



# Periodic Financing Request Report and Minor Change of Multitranche Financing Facility

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Project Number: 47341-003  
MFF Number: 0079  
August 2018

## India: South Asia Subregional Economic Cooperation Road Connectivity Investment Program - Tranche 2

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 1 August 2018)

Currency Unit	–	India rupee/s (₹)
₹1.00	=	\$0.0146
\$1.00	=	₹68.4907

## ABBREVIATIONS

ADB	–	Asian Development Bank
AH	–	Asian Highway
EIRR	–	economic internal rate of return
FFA	–	framework financing agreement
IEE	–	initial environmental examination
km	–	kilometer
MFF	–	multitranches financing facility
MORTH	–	Ministry of Road Transport and Highways
MPWD	–	Manipur Public Works Department
NHIDCL	–	National Highways and Infrastructure Development Corporation Limited
PIU	–	project implementation unit
SAARC	–	South Asian Association for Regional Cooperation
SASEC	–	South Asia Subregional Economic Cooperation
SPS	–	Safeguard Policy Statement
WBPWD	–	West Bengal Public Works Department

## NOTES

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

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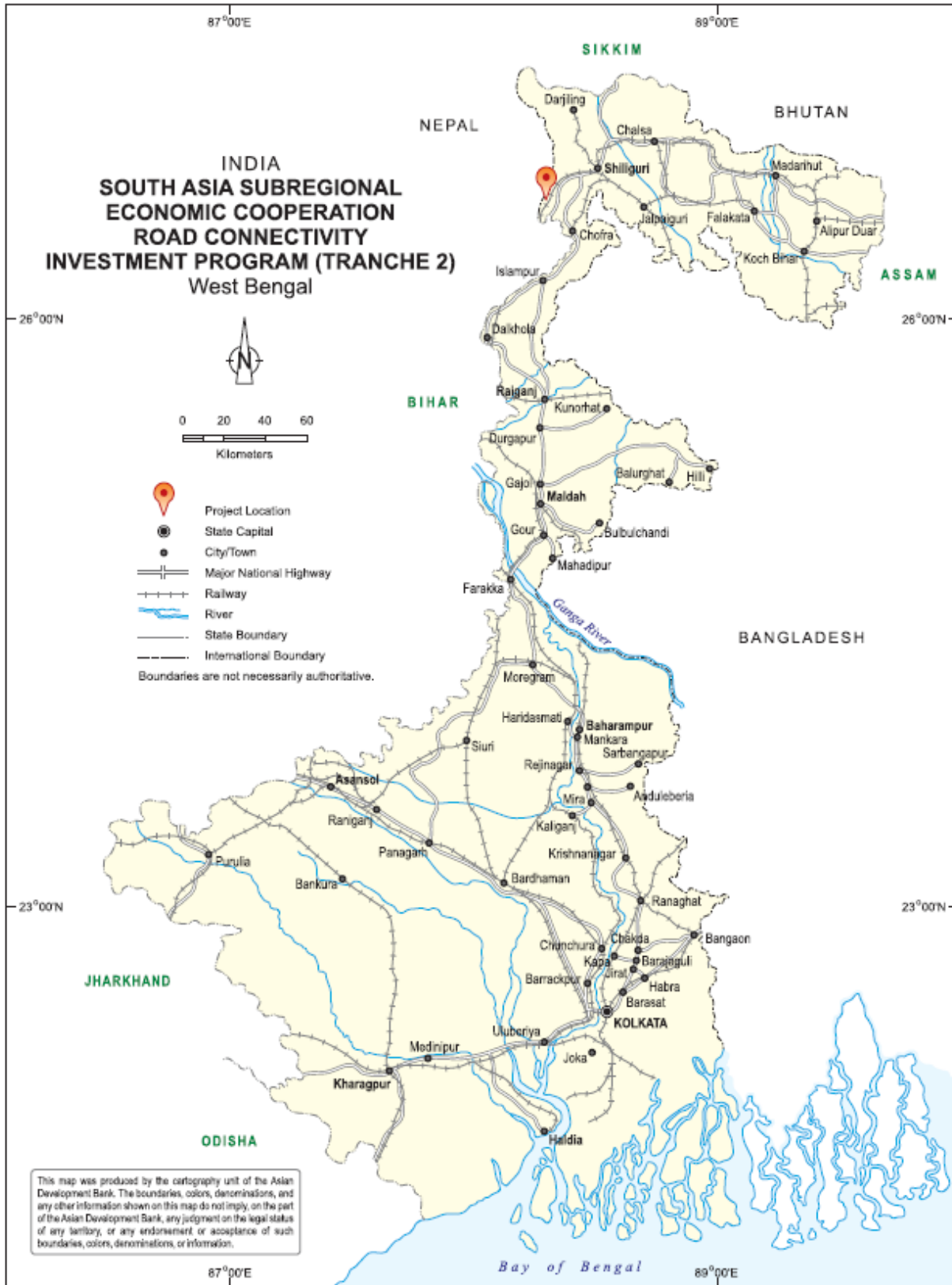
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## TRANCHE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 47341-003	
<b>Project Name</b>	South Asia Subregional Economic Cooperation Road Connectivity Investment Program-Tranche 2	<b>Department/Division</b>	SARD/SATC
<b>Country Borrower</b>	India India	<b>Executing Agency</b>	Ministry of Road Transport and Highways, Public Works Department State of Manipur
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Transport	Road transport (non-urban)		150.00
		<b>Total</b>	<b>150.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	<b>ADB Financing</b>	
Regional integration (RCI)	Pillar 1: Cross-border infrastructure	Adaptation (\$ million)	44.20
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Private sector development (PSD)	Public sector goods and services essential for private sector development	Some gender elements (SGE)	✓
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No	Regional	High
SDG Targeting	Yes		
SDG Goals	SDG8, SDG10		
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	Environment: B Involuntary Resettlement: A Indigenous Peoples: B		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>150.00</b>	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		150.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>157.80</b>	
Government		157.80	
<b>Total</b>		<b>307.80</b>	

