



Project Design Advance

Project Number: 47243-003
June 2016

People's Republic of Bangladesh: Rural Infrastructure Maintenance Program

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 June 2016)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.013
\$1.00	=	Tk78.36

ABBREVIATIONS

ADB	–	Asian Development Bank
PDA	–	project design advance
RIMP	–	Rural Infrastructure Maintenance Program
RBL	–	results-based lending

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 June 2016.
- (ii) In this report, "\$" refers to US dollars.

Vice-President	W. Zhang, Operations 1
Director General	H. Kim, South Asia Department (SARD)
Director	T. Matsuo, Environment, Natural Resources and Agriculture Division, SARD
Team leader	R. Jones, Senior Natural Resources and Agriculture Economist, SARD
Team members	M. Alam, Senior Project Officer (Urban Infrastructure), SARD A. Faisal, Senior Project Officer (Environment), SARD M.N. Islam, Senior Project Officer (Transport), SARD E. Morsheda, Senior Project Officer (Urban Infrastructure), SARD M. Mortaza, Senior Economics Officer, SARD N. Selim, Social Development Officer (Gender), SARD S. Shafiq, Financial Management Specialist, SARD A. Syed, Senior Counsel, Office of the General Counsel
Peer reviewer	D. Utami, Principal Safeguards Specialist, SARD S. Ancha, Principal Climate Change Specialist, Southeast Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
I. THE PROPOSED PROJECT	1
II. ACTIVITIES TO BE FINANCED BY THE PROJECT DESIGN ADVANCE	2
III. COST ESTIMATES AND FINANCING ARRANGEMENTS	3
IV. IMPLEMENTATION ARRANGEMENTS	3
V. SAFEGUARDS	4
VI. DECISION	4

I. THE PROPOSED PROJECT

1. The proposed Rural Infrastructure Maintenance Program (RIMP) will focus on improving rural road rehabilitation and maintenance in selected districts of Bangladesh.¹ The Asian Development Bank (ADB) will contribute to a \$1.2 billion rural road and bridge maintenance policy,² and the Government of Bangladesh has requested project design advance (PDA) in the form of a loan to support preparatory activities for the RIMP.

2. There has been significant improvement in rural infrastructure in Bangladesh since the 1990s, however, rural connectivity remains weak which impedes physical and economic access. For example, only 40% of the rural population has access to all-weather roads, and around 33% of *upazila*³ and union roads and 84% of village roads remain unpaved. Improved economic growth has resulted in a rapid increase in road-based cargo transport in rural areas, which has aggravated poor rural road conditions. Over 40% of the rural road network is in poor condition and needs to be rehabilitated. Rehabilitation and maintenance budgets are insufficient, covering only 35% of needs, which has destabilized rural road networks. Weak construction and maintenance skills, overloading of vehicles, and extreme climate events have contributed to a significant rehabilitation and maintenance backlog. The rural road network, even under present climatic conditions, is seriously damaged during flooding and intense rainfall events.

3. The cabinet approved the Rural Road and Bridge Maintenance Policy in 2013 which reflects the investment program for implementing the objectives of the Bangladesh Sixth Five-Year Plan, 2011–2015.⁴ The goal of the policy is to keep all rural roads accessible year-round in a sustainable manner, and the main thrusts are (i) reducing the backlog in road maintenance, (ii) rehabilitating the roads to climate-resilient standard, (iii) improving maintenance skills and institutional capacity, (iv) establishing a comprehensive and reliable inventory of roads, bridges and culverts, (v) establishing a linkage between the inventory and geographical information system spatial database, and (vi) upgrading road and bridge maintenance standards.

4. The impact of the RIMP will be connectivity between lagging and better-off regions is improved, aligned with the Bangladesh Sixth Five-Year Plan, 2011–2015. The outcome will be mobility of rural residents is increased. The key outputs will be (i) rural road infrastructure rehabilitated and maintained, and (ii) institutional arrangements for road maintenance strengthened. The program beneficiaries include the government, road users, transport owners and operators, traders, road construction companies, and people in the project area. The RIMP is expected to cost \$254 million, with \$194 million financed by ADB (\$64 million from ADB's Special Funds resources and \$130 million from ordinary capital resources), and \$60 million in counterpart funding. The RIMP will benefit women through improved access to economic activities and social services.

