidding in the country and the MTR team commends DoR's effort and achievement in this respect.
- DoR still gets a part of maintenance budget for strategic roads directly (under budget heading 555). The MTR team discussed the issue with the authorities of the Ministry of Finance, DoR and Roads Board Nepal (RBN) and agreed that the covenant will be fully met by next budget announcement for the FY 2010/2011 by channeling all necessary funds for the maintenance of the Strategic Road Network (SRN) through the RBN.
- The Kathmandu Sustainable Urban Transport study is being dropped from the project at the request of DoR as the Asian Development Bank (ADB) is supporting the activity.
- Safeguards actions for 25% of the project works (EMP & RAP), their design and bid documents and IEE and economic feasibility study for total works have been completed. The related documents have been submitted to the Bank for review and approval.

Please let us know if you have any comments which you would wish to bring to our attention. We thank you again for the fruitful and productive discussions during the review meetings, and look forward to continuing our collaboration in the coming months.

Sincerely,



Susan G. Goldmark
Country Director for Nepal

Attachment: Aide Memoire

cc: Hon'ble Vice Chairman, Dr. Jagadish C. Pokharel, National Planning Commission
Hon'ble Member, Dr. Dinesh C. Devkota, National Planning Commission
Mr. Rameshore Prasad Khanal, Secretary, Ministry of Finance
Mr. Yuba Raj Pandey, Secretary, National Planning Commission
Mr. Lal Shankar Ghimire, Joint Secretary, FACD, Ministry of Finance
Mr. Kamal Raj Pande, Joint Secretary, Ministry of Physical Planning and Works
Mr. Ram Kumar Lamsal, Director General, Department of Roads (DOR)
Mr. Hari Prasad Dhakal, Program Coordinator, Foreign Cooperation Branch, DOR.
Mr. Bhuvan Karki, Under Secretary, FACD, Ministry of Finance

ROAD SECTOR DEVELOPMENT PROJECT

MIDTERM REVIEW AUGUST 30 - SEPTEMBER 6, 2010 AIDE-MEMOIRE

I. Introduction and Acknowledgments

1. A World Bank team comprising of Surendra Govinda Joshi (Co-Task Team Leader); Silva Shrestha (Research Analyst); Ishwor Neupane (Social Development Specialist); Drona Raj Ghimire (Environment Specialist); Bigyan Pradhan (Sr. Financial Management Specialist), Narayan D. Sharma (GAAP Specialist), Shambhu P. Uprety (Procurement Specialist), Nicole Wynands (Junior Professional Associate); Nagendra Nakarmi (Sr. Program Assistant); Sunita Gurung (Program Assistant) and Nirmala Bhatta (Team Assistant) carried out the Mid Term Review (MTR) from August 30, 2010 until September 6, 2010 for the Road Sector Development Project. No field visits could be made due to high risk of road closures due to monsoon floods and landslides. The objective of the team was to a) carry out the MTR of RSDP, b) modify the project structure as necessary, and c) to prepare for the appraisal of RSDP Additional Finance.

2. The MTR was an opportunity for both the World Bank and the Government of Nepal (GoN) to review the implementation of the project to date and to make adjustments to the project structure, if necessary. The team is grateful for the hospitality extended to it by the Government of Nepal, especially the counterpart agencies and officers. This Aide-memoire summarizes the team's findings and discussions during the wrap up meeting held on September 6, 2010. As agreed at the wrap up meeting, this Aide-memoire will be classified as a public document under the World Bank's Access to Information policy.

II. Summary of Key Messages

- Progress of the project is overall satisfactory, with good implementation performance including physical progress and compliance with safeguard and fiduciary requirements.
- The review team recommends to (i) add specific outcome indicator target on "percent reduction in travel time to social services"; this will ensure that the impact factors specified in the Project Development Objective (PDO) are fully assessed; and (ii) modify the outcome target for the condition of blacktop roads as of the revised end of project (June 30, 2015) from 10% to a more realistic 15%. The assessment of percent reduction in travel time to social services will be completed by end of the project, as part of the planned impact evaluation study.
- Safeguards actions for 25% of the project works (EMP & RAP), their design and bid documents and IEE and economic feasibility study for total works have been completed. The related documents have been submitted to the Bank for review and approval.
- Regarding the finalization of the Financial Management Information System (FMIS) before appraisal of AF, the software has been prepared and is almost in the final stage, which will be reviewed during appraisal.

III. Achievement of Development Objectives Status

3. The MTR progress in achieving Project Development Objective¹ (PDO) is satisfactory. The DoR field project offices carried out a preliminary traffic survey and road user's survey to determine savings in travel time to economic centers. DoR has also provided geospatial data to determine

¹ The Project Development Objective is for the residents of beneficiary districts to have all-season road access thereby reducing travel time and improving access to economic centers and social services.

increase population in the project area to have all-weather motorable access within 20 minutes walking distance from their residence. Since, household social impact study is due at the full completion of the upgrading works (by March 2012), the assessment of percent reduction in travel time to social services could not be availed during MTR.

4. Based on the current observed progress and a DoR survey, the project team is of the opinion that the restructured PDO is achievable. i) The GIS mapping shows that, so far, there is an estimated 11.3 % increase in the number of people in the project districts that have all-weather motorable access within 20 minutes of walking distance from their residence (MTR target 11 %); ii) The DoR survey showed that where road upgrading works have been substantially completed, there is a 35% decrease in travel time to economic centers for residents of the project area (MTR target 15%). The percentage of black top SRN in poor condition is 20% which is short of the target of reducing it to 15% by MTR (EOP- 10%). Given that the review team believes this target is unrealistic in the regional scenario, it is proposed to be changes to end of project target of 10% SRN in poor condition.

5. Annex 1 gives an overview of the progress towards reaching the outcome indicators.

6. **Current Implementation Status**

7. The overall implementation performance in terms of physical progress as well as activities envisaged under the institutional strengthening and policy reform component is found to be satisfactory in consideration of project elapsed time of 30 months (58% of project duration). All the civil works contracts for upgrading and periodic maintenance except some small road safety works have been awarded. Substantial contracts have been completed and some ongoing contracts have varying progress with a total physical progress of about 82%. Activities under the institutional strengthening component are also progressing satisfactorily and are on schedule. All the credit covenants are met, except the consolidation of road maintenance fund under RBN, which is only partially complied with (details in para 21). There is substantial compliance with the agreed arrangements of GAAP but DoR needs to be proactive in taking note of the potential indicators of fraud without waiting for IDA's intervention. ‡

8. **Road Development Component**

- *Upgrading Works Sub-Component.* The project aims to upgrade 297 km of earthen tracks to all-weather standard low cost motorable roads to improve connectivity of five remote district headquarters (Baitadi, Darchula, Bajhang, Dailekh and Kalikot). Of the 23 contracts awarded for the upgrading of 290.11 km roads, 13 contracts (230 km completed against the MTR target of 125 km) have been completed. The districts head quarters of Baitadi and Dailekh are connected by all-weather roads. The overall physical progress of this component is 85%. About 7 km of road upgrading works has been dropped from the project to achieve a commonsensical end of the roads in the project communities. DoR is evaluating bids for four contracts to be able to start monsoon damage works.

The MTR team noted that the variation order for the additional services of the design and supervision consultant has not yet been approved by the GoN for the amount over 15% of the contract amount. The variation order (VO) was required due to additional time required for rebidding and to accommodate design and supervision of additional emergency works to address monsoon damage. DoR is requested to finalize proposed VO in consultation with WB project team and get necessary approval of GoN by January 2011.

- *Periodic Maintenance Sub-Component.* A total of 450 km of periodic maintenance of blacktop strategic roads was planned for 3 years under the project. All 16 contracts have been awarded for the periodic maintenance and periodic maintenance works have been completed on a total of 322 km against the MTR target of 125 km. The total physical progress achieved is 72% in this component.

- *Road Safety Works:* DoR is in the process of procuring 5 small contracts with Bank's clearance for road safety related works – foot paths, safety barrier and signals etc. These works will be procured within the coming months and will be completed by FY 2011.

9. *Institutional Strengthening and Policy Reform Component.* The activities under this component were prioritized and carried out as per the three year business plans prepared by the different units of DoR for FY 2007/08 to 2010/11. These business plans covered the program for the entire DoR and not just activities financed under the project.

- *IT and MIS Development (MIS-IT).* As per the business plan, various IT and MIS related activities have been conducted under the project financing, some of which include installation of a telephone exchange system at the DoR office in Babar Mahal; procurement of services of one IT Manager and IT assistant to support the DoR's MIS-IT management, procurement of computer hardware and accessories; installation, operation and maintenance of a Wide Area Network (WAN) in all the nine offices of DoR within the Kathmandu valley. It has been proposed to procure Information security Solution for the E-procurement System of DoR. The requirement analysis for the Information Security System has been done through a local consultant (funded by GoN's regular budget). Based on the report, the procurement of the Authentication System has been initiated. MIS-IT is preparing a new Business Plan for the period of FY 067-68 to FY 069-70 (2010-11 to 2012-13) and will be sent to the Bank for review as soon as it gets approved by the Department. There has been commendable achievement in terms of operationalizing the e-bidding system in the DoR. The digital submission of bids and electronic bid opening was applied in all 23 national competitive bidding contracts for upgrading works and 16 periodic maintenance contracts in RSDP. Considering more transparency and open competition, the DoR has decided to implement this system in procurement of goods and works from all possible office and has conducted trainings of about 105 DoR engineers and account officers, and 250 contractor's personnel.
- *Human Resource Development.* Under the project, 254 participants attended 25 workshops and trainings both locally and internationally. The technical trainings were attended by the relevant technical personnel as per the overall human resource development business plan of the DoR. The Unit has prepared a new business plan for the Period FY 2010/11 to FY 2012/13, which includes all HRD programs for the department and has been approved by DoR.
- *Geo-technical, Environmental and Social Development Unit (GESU).* An Environmental Officer and a Social Officer (Consultants) have been hired by the GESU and the Environmental & Social Management Framework (ESMF) (in English and Nepali) and a guide to environmental and social issues associated with new road construction and upgrading has been printed and is being distributed to DoR staff and concerned stakeholders. The two NGOs hired to conduct the HIV/AIDS awareness programs to the stakeholders of the project conducted such programs in the field between November 2008 and July 2010. About 1800 people, including construction workers, contractors, civil servants, drivers, teachers and local businessmen were present in the various awareness programs and workshops.
- *Road Asset Management - Highway Management Information System (HMIS).* As per the program of DoR is to develop and operate an asset valuation and management system. DoR has prepared asset valuation software and completed the first asset evaluation. Asset ledgers have to be printed and distributed to the DoR road offices to update asset records and valuation at the end of each FY. The asset registers are expected to be operationalized by March 2011. For strengthening Road Asset Management System, a WB consultant will be visiting in October 2010 to assess the need of DoR to improve is HMIS.