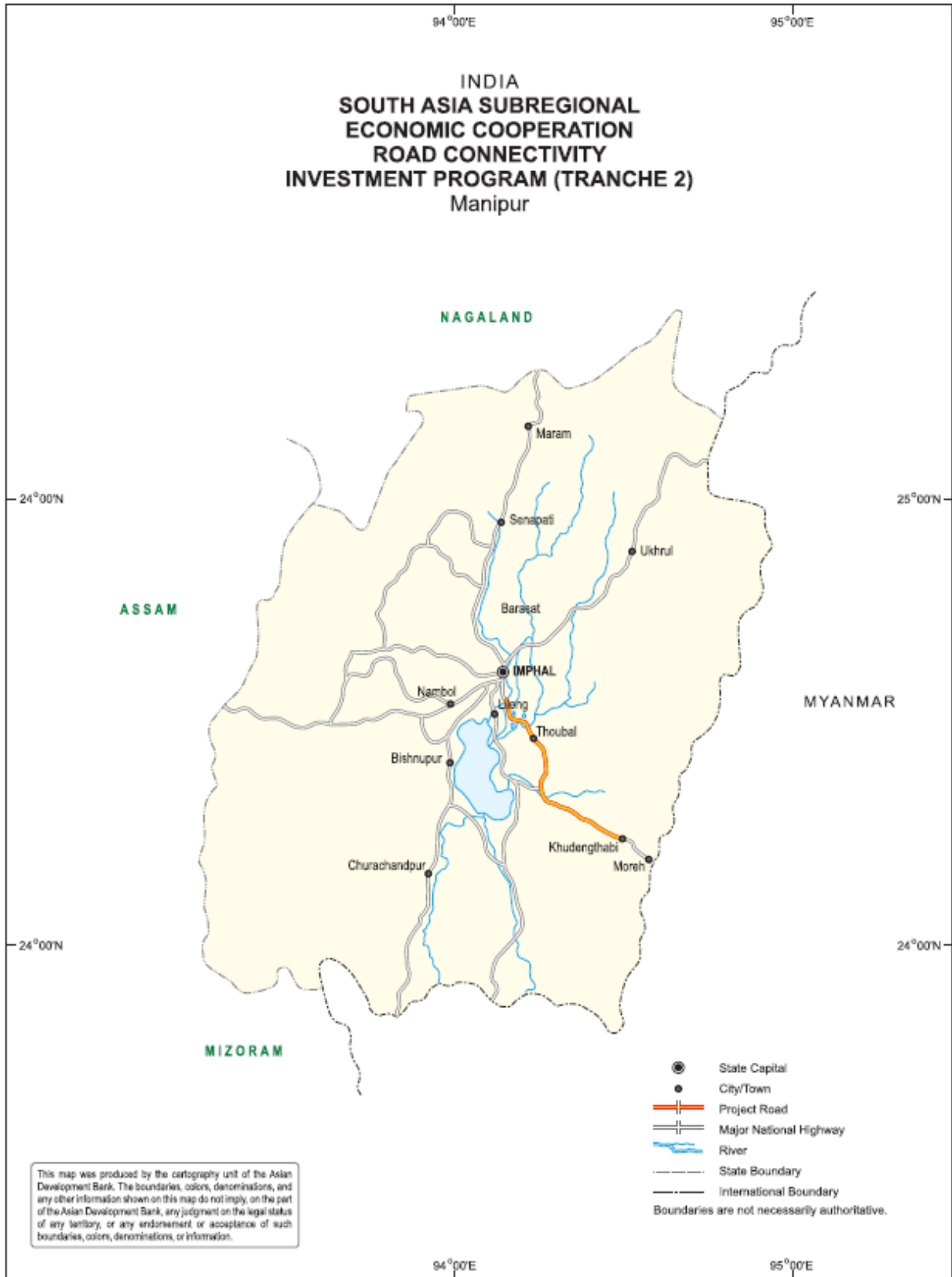


# MAP OF WEST BENGAL



# MAP OF MANIPUR

## INDIA SOUTH ASIA SUBREGIONAL ECONOMIC COOPERATION ROAD CONNECTIVITY INVESTMENT PROGRAM (TRANCHE 2) Manipur





## I. BACKGROUND

1. Road transport is the dominant mode in South Asia, accounting for more than 65% of freight movement. Its importance is growing, as most of the trade between India and neighboring countries takes place along land routes. The border between Bangladesh and India has 10 important road-based check posts. The India–Nepal border has 19 official trading points, of which 15 are active and four are consistently used: Birgunj, Bhairahawa, and Biratnagar handle 80%–85% of the total international traffic of Nepal. The border crossing facilities at Banglabandha in Bangladesh, Fulbari and Panitanki in India, and Kakarvitta in Nepal are for Bangladesh–Nepal bilateral trading. Trade between South Asia Subregional Economic Cooperation (SASEC) countries via India to Myanmar and Thailand is by sea, which makes exchanges slow and expensive, especially for the landlocked countries and the West Bengal and North Eastern Region of India. Cross-border trade via roads between India and Myanmar, through Moreh, Tamu and Reed, comprises only 1.5% of the total road-based cross-border trade of Myanmar (\$1.1 billion), against 70.0% with the People’s Republic of China and 26.0% with Thailand.<sup>1</sup>

2. Four regional platforms involving India provide strategic directions for regional connectivity and integration in the transport sector: (i) the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, (ii) the South Asian Association for Regional Cooperation (SAARC), (iii) SASEC, and (iv) the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).<sup>2</sup> UNESCAP promotes the Asian Highway (AH) Network, which includes 141,000 kilometers (km) of standardized roadways traversing 32 Asian countries with linkages to Europe. The AH-1, 2, 42, 43, 45, 46, 47, and 48 go through India. At the 16th SAARC Summit in 2010, the importance of six roads was recognized to promote intra-SAARC trade, especially for landlocked countries, including the AH-1, 2, 42, and 48.