5. Results-based lending (RBL) is a suitable modality for RIMP, subject to required due diligence and relevant approvals for improving the effectiveness of rural infrastructure programs as it will (i) provide a holistic approach to road rehabilitation and maintenance, with an institutional development plan that aligns with the government's rural road and bridge

¹ Specific districts will be determined during the project design advance.

² Government of Bangladesh, Ministry of Local Government, Rural Development and Cooperatives. 2013. *Rural Road and Bridge Maintenance Policy*. Dhaka.

³ An *upazila* is a geographical region used for administrative purposes, and function as sub-units of districts.

⁴ Government of Bangladesh, Planning Commission. 2011. *Sixth Five-Year Plan FY2011–FY2015: Accelerating Growth and Reducing Poverty, Strategic Directions and Policy Framework*. Dhaka.

maintenance policy; (ii) provide flexibility to prioritize investment; (iii) ensure that program systems are largely reliable and capable of delivering a well-defined and monitored program; (iv) increase the amount and predictability of maintenance financing, enabling other development partners to participate in a harmonized approach; and (v) improve the efficiency of government systems and processes. RBL will improve the rural roads and bridge maintenance program's efficiency and effectiveness. The RBL modality is already being successfully implemented by ADB in Bangladesh through two social sector projects.⁵

6. ADB will add value to the rural roads and bridge maintenance program by (i) complementing and contributing to the efforts of the government to improve rural road maintenance, (ii) expanding the size of the rural roads and bridge maintenance program, (iii) improving rural roads and bridge maintenance program design and implementation arrangements, and (iv) harmonizing development cooperation. It will be possible to apply lessons with respect to improved government processes and procedures for road rehabilitation and maintenance in other districts.

7. The RIMP is consistent with ADB's country partnership strategy, 2011–2015 for Bangladesh, which emphasizes high-impact results, integrating climate change considerations into sector interventions, and climate-proofing infrastructure.⁶ The PDA is also included in the country operations business plan for 2016–2018.⁷

8. The RIMP is also consistent with the government's strategic agenda. The Sixth Five-Year Plan for FY2011–FY2015 of the Government of Bangladesh emphasizes developing infrastructure, and especially improving the connectivity between lagging and better-off regions (footnote 4). The thrust is on removing infrastructure constraints and vulnerabilities to climate change in poor regions.

9. Action related to the PDA began in May 2015 with initiation of recruitment of a technical advisory group to undertake RIMP feasibility studies and prepare detailed designs. The request for proposals was issued in October 2015, technical evaluations were completed in February 2016, financial evaluations in March 2016, and consultant mobilization is expected by June 2016.

II. ACTIVITIES TO BE FINANCED BY THE PROJECT DESIGN ADVANCE

10. The PDA will finance consultancy services to undertake (i) preparation and assessment of the RIMP; (ii) an expenditure and financing framework assessment, financial management assessment, and development of disbursement-linked indicators, including third-party verification mechanisms; (iii) feasibility studies, including detailed engineering design; cost estimates; and technical, financial, economic, and socioeconomic analyses; (iv) environmental and social safeguard analysis, including preparation of environmental and social safeguards planning documents for the RIMP; and (v) a procurement system assessment and advance procurement actions, including preparation of bidding documents for the RIMP and support for the bidding process. The PDA will not finance land acquisition, resettlement, or civil works. The

⁵ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the People's Republic of Bangladesh for the Secondary Education Sector Investment Program*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing to the People's Republic of Bangladesh for the Third Primary Education Development Project*. Manila.

⁶ ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.

⁷ ADB. 2015. *Country Operations Business Plan: Bangladesh, 2016–2018*. Manila.