- *Preparation of Road Safety Action Plan (TESU).* DoR approved a road safety business plan and a one day workshop with relevant stakeholders to develop a Traffic Management plan for Katmandu valley and a Road Safety Action Plan for Nepal was held in January 2009. Review of Road Safety Management Capacity in Nepal was conducted by an international Consultant. A WB consultant will be visiting Nepal in September 2010, for further consultation and deliberations to identify key activities to be included in the proposed additional financing of the project.
- *Effective Quality Assurance.* A quality audit of project laboratories, quality assurance plans, quality control procedures, and the calibration of the lab equipments are being conducted by a team from the office of the Central Road Laboratory. Equipments such as a Water Bath, a Bitumen Penetration Test Machine, a Cement Motor Compressive Strength Test Machine, and a CBR Testing Machine for quality tests have been procured under the project.
- *Mechanical Training Center.* To enhance the training capacity of the center and provide better training to the staff as well as other trainees of the private sector, a hydraulic demo bench was procured under the project. The Demo Bench has enhanced the training skill of the trainers and created a better learning environment for the trainees.
- *Roads Board Nepal (RBN).* The business plan for RBN included an overall program of the RBN, including strengthening, integrating & support to Local Road Agencies and consultancy for updating existing Rules, Regulations, Directives and Guideline based on which the institutional strengthening activities have been provided under the RSDP. Consultants have been mobilized for the Preparation of Charts of Account and Developing Monitoring and Evaluation Tools in order to strengthen, integrate and support Local Road Agencies. Road Users' Satisfaction Survey is planned to be carried out in FY 2011/12.
- *Technical Audit.* As third party independent monitoring, the National Vigilance Center (NVC) is responsible for the technical audit of 20% of the civil works contract to ensure standard design, cost effective procurement and quality assurance under the project. Of the total 39 civil works contracts, NVC has carried out technical audits of 24 contracts (about 60%) for both upgrading and periodic contracts by MTR. The contractors have carried out corrective measures suggested by the NVC in the technical audit reports.
- *Equipment and logistics.* To date, procurement of computers, photocopy machines, fax machines and printers for the PCU and two Project Implementation Consultants (PIC) offices have been completed. Similarly, one car and five four-wheel drive vehicles have also been procured.
- *Preparation for a follow up project.* International consultants for the pre-investment studies (feasibility and detailed design) and project preparation works have been contracted and mobilized. Preparations for the follow up project will be completed before appraisal. The Kathmandu Sustainable Urban Transport study is being dropped from the project at the request of DoR as the Asian Development Bank (ADB) is supporting the activity.

10. *Progress in Implementing the GAAP.* The MTR team noted that the following actions have been taken pursuant to the agreed arrangements on Governance and Accountability.

- The annual procurement plan has been disclosed on the DoR website.
- Works bidding documents have been made available in the e-procurement section of DoR www.eproc.dor.gov.np with free access to all

- The Request for Proposal has been provided to all the short listed Consultants and arrangements to make available to others on demand are in place.
- Public disclosures of intended contract award, through affixing notices on the Notice Board have been regularly followed in addition to informing the bidders or the proposers and posting the awards on the website.
- The audited project financial statement has been made public through the DoR website.
- The Complaint Register has been maintained and complaints on procurement, fraud/corruption and construction quality have been dealt with on their occurrence though expeditiousness would be desirable.
- The independent procurement review team has reviewed procurement related issues under RSDP and DoR on a sample basis (viz. Biratnagar division and Mahendranagar division)
- One Contractor has been blacklisted by PPMO for one year on the charge of submission of false document in bidding for one of the periodic maintenance contracts under RSDP (Division Road Office, Hetauda)

11. There is substantial compliance with the agreed arrangements of GAAP, but taking note of the potential indicators of fraud in the bidding stage as well as during execution and supervision of works contract and follow-up of, thereof lacks. DoR needs to be proactive in identifying collusive practices, whenever red flags are noticed. Similarly, action against defaulting Consultants and Contractors, failing implementing quality assurance, are to be considered seriously. E-submission of bids would largely reduce the collusion during bidding. The Bank expects that effective third party verification mechanism, Bank's enhanced supervision will help in better investigation of red flags and enforcement compliance of contractual provisions, including adherence to specifications and the quality assurance plan.

12. *Safeguards performance.*

- *Social Safeguards.* The MTR team noted satisfactory performance on social safeguards, particularly on the preparation of RAP and implementation of the recommended actions which were found consistent with the Project's Environmental and Social Management Framework (ESMF) developed in 2007. Major activities performed were: i) compensation payment amounting NRs 7.4 million (77.7%) till MTR, ii) awareness raising among a cross section of people on HIV/AIDs, iii) significant amount of employment generation including for local poor and women iv) control on child labor use by contractors. The MTR team, however, recommended different measures towards accomplishing the pending activities, especially, for enhanced compensation payment to the Project Affected Families (PAFs) (absentees outside the country and dispute on ownership) including allowances to the vulnerable families, preparation of simplified Nepali version of ESMF, continue efforts for the prevention of child labor, close follow up on land ownership transfer to DoR in close coordination with Land Revenue Offices (LROs) in different districts. DoR is to disclose ESMF translated (Nepali) version in the project website by September 20, 2010 for the proposed AF. The MTR team also emphasized the need between PCU and GESU for planning and execution of activities in close coordination (More details are included in Annex 5).
- *Environmental Safeguards.* Until now, environmental management has been able to generally meet the main requirements as per the environmental safeguard policies of the Bank. The performance has gradually improved as implementation progressed. GESU staff, project staff and

contractors are now fully sensitized on environmental management in RSDP. All the pre-investment studies were carried out. Although there had been a delay in carrying out the preparedness checks and other monitoring activities in the initial stage, at least one round of various monitoring as required by the Environmental and Social Management Framework agreed for the RSDP road, has been completed. During these monitoring as well as previous field visits a need for improvements in the environmental management practices at sites were observed. Mostly, these are related to inappropriate disposal of spoil, poor labor-camp and occupational health & safety facilities, and location and operation of crusher plants as well as quarry sites. The project responded with commitments to implement the suggested improvements. (More details are included in Annex 5).

13. **Updated project risk assessment.** As over 80% of the project components have been completed complying with project safeguard and fiduciary requirements satisfactorily and the PDO is achievable based on the result indicators, the risk of not achieving the desired project impact is low. Since no new risks were identified other than the ones already in the original project document, there is no need to modify the present risks for the implementation of the project. The risk of key staff transfers including Project Coordinator will be further discussed and agreed during appraisal.

14. **Effectiveness of partnership arrangements.** There is no partnership arrangement with any other development partner in the project. However, there is an informal agreement with other development partners like ADB and DfID on the geographical locations of the roads being supported under each of the funding agencies. Discussions are ongoing to start joint quarterly review meetings with the ADB chaired by MoPPW in order to enhance coordination and information sharing of good practices across the strategic roads network.

IV. Procurement, Financial Management and Disbursement

15. **Procurement.** The procurement activities for the civil works are almost complete with the exception of five small contracts for road safety works, which will be procured within the coming months. DoR has invited bids for the procurement of some additional IT equipment and consulting services to enhance computer-based financial management and e-bidding. The overall procurement performance is highly satisfactory in terms of competition in bidding, while the government is facing a serious problem of intimidation and collusion among the bidders in public procurement. DoR has proved to be a pioneer in implementing e-bidding in the country and has been an example among other sector agencies in the country. The MTR team commends DoR's effort and achievement in this respect.

16. **Budget for FY2009/10 and Estimated Expenditures.** The total revised budget was NRs.1,601.79 million of which NRs.1,452.85 million were allocated from IDA sources and NRs.148.94 million from government sources. The total estimated expenditures of FY2009/10 was NRs.1,354.22 million, which is about 85% of the approved revised budget; of this, about NRs.99.29 million (about 7.3%) was spent from government sources, and about NRs.1,254.93 million (about 92.7%) from IDA sources.

17. **Disbursements.** As of September 3, 2010, total disbursements from IDA sources under the project is US\$30.06 million (which is about 71.2%) of which only about US\$16.43 million has been registered as actual expenditures and the remaining still reflects as the unutilized advance in the designated account. Currently based on actual disbursement, the financial progress is fully satisfactory with no disbursement lag. The MTR team noted that about NRs.618.42 million (eqv. US\$8.64 million) are an outstanding reimbursable amount, which the DoR is planning to reimburse to the government's treasury by the end of September from the balance available in the Designated Account.

18. **Financial Management.** The MTR team reviewed the financial management system of the Project. The development of the Financial Management Information System (FMIS), which was agreed for June 30, 2010, the software has been prepared. The MTR team reviewed the FMIS software and will be verified for application during appraisal in September 2010.

19. The MTR team discussed and agreed with DoR authorities on three key areas as part of overall financial management improvement: (i) The FMIS will be reviewed for implementation before the Bank can make a decision regarding the appraisal and negotiations for Additional Financing, (ii) A high priority will be given to monitor both the project outputs and expenditures to ensure that physical and financial progress reconcile – consequently, DoR will organize training to all Project Managers and Accounts Officers two times a year and DoR will mobilize periodic field visits to provide guidance on the accounts and also to follow-up on the expenditure statements (this has already been initiated and will be expanded), and (iii) Improve internal control systems to track the eligible expenditures and to ensure that the government's financial procedures are duly followed.

20. In addition to these, the MTR team suggested the following points based on its observations: (i) all ledgers and books of accounts to be updated in the FMIS system, and (ii) all contract details by cost centers, components, budget heads etc. should be recorded in vouchers prior to approval of payments. The team also suggested DoR to develop an IT based contract monitoring system to be able to monitor the financial status of each contract in the project. DoR is expected to submit IDA, an RfP to prepare the software, by December 31, 2010.

21. **Credit Covenants:** All the credit covenants are met except the consolidation of road maintenance fund under RBN, which is partially complied with. DoR is receiving direct fund for road maintenance from GoN under the heading of 555. The MTR team discussed the issue with the Ministry of Finance (MoF), DoR and RBN and agreed that the covenant will be fully met by the announcement of next budget for FY 2010/ 2011 by channeling all necessary funds for the maintenance of the strategic road network (SRN) through the RBN.

22. **Implementation Progress Report.** There are no pending Implementation Progress Reports. The third trimester Implementation Progress Report of FY2009/10 has been submitted on August 31, 2010 within the due date. The MTR team informed that IDA will review the report and send its comments by September 15, 2010. The MTR team pointed out that the next progress report for the first trimester of FY2010/11 is due on December 31, 2010.

23. **Audit Report.** There are no pending audit reports. The audit report of FY2008/09 has been submitted after the due date but within the grace period. The MTR team emphasized that the next required audit report for FY2009/10 is due on January 15, 2011.

V. Key Issues in Implementation

24. *Change in outcome indicators.*

- The review team recommends to add an outcome indicator on "percent reduction in travel time to social services" in order to assess the desirable impact factors specified in the Project Development Objective (PDO) and modify outcome indicators on road condition of blacktop roads for the original project and the Additional Financing (AF) of the project. The assessment of percent reduction in travel time to social services will be completed by the end of the project
- There are currently 500 km of periodic maintenance undertaken each year and 1000 km of backlog within the project period. The MTR team noted that the present indicator in the PAD is an output and agreed to shift this outcome indicator to the intermediate level indicator in the results framework.

- DoR raised its concern about the high standard of blacktop road condition (10% in poor condition) required as an outcome target in the results framework. For a developing country like Nepal, it is unlikely to meet such a target with the resources available for maintenance. Based on average road conditions in the region, the MTR team agreed with DoR to reduce the target to 15 percent of blacktop SRN in poor condition by June 30, 2015.

25. ***Project covenant on consolidating road maintenance allocations under the road fund of the Roads Board Nepal (RBN) and Periodic Maintenance of blacktop strategic roads.*** GoN has consolidated the maintenance budget allocated for rural roads. DoR still gets a part of maintenance budget directly from GoN (under budget heading 555). The project envisages DoR to carry out 1500 km of periodic maintenance and 1000 km of backlog within the project period of 3 years. The project supports only 450 km and the rest is to be financed with public resources. GoN has allocated NRs. 770 million in FY 2008, NRs. 1.37 million in FY 2009 and NRs. 2.376 million in FY 2010. DoR has been able to implement periodic maintenance of about 1150 km (614 km in FY 2008, 56 km in FY 2009 and 476 km in FY of strategic roads) since the effectiveness of the project in February 2008. In FY 2009, DoR received a substantial amount (budget heading 555 - about NRs. 856 million) for maintenance, most of which was spent on specific/preventive maintenance instead of meeting periodic maintenance requirements. The MTR team discussed the issue with the authorities of Ministry of Finance (MoF), DoR and RBN and agreed that the covenant will be fully met by the announcement of next budget for FY 2010/ 2011 by channeling all necessary funds for the maintenance of the SRN through the RBN.

26. ***Financing of Emergency Works.*** DoR is evaluating bids for six contracts to implement flood mitigation design elements into monsoon-damaged works under the project. The MTR team discussed the financing of these contracts, which may be accommodated through savings elsewhere in the project. Should there be any financial shortfall in the project, however, financing options through retroactive provisions in the Additional Finance (AF) will further be decided at the time of negotiation of the project.

VI. Additional Finance Preparation

27. ***Rational for Additional Financing.*** The Additional Finance (AF) is being considered to continue the momentum to benefit isolated communities, to continue the sector/donor coordination, to continue capacity building and because of continued government commitment. The original RSDP was designed as a fast track operation in order to support the ongoing peace process and to demonstrate real benefits to the most remote communities. Additional Financing is seen as the best way to continue the present momentum of this positive experience and quickly deliver tangible benefits in other remote areas. Furthermore, this AF will be an opportunity to continue the dialogue with other key development partners on how to increase harmonization of policies and procedures within a GoN-owned framework. Additionally, the AF will support further modernization of DoR, and enhance its service delivery, likely accelerating accessibility improvements in the country. The Government is strongly committed to the project and has already proposed a selection of roads for upgrading, rehabilitation or improvement from the list of roads prioritized in the national PIP. Further, the GoN is demonstrating substantial commitment to the Additional Financing.

28. ***Scope of the Additional Financing.*** The AF will upscale two on-going main activities: The Road Development Component and Institutional Strengthening component. The total project cost will be US\$ 125.5 million, of which IDA will provide US\$ 75 million and GoN provides US\$ 50.5 million. In consideration of the performance and capacity of the local construction industry in the on-going project and available project duration, IDA financing will be US\$ 75 million. The amount will

be sufficient to complete the current RSDP roads (227 km upgrading works to connect three district headquarters of Darchula, Bajhang and Jumla), and to add 181 km of upgrading works in two new districts - Rukum and Jajarkot. The GoN has agreed to contribute US\$ 50.5 million to share 90 percent of the cost of Periodic Maintenance (2100 km) and of the Emergency Maintenance and Road Safety physical works. The Institutional Strengthening and Policy Reform Component will provide support to the DoR, RBN, NVC and the Ministry of Physical Planning and Works (MoPPW) to sustain and deepen previous institutional and policy development activities started in the Road Maintenance Development Project (RMDP), as well as support new ones that have been identified by the GoN as per the approved business plans of the different units and agencies.

29. **Implementation Arrangements.** Implementation arrangements for investments under the Additional Finance will mainly remain as in RSDP, but with more focus on: (a) improving monitoring and reporting safeguard arrangements; (b) improving e-bidding; and (c) improving financial monitoring, including the preparation of financial reports using the FMIS; and (d) updating the Governance and Accountability Action Plan.

30. **Readiness for project appraisal of Additional Financing.** The MTR team reviewed the project preparation status in regard to its readiness for appraisal. The team's findings regarding activities planned for the appraisal are as follows:

- IEE for all five roads submitted to the Bank for review and clearance.
- Detail economic feasibility reports for all five roads submitted to the Bank for review and clearance.
- 25% of the design works and bid documents prepared, this is to include design and bid documents for Gokuleswore-Darchula and Kalangagad-Chanpur roads in order to award these contracts by the planned effectiveness of the project (in February 2011).
- EMP and RAP for 25% of the civil works submitted to the Bank for review and clearance. This includes the documents for Gokuleswore-Darchula and Kalangagad-Chainpur roads.
- Additional monitoring and reporting in the implementation of the ESMF are agreed with MTR team;
- A detailed plan for procurement, storage, security and use of explosive materials is agreed with the MTR team;
- Procurement Plan for 18 months of activities has been submitted to the Bank for review.
- Substantial compensation for Lost Assets has been carried out for the ongoing RSDP sub-projects.
- A baseline survey for the proposed roads under AF is ongoing and will be completed before contracts are awarded;
- Regarding the finalization of the Financial Management Information System (FMIS) before appraisal of AF, the software has been prepared and is almost in the final stage, which will be reviewed during appraisal.
- The Governance and Accountability Action Plan is prepared, and
- Pending legal covenants have been fully met except covenant on consolidating maintenance fund partially complied with.

31. Based on the progress made in the preparation of AF, the MTR team recommends for the pre-appraisal review of proposed AF in mid September 2010, as the safeguard documents are currently under review by the Bank. Also, the functional operation of the FMIS is in its final stages which will be reviewed and verified by the Bank's FM team. At the acceptance of these documents and meeting Bank requirements, the pre-appraisal review could be upgraded to appraisal level.

VII. Proposed Timing and Focus of Next Review of the project

32. The next review of the project will be pre-appraisal of the Additional Finance, which is planned for September 17, 2010.