PDA will speed up contract awards and disbursements by ensuring that detailed designs are complete, and contracts awards initiated before loan effectiveness.

III. COST ESTIMATES AND FINANCING ARRANGEMENTS

11. The total cost of the PDA is \$2.54 million, including a loan not exceeding \$2 million equivalent from ADB's Special Funds resources to support the preparatory activities of the program. The PDA will have an interest rate charged at 2% per annum, and the refinancing date is 1 March 2018 or the actual date of effectiveness of the ensuing loan as may be agreed between ADB and the borrower. The PDA cost estimates are summarized in Table 1.

Table 1: Investment and Financing Plan for the Project Design Advance^a
(\$ million)

Item	Cost	ADB	Government ^b
A. Base Cost^c			
1. Consulting Firm	2.16	1.71	0.45
2. Consultant (studies)	0.24	0.19	0.05
Subtotal (A)	2.40	1.90	0.50
B. PMU staff and office expenses	0.04	0.00	0.04
C. Contingencies^d	0.10	0.10	0.00
Total (A+B+C)	2.54	2.00	0.54

ADB = Asian Development Bank, PMU = project management unit.

^a A PDA loan carries interest charges which are deferred until the PDA is repaid from the ensuing financing or other repayment terms take effect.

^b Includes taxes and duties of \$0.50 million on consultant services (10% income tax, 15% value added tax) to be paid by the government as an in-kind contribution. ADB may also finance tax and duties in accordance with para. 9 of the ADB *Operations Manual* (OM H3/OP) where (i) the amount will be within the reasonable threshold identified during the country partnership strategy preparation process, (ii) the amount will not represent an excessive share of the project investment plan, (iii) the taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is material and relevant to the success of the project.

^c In mid-2015 prices.

^d Physical contingencies computed at 5% for consulting services.

Source: Asian Development Bank estimates.

IV. IMPLEMENTATION ARRANGEMENTS

12. The implementation arrangements are summarized in Table 2 and described in detail in the PDA project administration manual.

Table 2: Implementation Arrangements for the Project Design Advance

Aspects	Arrangements
PDA implementation period	June 2016–December 2017
Estimated PDA completion date	31 December 2017
Management	
(i) Oversight body	Project steering committee Chair: Secretary, Local Government Division of the Ministry of Local Government, Rural Development and Cooperatives
(ii) Executing agency	Local Government Engineering Department
(iv) Implementation unit	Project management unit, Dhaka 1 staff – project director
Consulting services	QCBS (quality–cost ratio: 90:10) 131 person-months \$1.8 million
Disbursement	Disbursements under the PDA will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time).

ADB = Asian Development Bank; PDA = project design advance; QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

V. SAFEGUARDS

13. The initial safeguard categorizations of the ensuing RIMP in accordance with ADB's Safeguard Policy Statement (2009) are as follows: environment (Category B), resettlement (Category B), and indigenous peoples (Category B). The PDA's safeguards consultants will confirm these classifications. The PDA will not finance land acquisition, resettlement, or civil works. The PDA will undertake an assessment of the country's program safeguard system for managing environmental, involuntary resettlement, and indigenous people's impacts and risks; and prepare and disclose a program safeguard systems assessment report with adequate consultation with relevant stakeholders. The program safeguard systems assessment will be prepared by focusing on ADB Safeguard Policy Statement (2009) principles that are likely to apply to the program; assessing applicable and relevant laws, regulations, rules, and procedures; and identifying the gaps and providing measures for managing and mitigating the environmental and social safeguards impacts of the RIMP. The PDA will also undertake and prepare environmental and social safeguard assessments for the RIMP.

VI. DECISION

14. Management has approved the provision of a loan in various currencies equivalent to SDR1,424,000 to the People's Republic of Bangladesh from ADB's Special Funds resources, in the form of a project design advance (PDA) for the Rural Infrastructure Maintenance Program; and the President hereby reports this action to the Board.