Annex 1

Progress on the Achievement of Results by MTR

| PDO | Project Outcome Indicators | Progress To Date (MTR) |
|--|---|--|
| (i) To provide residents of beneficiary districts with all-season access to economic centers and social services | 6 percent increase in number of people with all season access to economic centers and social services 35 percent decrease in journey times to key economic centers in the project area | GIS shows 3.15% increase (MTR target 3%) Preliminary survey by DoR project offices resulted in a 35% reduction in travel time (MTR target 15%) |
| | 500 kms of periodic maintenance undertaken each year and 1000 kms of backlog within the project period | A total of 1150 km blacktop roads had periodic maintenance works in two and half years. The backlog is about 800 km by MTR., which is planned for FY 10/11 . |
| | Reduce the percentage of black top SRN in poor condition to about 10 percent | 20 % of black top road in poor condition (MTR target 15%). |
| Intermediate Outcomes | Intermediate Outcome Indicators | |
| Road Development Component I | | |
| (i) Targeted SRN is all weather sealed gravel road | 100 percent of 297 km of target roads receiving upgrading works | 230 km have been completed. |
| (ii) Sustainable periodic maintenance of targeted highways and feeder roads executed | 100 percent of 100 km of highways and 350 km of targeted roads received periodic maintenance | 322 km have been completed. |
| (iii) Road Safety Action Plan & physical works | Publication and implementation of actions | Report on Road Safety Action Plan study submitted by the consultant. An international consultant will visit Kathmandu in October 2010 to detail the action plan. |
| Institutional Development Component II | | |
| (i) Improved staff capacity within DoR | HR policy updated and 3 year training plan finalized. Domestic and international training provided for DoR staff as per policy and plan | Trainings being undertaken as per the business plan. |
| (ii) Capacity building in Geo-technical, Environmental and Social aspects and create awareness on HIV/ AIDS | a) Completion of geo-technical assessments, b) EMAP and RAP compliance monitoring and c) performance in creating awareness among project | a) Assessments of ongoing improvement carried out as recommended, b) EMAP and RAP monitoring being done periodically, independent external |

| | | |
|--|---|--|
| | construction workers and road users on HIV/AIDS | consultant to monitor to be done by May 2010. First round of HIV awareness program carried out by NGO. |
| (iii) DoR IT based MIS operational | Completion of pilot installation of wide area network (WAN) in DoR division offices in Kathmandu and satisfactory operation and maintenance of IT based management system | WAN installed in 9 offices of DoR in Kathmandu Valley. A business plan to operate MIS software to be submitted to IDA which includes proposal for phase-wise operationalization of the different modules |
| (iv) Road asset management tools used for prioritization of road maintenance and upgrading works | HDM4 used for bi annual road condition assessment and preparation of annual maintenance plan | Consultants have submitted the report for the Road Asset Register. An IDA consultant to visit Kathmandu in Sep./Oct. 2010 to detail the actions to use HDM4 to prepare the annual maintenance plan. |
| Intermediate Outcomes | Intermediate Outcome Indicators | Use of Intermediate Outcome Monitoring |
| Institutional Development Component II | | |
| (v) Improved quality assurance | Quality monitoring plan prepared each year and quality audit carried out by Central Road Lab | The Central Road Lab has carried out internal quality audits. |
| (vi) Improved effectiveness of Roads Board Nepal | RBN Act amended and more training and logistics provided Government decision to benchmark salaries to market rates Human resource development (HRD) plan | Bill approved by the cabinet and sent to the special committee for discussion before submitting to the parliament for approval. |
| (vii) Third party technical audit | Third party technical audit carried out for 20 percent of the project works each year | 30% of the contracts had third party technical audit by NVC. |

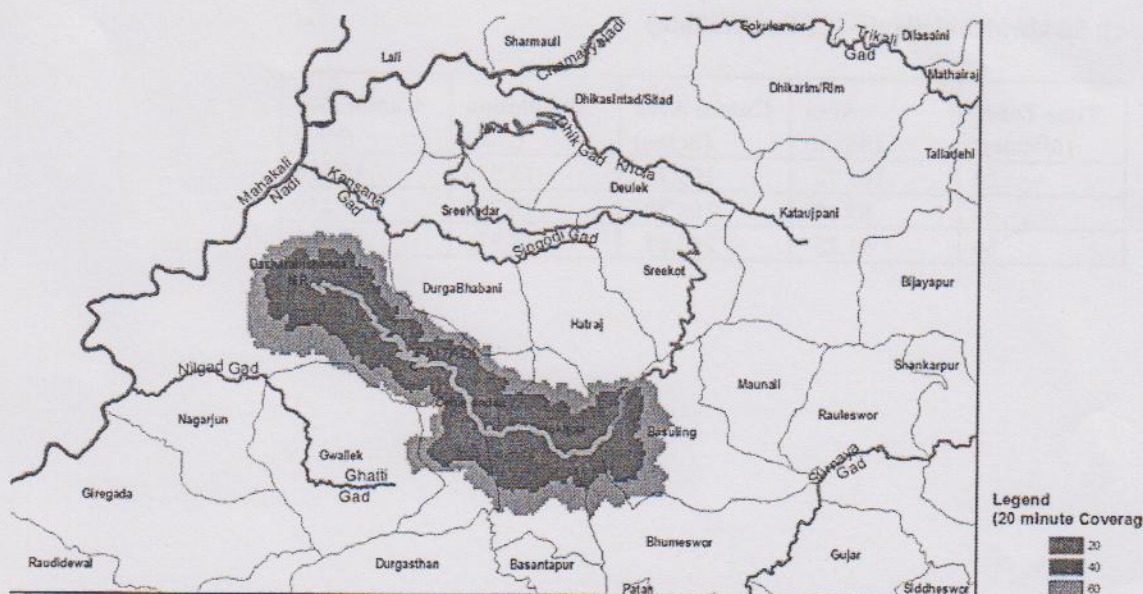
Assessment of Result Indicators

1. Increase in number of people with all season road access within 20 minutes (average) walking distance from their residence.

| Road_Name | Length (km) | Population | Additional Population | Additional % population benefited |
|-------------------------|-------------|------------|-----------------------|-----------------------------------|
| Khodpe-Kalingagad | 39.9 | 254,592 | 2,617 | 1.03% |
| Satbanjh-Tripurasundari | 22.5 | 255,000 | 5,596 | 2.19% |
| Satbanjh-Gokuleswor | 38 | 195,387 | 4,671 | 2.39% |
| Surkhet-Khidkijyula | 126 | 495,071 | 15,556 | 3.14% |
| Tallodhangeswor-Dailekh | 28 | 156,371 | 14,316 | 9.16% |
| | 254.4 | 1,356,421 | 42,756 | 3.15% |

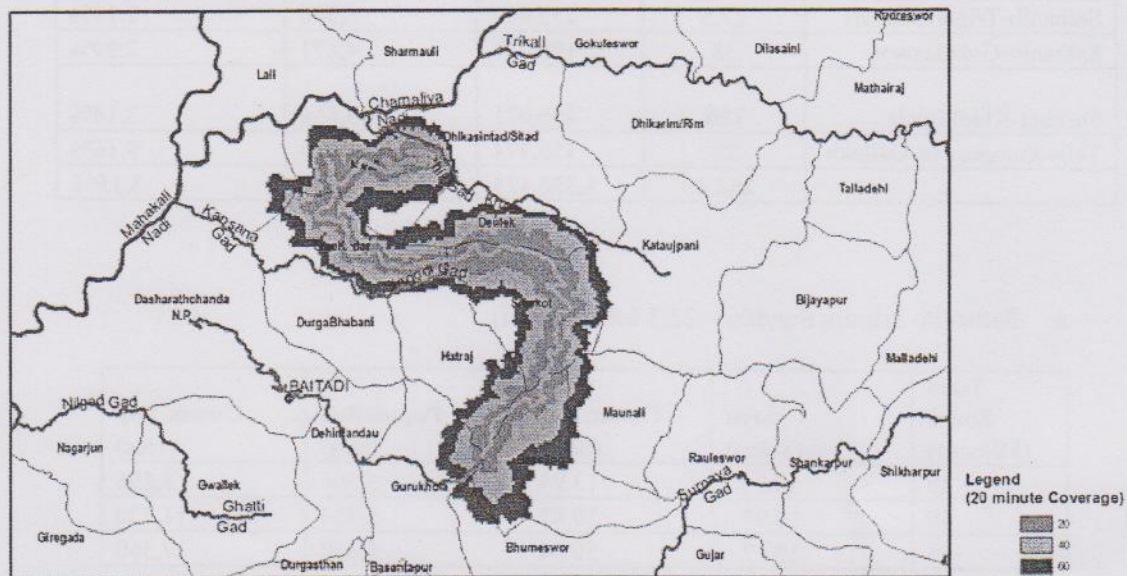
- a. Satbanjh-Tripura Sundari – 22.5 km (Baitadi)

| Time Zones (Minutes) | Area (Sqkm) | Cumm Area (Sqkm) | Population (Nos) | Cumm Pop (Nos) |
|----------------------|-------------|------------------|------------------|----------------|
| 20 | 13.94 | 13.94 | 5,596 | 5,596 |
| 40 | 16.93 | 30.87 | 5,934 | 11,530 |
| 60 | 19.17 | 50.04 | 5,830 | 17,360 |



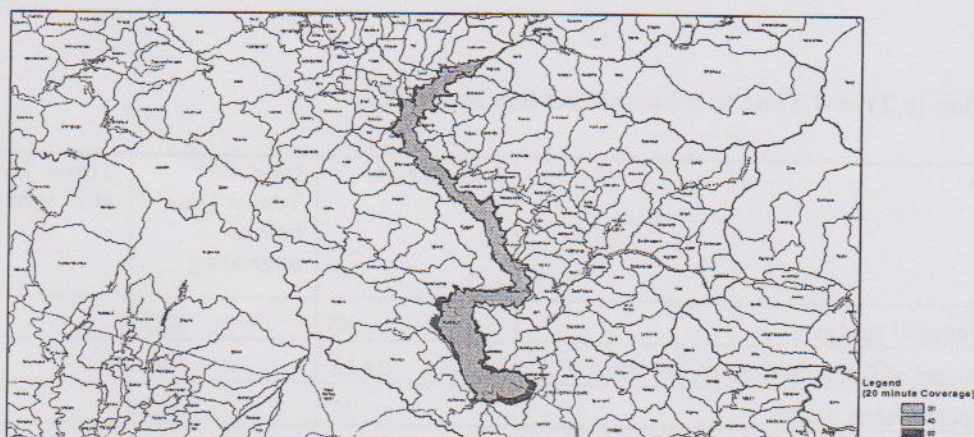
b. Satbanjh- Gokuleswore – 38 km (Drachula)

| Time Zones (Minutes) | Area (Sqkm) | Cumm Area (Sqkm) | Population (Nos) | Cumm Pop (Nos) |
|-------------------------|----------------|---------------------|---------------------|-------------------|
| 20 | 19.04 | 19.04 | 4,671 | 4,671 |
| 40 | 17.73 | 36.77 | 4,282 | 8,953 |
| 60 | 20.48 | 57.25 | 4,749 | 13,702 |



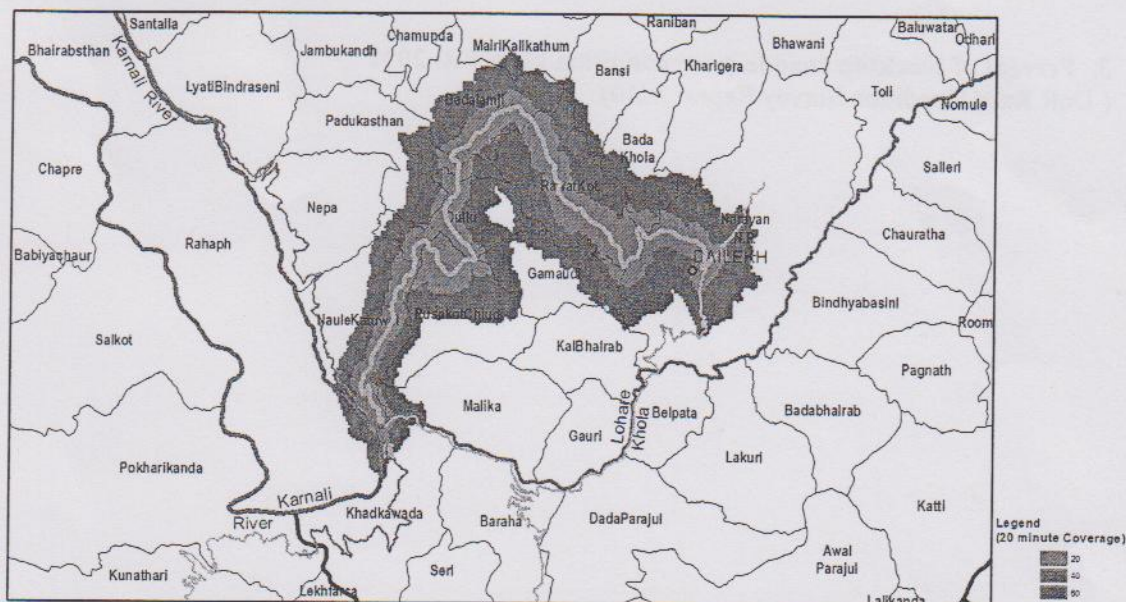
c). Surkhet-Khidgijyula-126 km (Kalikot)

| Time Zones (Minutes) | Area (Sqkm) | Cumm Area (Sqkm) | Population (Nos) | Cumm Pop (Nos) |
|-------------------------|----------------|---------------------|---------------------|-------------------|
| 20 | 105.72 | 105.72 | 15,556 | 15,556 |
| 40 | 89.08 | 194.80 | 14,733 | 30,289 |
| 60 | 91.28 | 286.08 | 18,913 | 49,202 |



d) Tallodhungeswore-Siyakot-Dailekh-28 km (Dailekh)

| Time Zones (Minutes) | Area (Sqkm) | Cumm Area (Sqkm) | Population (Nos) | Cumm Pop (Nos) |
|-------------------------|----------------|---------------------|---------------------|-------------------|
| 20 | 38.86 | 38.86 | 14,316 | 14,316 |
| 40 | 38.28 | 77.14 | 11,291 | 25,607 |
| 60 | 40.67 | 117.81 | 8,880 | 34,487 |



2. Reduction in Travel Time to economic centers by MTR

| Road_Name | Length Km | Original Travel Time before upgrading | Travel Time after upgrading |
|--|---------------|---------------------------------------|-----------------------------|
| Khodpe-Kalingagad Bridge | 60 | 5.27 | 2.22 |
| Satbanjh-Dhikgad of Satbanjh-Gokuleswor Road | 38.28 | 1.91 | 1.24 |
| Satbanjh-Tripurasundari Road | 22 | 1.2 | 0.9 |
| Surkhet-Khidkijyula | 126 | 12 | 8.5 |
| Talldhungeswor-Dailekh | 28 | 2.5 | 1.9 |
| Total travel time | 274.28 | 22.88 | 14.76 |
| Average Travel time (hours) | | 4.576 | 2.952 |
| Travel time saving (hours) | | | 1.62 |
| % time saving | | | 35.5% |

Note: The Length of the road includes completed Ottaseal and base course works without Otta seal.

3. Percent of blacktop road in poor condition by MTR: 20%
(DoR Road Condition Survey Report 2010)

Annex 2

Status of Key Actions Agreed During March 2010 Implementation Review

| Action | Responsibility | Timing (dates) | Status |
|--|------------------------|---|--------|
| Road Development Component | | | |
| • Award of final contract | DoR/IDA | April 15 2010 | Done |
| • Bid documents ready for emergency works | DoR | March 31, 2010 | Done |
| • Award of contracts for emergency works | DoR | June 30, 2010 | Done |
| Maintenance Component | | | |
| • Award remaining Periodic Maintenance Contracts | DoR/Maintenance Branch | April 30 2010 | Done |
| • Decision on Hire quality control Consultant for remaining PM works | DoR | April 30 2010 | Done |
| • Status of maintenance of RMDP Roads | DoR | April 30 2010 | Due |
| Institutional Component | | | |
| • Road Asset Register completed | DoR/Consultant | June 30, 2010 | Done |
| • Complete hiring of International consultant for pre-investment studies | DoR PCU | March 30, 2010 | Done |
| • Complete draft design and estimates of 25% of works proposed under the additional financing | DoR/ Consultant | August 15, 2010 | Done |
| • Final report of technical audit completed | DoR/ NVC | July 15 2010 | Done |
| • Technical auditors hired for new technical audit of 4 upgrading works and 3 periodic maintenance contracts | | May 31 2010 | Done |
| • Complete the technical audit of sample contracts | DoR/ NVC | July 15, 2010 | Done |
| • Hire consultants for Monitoring Guidelines and Chart of Accounts | RBN | May 31, 2010 | Done |
| Social and Environmental Safeguard | | | |
| • Enforce Circular requiring Supervision Consultant to attach a signed observation note on E & S safeguard condition in each payment | RSDP | all forth coming contractor's payment request | Done |

| Action | Responsibility | Timing (dates) | Status |
|---|-----------------------------|---|--|
| request from contractor | | | |
| <ul style="list-style-type: none"> Recruitment of Environmental and social specialists at GESU. | RSDP/GESU | 31 May 2010 | Social Specialist appointed and reinviation for Environmental Specialist is under process. |
| <ul style="list-style-type: none"> RSDP Safeguard related detailed/ final action plan for FY 09/10 | RSDP/GESU/ | 31 March 2010 | Done |
| <ul style="list-style-type: none"> Preparedness check including orientation to PMUs and contractors' site managers (Khodpe-Jhoda 11A, 11B) | GESU | 31 March 2010 | Done |
| <ul style="list-style-type: none"> Site orientation to site-supervisors, machine-operators, labor-group leader, etc | Supervision consultant/ PMU | Continuous process | Ongoing |
| <ul style="list-style-type: none"> Verification of safeguard measures incorporation in Satbanj-Gokuleshwor draft/final documents | GESU | prior to finalization and awarding contract | Done |
| <ul style="list-style-type: none"> Monthly and quarterly reports to include information on environmental and social safeguard activities undertaken as well as difficulties faced (if any) for each contract separately. | Supervision consultant/PMU | Each forthcoming report | Ongoing |
| <ul style="list-style-type: none"> Screening and checking periodic maintenance activities | GESU | April 15, 2010. | Ongoing |
| <ul style="list-style-type: none"> Independent external monitoring report (draft) | GESU/RSDP | May 2010, prior to AF appraisal | Draft report submitted. |

Annex 3

Key New Actions Agreed During August 2010 MTR

| Action | Responsibility | Timing (dates) |
|--|---------------------------------------|---------------------------------------|
| Road Development Component | | |
| <ul style="list-style-type: none"> Award of contracts for emergency works Award of Contracts for road safety works | DoR/IDA DoR/IDA | November 2010 December 2010 |
| Maintenance Component | | |
| <ul style="list-style-type: none"> Monitor quality of periodic maintenance works by CRL & report Status of maintenance of RMDP Roads | DoR/CRL DoR/Maintenance Branch | February 2010 November 2010 |
| Institutional Component | | |
| 4. Approval of Variation Order for additional services of the supervision Consultants. | MOPPW/DoR | January 2011 |
| <ul style="list-style-type: none"> Road Asset Ledger printed and road divisions maintain the ledger | DoR/Road Divisions | January 2011 |
| <ul style="list-style-type: none"> Bid invitation of 25% of works proposed under the additional financing (AF) | DoR | December 2010 |
| <ul style="list-style-type: none"> Bid Documents for first year periodic maintenance works under AF | DoR divisions | December 2010 |
| <ul style="list-style-type: none"> Individual consultants to monitor periodic maintenance works (AF) | DoR | February 2011 |
| <ul style="list-style-type: none"> Report on Monitoring Guidelines and Chart of Accounts | RBN | February 2011 |
| <ul style="list-style-type: none"> IT hardware and software contract awarded | DoR | November 2010 |
| Financial Management | | |
| <ul style="list-style-type: none"> Operationalize the Financial Management Information System (FMIS) and prepare the financial monitoring reports using the system. | DoR | September 10, 2010 |
| <ul style="list-style-type: none"> Submit RFP for Contract Monitoring System to monitor the contracts. | DoR | December 31, 2010. |
| <ul style="list-style-type: none"> Audit report required ofr FY2009/10 submitted to IDA January 15, 2011. Satisfactory operationalization of IT based FMIS | DoR | January 15, 2011 December 31, 2010 |
| <ul style="list-style-type: none"> Social and Environmental Safeguard Re-notification/ facilitation to PAFs for the payment of pending compensation and allowances | CDC/DoR/ PCU | November 15, 2010 |
| <ul style="list-style-type: none"> Updating information on: i) aggregate employment generation in on-going RSDP contract packages ii) review overall performance of NGOs against their TOR. | PCU/ Consultant | November 15, 2010 |

| Action | Responsibility | Timing (dates) |
|---|-----------------------------|--|
| <ul style="list-style-type: none"> • Disclosure of ESMF translated (Nepali) version at DoR website, | RSDP/ GESU | September 20, 2010 (prior to appraisal of Add. Financing) |
| <ul style="list-style-type: none"> • Continue enforcement on circular requiring Supervision Consultant to attach a signed observation note on E & S safeguard condition in each payment request from contractor | RSDP/GESU | On each payment request of contractor on a regular basis |
| <ul style="list-style-type: none"> • RSDP Safeguard related detailed/ final action plan for FY 10/11 | RSDP/GESU/ | December 31, 2010 |
| <ul style="list-style-type: none"> • Preparedness check including orientation to PMUs and contractors' site managers (Khodpe-Jhoda 11A, 11B) | GESU | December 31, 2010 |
| <ul style="list-style-type: none"> • Site orientation to site-supervisors, machine-operators, labor-group leader, etc | RSDP/GESU/ | March 2011 |
| <ul style="list-style-type: none"> • Verification of safeguard measures incorporation in Satbanj-Gokuleshwor draft/final documents | RSDP/GESU/ | December 31, 2010 |
| <ul style="list-style-type: none"> • Monthly and quarterly reports to include information on environmental and social safeguard activities undertaken as well as difficulties faced (if any) for each contract separately. | Supervision consultant/ PMU | Continuous |
| <ul style="list-style-type: none"> • Screening and checking periodic maintenance activities | GESU | December 2010 |
| <ul style="list-style-type: none"> • Periodic (six-monthly) compliance check of all ongoing RSDP works | Supervision consultant/PMU | December 2010 |
| <ul style="list-style-type: none"> • Training on RAP and ESMF to project staff, DoR, and other stakeholders | RSDP/GESU/ | December 31, 2010 |
| <ul style="list-style-type: none"> • Preparation and publication of simple brochure (Nepali and English) on ESMF | RSDP/GESU/ | December 31, 2010 |
| <ul style="list-style-type: none"> • Final checks on the status of safeguard mitigation works on packages that have been substantially completed as of July 2010 | RSDP/GESU/ | March 2011 |

Annex 4

Financial Management

1. **Budget for FY2009/10 and Estimated Expenditures.** The total approved budget allocation for FY2009/10 was NRs.1,233.77 million of which NRs.1,074.83 million was allocated under IDA financing and NRs.148.94 million under counterpart financing. The budget was later revised with upward movement on the development budget – the total revised budget was NRs.1,601.79 million of which NRs.1,452.85 million was allocated under IDA source and NRs.148.94 million under government source. The total estimated expenditures of FY2009/10 was NRs.1,354.22 million, which is about 85% of the approved revised budget; of this, about NRs.99.29 million (about 7.3%) was spent from the government sources, and about NRs.1,254.93 million (about 92.7%) from the IDA source.
2. **Disbursements.** As of September 3, 2010, total disbursements from IDA source under the project is US\$30.06 million (which is about 71.2%) of which only about US\$16.43 million has been registered as actual expenditures and the remaining still reflects as the unutilized advance in the designated account. Excluding the advances in the designated accounts, actual usage is only about 39%. Based on the FY2009/10 third trimester financial monitoring report which is currently under review, a total of US\$14.71 million is expected to be documented as actual expenditures, which reflects the actual usage of IDA funds to about 53%. Currently, there is no disbursement lag and disbursement progress is fully satisfactory. This is due to no reimbursement being requested for the last three months to end the trimester. The MTR team noted that about NRs.618.42 million (eqv. US\$8.64 million) is outstanding reimbursable amount, which the DoR is planning to reimburse to the government's treasury by the end of September from the balance available in the Designated Account. If this amount is also included in the actual expenditures, the actual usage of funds is almost 98% and lag will be only 2%.
3. **Financial Management.** The MTR team reviewed the financial management system of the Project. The development of the Financial Management Information System (FMIS), which was agreed for June 30, 2010, the software has been prepared. The MTR team reviewed the FMIS software and will be verified for application during appraisal in September 2010. The MTR team also suggested DoR to make arrangements to develop a good back-up system, ensure that the consultant also provides back-up staff for ongoing support, and arrange after sales support service to ensure sustainability of the system.
4. The MTR team discussed and agreed with DoR authorities on three key areas as part of overall financial management improvement: (1) The FMIS will be fully operationalized before the Bank can make the decision for appraisal and negotiations for Additional Financing, (2) A high priority will be given to monitoring both the project outputs and the expenditures to ensure physical and financial progress reconcile – consequently, the DoR will need to organize training for all Project Managers and Accounts Officers two times a year and DoR will need to mobilize periodic field visits to provide guidance on the accounts and also to follow-up on the expenditure statements (this has already been initiated and will be expanded), and (3) Improve internal control systems to track the eligible expenditures and to ensure that the government's financial procedures are duly followed.
5. In addition to these, the MTR team suggested the following points based on its observations: (1) All ledgers and books of accounts are to be updated in the FMIS system, (2) Advances (except for mobilization advances) should not be treated as expenditures and claims send to IDA until such advances are actually realized as the reported expenditures (the MTR team

suggested to maintain a separate record of such Advances), (3) All contract details by cost centers, components, budget heads etc should be recorded in vouchers prior to approval of payments, and (4) A contract monitoring system shall be developed and operational by July 15, 2011, to be able to monitor the implementation status of each contract.

6. **Implementation Progress Report.** There are no pending Implementation Progress Reports. The third trimester Implementation Progress Report of FY2009/10 has been submitted on August 31, 2010 within the due date. The MTR team informed that IDA will review the report and send its comments by September 15, 2010. The MTR team pointed out that the next progress report for the first trimester of FY2010/11 is due on December 31, 2010.

7. **Audit Report.** There are no pending audit reports. The audit report of FY2008/09 has been submitted after the due date but within the grace period provided. The Bank has reviewed the report and has found it to be acceptable. The Auditors in their management letter have raised three main concerns – that the frequent change of a Team Leader of the Detail Survey, Design and Supervision may cause the delay in project performance; the inconsistent practices in treating the liquidated damages; and enquiry on paying in US Dollars to local contractors. Based on these observations, the Bank sent a follow-up letter to the Department of Roads for response by April 13, 2010. The MTR team reminded that the next audit report required is for FY2009/10, which is due on January 15, 2011.

Annex 5

Social and Environmental Safeguard Compliance and Implementation Issues

I. Social Safeguards

1. **Preparation of Resettlement Action Plan (RAP).** The MTR team observed that the Project/ GESU made continued efforts on the preparation of the Resettlement Action Plans (RAPs) consistent with ESMF procedure in four out of five RSDP subprojects (namely STJ, SG, KJC and TSD), which involves mainly upgrading works requiring acquisition of some land and structures for widening road's width in limited sections. The RAPs have also identified a total of 21 vulnerable households affected by property acquisition in the subprojects and suggested cash assistance to support such households.

2. The Project Officials informed the MTR team that the major changes/ impacts reported by RAPs and proposed mitigation measures were shared with the communities through the field based consultants. The MTR team also advised the Project Officials to disclose the final version of RAPs through DoR's website prior to commencing the Appraisal beginning mid September 2010.

3. **RAP Implementation Status**

- **Progress on compensation payment.** As of the August/September 2010 MTR, the total compensation paid to the affected families amounted to Rs 7.4 million, marking 78 percent achievement in total, which, if disaggregated, comes to 70 percent for land and 92 percent for structures. Despite commitment to accomplish all compensation payments by the end of April 2010, the Project reported some practical difficulties in achieving the target even by the MTR in August/September 2010. The absence of land owners was the primary cause resulting in delay or obstruction in clearing the compensation dues. According to the Mid Term Progress Report, owners of 66 land parcels out of 221 (30%) and 1 structure (8%) out of 11 are yet to collect the compensation. The MTR team noted that the project has maintained a complete list of the affected household heads entitled for compensation and reasons for not being able to collect the money. The main reasons include: i) absentee owners working or migrating outside their village or country ii) pending ownership transfer among sons after the death of the property owner in the family iii) amount of compensation being too small - not even covering their travel cost, and iv) discrepancy in field book records at the Land Revenue Office (LRO) and actual land at site, including some cases of non-registration.

Table 5.1: Status of Compensation Payment by End of July 2010

| Subprojects | Affected Properties | Affected No. | Settled (No.) | Compensation Amount (Rs) | | Compensation Cleared (%) |
|-------------|---------------------|--------------|---------------|--------------------------|-----------|--------------------------|
| | | | | Total | Paid | |
| 1. TSD | Land parcels | 22 | 19 | 149,906 | 144,381 | 96.3 |
| | Structures | 2 | 2 | 560,375 | 560,375 | 100.0 |
| 2. KJC | Land parcels | 3 | 2 | 277,718 | 12,974 | 4.7 |
| 3. SG | Land parcels | 140 | 100 | 3,265,719 | 2,455,125 | 75.2 |
| | Structures | 1 | 0 | 260,442 | 0 | 0.0 |
| 4. STJ | Land parcels | 56 | 34 | 2,582,624 | 1,791,375 | 69.4 |
| | Structures | 8 | 8 | 2,453,144 | 2,453,144 | 100.0 |
| 5. SKM | None | 0 | 0 | 0 | 0 | 0 |
| | Total | 232 | 165 | 9,549,928 | 7,417,374 | 77.7 |

Source: Project Coordinator Office, DoR, July 2010

TSD=Tallo Dungeshwor-Siyakot-Dailekh; KJC= Khodpe-Kalinga Bridge-Chainpur; SG= Satbanjh-Gokuleshwar; STJ= Satbanjh-Tripurasundari- Jhulaghat; SKM= Surkhet-Khidkijhyula-Manma

- *Support to vulnerable families.* The project has supported only two families, both belonging to "Dalits" (i.e low social group and economically poor) in the TSD subproject. The MTR team was informed that cash assistance amounting to Rs 5000.00 per family was provided to the vulnerable families as a measure to restore their livelihood as specified in VCDP. The MTR team, however, showed serious concern to take immediate actions to provide cash assistance to all vulnerable family members affected by the project as early as possible.
- *Ownership transfer to DoR.* The external social monitoring report indicates very slow progress in transferring ownership rights from a private individual to DoR after land acquisition and compensation to the affected party. No work has been started in 3 subprojects, namely STJ, SG and KJC, while the transfer is complete for 12 land parcels in the TSD subproject only. According to the Project Offices at Baitadi and Bajhang Districts, communication has occurred between Project and Land Revenue Offices (LROs) to initiate ownership transfer. The MTR team reiterated the significance of ownership transfer to the project and advised to closely follow up on this action on a regular basis.
- *Employment / income generation.* Employment generation for locals, particularly for the poor and women of low socio-economic class, has been considered as a major project benefit. The available figures only indicate a partial picture of employment generation as there are no aggregate figures of total employment in all RSDP subprojects till the MTR period, needing to be generated through field records of contractors. The external monitoring report reveals that more than 50 percent of laborers in RSDP subprojects were locals in May 2010, when most construction packages were already complete and only limited works were ongoing. Local women accounted for almost half of the total labor force. Wage rates paid to the laborers ranged between Rs 160 to 400 according to labor type (skilled, semi-skilled and unskilled), and both sex of laborers stated that they got equal wage rate for unskilled work of the same nature.
- *Awareness raising campaigns.* The NGOs hired by the project are reported to have conducted four major awareness campaigns on HIV/AIDS at the project sites, covering a total of over 1700 participants, i.e. local residents, construction workers, contractor staff, transport workers, hotel owners, students etc up to the MTR. There is, however, not much information from any of the stakeholders to reflect the progress and effectiveness of this activity at outcome or impact levels in real terms. The project, as advised by the March 2010 mission, needs to review the activities performed by the NGOs in a holistic approach against their TOR and make the decision regarding future engagement of the NGOs and their services, which are now coming to end as per previous contracts.
- *Efforts to prevent child labor.* The MTR team was informed about increased awareness on the issue of child labor among all stakeholders. The external monitoring report of the independent consultant mentions that there were no cases of child labor used in any of the construction sites visited. As agreed during the March 2010 mission, the project/ GESU communicated clear instructions to prevent child labor to contractors in writing.
- *External independent monitoring.* An independent external consultant carried out external monitoring of social safeguard compliance in RSDP and submitted a draft report of to the project. There is, however, a need to improve the report in analyzing the key issues and gaps in complying with ESMF procedures critically, including preparation of social safeguard plans and their implementation, as well as effectiveness of these plans in achieving the broader objective of livelihood restoration and improvement of affected people. The GESU and the World Bank already provided comments on the report to allow improving and submitting the report prior to appraisal of Additional Financing.

- *Translated version of ESMF.* The MTR team was pleased to be informed that five hundred copies of translated versions of ESMF in Nepali language are being printed on the initiation of GESU, which is a long overdue task. The MTR team informed the PCU/ GESU to circulate the translated ESMF versions to all concerned stakeholders (DDC, District Project Offices, LCF) as early as possible and also disclose it on the DoR website for access of the general public prior to the start of the appraisal of Additional Financing.
- *Recruitment of a Social Officer at GESU.* The project, as agreed during the March 2010 mission, has recruited a female Social Officer who had prior experience with RSDP before termination of her contract and whose position was retained from the budget of other projects. The Social Officer is now in place and is expected to provide her expertise for planning, implementation and monitoring of social safeguard measures in DoR road projects in general and RSDP in particular.

4. *Major Issues and Recommendations*

- *Payment of pending compensation and other allowances.* The MTR team noted a number of pending works under RAP implementation. These include: i) compensation payment to remaining people ii) payment of displacement allowance to those losing their residential structure and iii) payment of allowance to vulnerable families. The PCU was advised to take some concrete steps towards completing the pending payments through different options: i) re-notification of the people to collect compensation ii) facilitating people in getting their ownership certificate from concerned LROs, and iii) providing continued access to compensation claims for late comers upon submission of valid documents.
- *Coordination between PCU and GESU.* In view of the interdependent nature of works, the PCU and GESU need to have intensive coordination constantly for all regular activities. Lack of coordination within the units could delay, overlook or even lead duplication of works ultimately hampering the progress of the project. The MTR team advised that all planning and implementation decisions of the project activities be agreed jointly by the PCU and the GESU in close coordination, especially on: i) developing GESU's capacity building plan ii) monitoring and reporting works iii) issuing instructions to field based staff, consultants and contractors.

5. *Progress of Additional Financing Preparations.*

- *Social Safeguard Plans.* The MTR team assessed the progress of the preparation of the Social Plans for Additional Financing in two subprojects (namely Gokuleshwor-Darchula and Kalinga Bridge-Chainpur) to be undertaken during first year of implementation. The PCU informed the MTR team that the RAPs and the VCDP for the first year of two projects are almost complete and will be submitted to the Bank by September 6 for review before appraisal.

II. *Environmental Safeguards*

6. *Pre-investment Studies.* The environmental management system used in RSDP is defined in the Environmental and Social Management Framework (ESMF) prepared by GoN/DoR in 2007, with support from the World Bank. The ESMF, which has been developed incorporating the environmental requirements of the country and safeguard policies of the Bank, defined basic requirements and steps to be followed for environmental management. In accordance with the ESMF, all RSDP roads in the early stage of planning were screened for potential environmental impacts and for establishing the level of Environmental Assessment that may be necessary. The environmental screening concluded that each of the RSDP roads required limited Environmental Assessment (or Initial Environmental Examination), which were commissioned by the GESU/DoR and cleared by the Ministry of Physical Planning and Works (MoPPW). In addition, the ESMF also required preparation

of Site Specific Environmental Management Action Plans (SS-EMAP). The SS-EMAP of each RSDP road has also been prepared by the supervision consultant and cleared by the GESU. The status of pre-investment studies of RSDP Roads is summarized in the table below. No RSDP roads required a detailed Environmental Assessment.

Table 5.2: status of pre-Investment Studies of RSDP Roads

| Road | Status of Pre-investment study | Monitoring status | Construction status |
|------------------------------------|---|--|---|
| Khodpe- Jotha-Chainpur | IEE date: 9/29/064, 10/23/065 SS-EMAP: February 2008 RAP: November 2009 (revised) | Preparedness: November 2008 Periodic compliance: First check (November 2008), second (February 2009) Annual Compliance: not in sample External: May 2010 | Commencement: June-July 2008 Original Completion date: November 2009 Current status: two packages substantially completed, two packages completed over 54 and 79 % |
| Satbanjh Tripura Sundari Jhulaghat | IEE date: 9/29/064 SS-EMAP: February 2008 RAP: December 2009 (revised) | Preparedness: November 2008 Periodic compliance: First check (November 2008), second (February 2009) Annual Compliance: not in sample External: May 2010 | Commencement: April 2008 Original Completion date: August 2009 Current status: substantially completed |
| Satbanjh Gokuleshwor(| IEE date: 10/7/064, 10/29/064 SS-EMAP: February 2008 RAP: January 2010 (revised) | Preparedness: November 2008 Periodic compliance: First check (November 2008), second (February 2009) Annual Compliance: not in sample External: May 2010 | Commencement: July 2008 for 3 packages, January/ February 2010 for two packages Original Completion date: October/ November 2009 for 3 packages, March 2011 for two packages Current status: three packages substantially completed, two packages 16 % and 31 % complete. |
| Surkhet Kalikot Mamna | IEE date: 10/23/065 SS-EMAP: February 2008 RAP: not required | Preparedness: November 2008 Periodic compliance: First check (November 2008), second (February 2009), third (January 2010) Annual Compliance: January 2010 External: May 2010 | Commencement: July 2008 for 3 packages, April/May/June 2009 for four packages Original Completion date: October/ November 2009 for 3 packages, August/ September 2010 for four packages. Current status: three packages substantially completed; four packages around 90% complete. |
| Talodhungeshwor Siyakot Dailkeh | IEE date: 9/29/064 SS-EMAP: February 2008 RAP: November 2009 (revised) | Preparedness: November 2008 Periodic compliance: First check (November 2008), second (February 2009), third (January 2010) Annual Compliance: January 2010 External: May 2010 | Commencement: July 2008 for 3 packages, April/May/June 2009 for four packages Original Completion date: October/ August 2008 for 3 packages, April 2010 for one package. Current status: all four packages substantially completed. |

7. **Coordination.** The ESMF has emphasized the coordination among project management, GESU, the supervision consultant and PMU/ site-staff, the contractor, and communities along the road at different stages of road planning, construction and operation. Besides consultations with

central local stakeholders, the project initiated a practice of review of and feedback on each road's detailed project report (plan, design, costs, and bidding document) as well as on progress reports by GESU as a specific way to enhance coordination at an early stage. DoR plans to further strengthen this practice in the remaining project period as well as during the proposed Additional Financing.

8. **Human Resources.** Recognizing the shortage of human resources at the GESU for environmental safeguard related works, the project supported the recruitment of an environmental specialist. The environmental specialist was recruited in July 2008; however, the first assignment of the specialist was delayed and availability of the specialist was irregular. This is, as explained by GESU, due to government administrative procedures. The MTR noted with concern that there has not been an environmental specialist present since October 2009. GESU/DoR plans to hire a new environmental officer by September 30, 2010. The unavailability of environmental specialists at the GESU at different times has affected follow ups, monitoring and various reviews, although the GESU tried to manage these tasks through in-house staff (in-house existing staff giving priority to RSDP environmental safeguard works). The supervision consultant also needs intermittent inputs of an environmental specialist for preparing the SS-EMAP, conducting orientation and training as well as providing on-site support and monitoring.

9. **Monitoring.** Building on the past experience of DoR/GESU, RSDP aimed to strengthen the safeguard monitoring through: (i) a preparedness check during mobilization/preceding construction (by the GESU team), (ii) periodic compliance checks (semi-annually by the GESU at random sites), (iii) A compliance check by the ministry (by a joint team of MoPPW and GESU, annually, of random samples), and (iv) independent external monitoring (by an independent agency recruited for this purpose, once in two years). The first preparedness check and compliance check was undertaken by the GESU team in November 2008. The other compliance checks by GESU teams were carried out in February 2009 and January 2010. To date, the joint team of MoPPW and GESU carried out one compliance check of a sample of RSDP roads in January 2010. In May 2010, the first independent external monitoring was commissioned by GESU, a draft report of which is now available. Thus, implementation of the monitoring mechanism has been slow and many times delayed due to various reasons, including lack of human resources at GESU, inadequate coordination among the project, GESU and other partners, and in the opinion of GESU, due to a lack of resources/ logistics at the GESU's disposal. The GESU has developed formats for preparedness checks and compliance monitoring. These formats have been circulated to PICs. The GESU/DoR has initiated a discussion with regard to using these beyond RSDP, across DoR roads.

10. **GESU Business Plan.** A system of three-year plans by the GESU has been initiated in order to promote proactive and medium term planning practice in the GESU. RSDP has been promoting an annual safeguard action plan for each fiscal year by reviewing the previous year's performance and taking stock of the following year's requirements.

11. **Awareness, orientation and training.** During the early stages of project implementation, it was noted that there was inadequate information/ documents available at sites and that there was a low level of awareness about environmental requirements and ESMF provisions among implementers, including PMU, site staff of contractors. Following the mission's recommendations, copies of the ESMF, the respective IEE and the site-specific EMAP were made available to all site offices, and awareness orientations on environmental and social safeguard in RSDP were organized at different places and times. The awareness orientations were attended by the PMU, the consultant as well as the contractor's site manager.

12. **Environmental mitigation works.** IEE- and SS-EMAP-recommended environmental mitigation works are generally implemented. However, monitoring done by the GESU, mission's field visits as well as recently undertaken independent monitoring reported the need for improvements in the environmental management practices on site. Commonly, these are related to inappropriate

disposal of soil, poor labor-camp and occupational health and safety facilities, and the location and operation of crusher plants as well as quarry sites. However, no highly significant environmental issue has been reported so far. The project responded with commitments to implement the suggested improvements. DoR has planned to undertake monsoon damage restoration works under the proposed Additional Financing.

13. **Independent External Monitoring.** GESU has commissioned independent external monitoring of the ESMF implementation, a draft report of which is available as part of the MTR. The independent monitoring report notes that there are no large-scale environmental issues. However, it suggested a number of improvements needed at different places along the five RSDP roads. The proposed improvements are related to quarrying, debris tipping, crusher plants, camps and stores, drainage and water management, workers safety, traffic management, compensatory tree planting and bio-engineering works. The DoR/project expressed its commitment to implement the external monitoring recommendations.

14. **Status of the actions agreed in the previous mission.** As agreed during the previous mission, DoR/RSDP has issued a circular requiring Supervision Consultant to attach a signed observation note on E&S safeguard conditions to each payment request from a contractor. However, the MTR team did not receive information on the implementation status. The position for Environmental Officer has been re-advertised and recruitment of a new Environmental Officer is planned for September 2010. A three-year GESUP action plan has been prepared. However, the MTR team advised to prepare annual action plans for RSDP safeguard works. The PMU informed the MTR team that some of the actions are ongoing (as required), such as site orientation.

15. **Periodic maintenance and road safety works.** The MTR team has been informed that environmental screenings of the periodic maintenance and road safety works are ongoing. However, there was no information available on the findings. The MTR team, once again, advised the PCU and GESU that proposals related to periodic maintenance and road safety (black spot) improvement need to be screened for any environmental concerns and that they need to be monitored on a sample basis.

16. **Progress of Additional Financing preparations.** DoR has completed the following activities.

- **Initial Environmental Examination.** The table below summarizes the IEE status of roads proposed under the Additional Financing.

Table 5.3: IEE Status RSDP AF Roads

| Road | IEE Status |
|--|--|
| Gokuleswor-Darchula (73 km) – GD Road: Continuation from original project to complete all weather connectivity to DHQ, Darchula | Reviewed and updated IEE of Gokuleswor – Thakthali section of GD Road. Draft updated report is available. Prepared draft IEE for Thakthali – Darchula of Gokuleswor – Darchula Section (32 km) of GD Road, and submitted to MoPPW for approval. |
| Kalangagad Bridge-Chainpur (50km) – KC Road: Continuation from original project to complete all weather connectivity to DHQ, Bajhang. This is a part of Khodpe-Jhota-Chainpur Road. | Reviewed and updated IEE prepared previously for upgrading Kalangagad- to Chainpur (chainage 60+400 to 106+800 km). (Draft updated report available). |
| Khidkijyula-Jumla (104 km): Continuation from original project to complete all weather connectivity to DHQ, Jumla. | Reviewed and updated IEE of Khidkijyula – Manma Section (KM) of Khidkijyula – Jumla (KJ) Road. Draft updated report available. Draft IEE has been prepared for Manma – Jumla Section of Khidkijyula – Jumla Road. The IEE has been submitted to MoPPW for approval. |

| | |
|---|---|
| Chinchu-Devisthal-Jajarkot (95 km): All weather connectivity to DHQ, Jajarkot. | Draft IEE for upgrading of Chhinchu (Pokhare)-Devisthal-Jajarkot (81 km) has been prepared and submitted for approval to the MoPPW. |
| Narayangarh-Mugling Highway (36km)- NM Road: Rehabilitation/improvement/ widening of the high traffic highway to facilitate uninterrupted vehicular movement from Kathmandu to Terai and other parts of the country | Reviewed and updated IEE of NM Road (36 km). Draft updated report available. |
| Shitalpati (Salyan)- Musikot (Rukum) Road (85 km) - SM Road: | Reviewed and updated IEE of SM Road (85 km). Draft updated report available. |

- *Site Specific Environmental Management Plan (SS-EMAP)*. A draft Site-Specific Environmental Management Action Plan (SS-EMAP) has been prepared for two roads proposed for upgrading during the first year of implementation. These are: i) SS-EMAP of Gokuleshwor-Darchula Road (chainage 54+00 km to 126+000 km), and ii) Kalangagad-Chainpur Road (chainage 60+400 km to 106+800 km).
- *GESU Capacity Strengthening Plan*. DoR/GESU is preparing a plan for strengthening capacity of the GESU by reviewing the measures proposed in ESMF 2007 in light of the already undertaken activities as well as activities proposed in the three-year business plan.

17. **Agreed Actions.** Following actions has been agreed during the MTR.

- Periodic (semi-annual) compliance check of all ongoing RSDP works to be done by December 2010;
- Training on RAP and ESMF to project staff, DoR, and other stakeholders to be done by December 2010;
- Preparation and publication of a simple brochure (Nepali and English) on ESMF to be done by December 31, 2010; and
- Final checks on the status of safeguard mitigation works on packages that have been substantially completed as of July 2010 to be done by March 2011.