3. The investment program was prepared in accordance with the above strategic context as detailed in the framework financing agreement (FFA) of the investment program. Tranche 1 covers the AH-2, AH-48, and a state highway in Manipur to connect remote villages in Manipur state to its capital city Imphal and Myanmar via the AH-1. Tranche 2 subprojects, which have been selected and designed in accordance with the selection criteria in the FFA, include upgrading part of the AH-1 connecting to Myanmar from Manipur and the construction of an international bridge between India and Nepal as the last mile connectivity improvement along the AH-2. Tranche 2 will also finance the cost overrun of the state highway in Manipur being constructed under tranche 1. Tranche 2 subprojects will reduce transactions costs along the targeted cross-border corridors substantially, creating economies of scale and commercial prosperity. The strategic importance of the tranche 2 subprojects was endorsed at the SASEC Trade Facilitation and Transport Working Group Meeting on 7–8 February 2017 in Colombo, and the project is included in the SASEC operational plan, 2016–2025.<sup>3</sup> The investment program continues to be relevant to related policies of SASEC countries, including India.

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<sup>1</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the South Asia Subregional Economic Cooperation Road Connectivity Investment Program*. Manila.

<sup>2</sup> In 2017, Myanmar became a member of SASEC, extending the potential for promoting and accelerating the inter-subregional cooperation between South and Southeast Asia and beyond.

<sup>3</sup> ADB. 2016. *South Asia Subregional Economic Cooperation Operational Plan, 2016–2025*. Manila.

## II. ASSESSMENT OF IMPLEMENTATION

4. The Asian Development Bank (ADB) approved tranche 1 on 1 April 2014 as a sector loan comprising (i) two sample subprojects, for which full appraisals were completed at approval; and (ii) candidate non-sample subprojects, for which appraisals were to be conducted during project implementation. The loan was signed on 26 March 2015 and became effective on 24 June 2015.

5. Both sample subprojects, AH-2 and AH-48, are national highways. The Ministry of Road Transport and Highways (MORTH) is the executing agency, and the West Bengal Public Works Department (WBPWD) is the implementing agency of the national highway subprojects. The civil works of both subprojects began in May 2015, with the 30-month construction period ending in November 2017. Completion will be delayed by 14 months because of design modifications for providing better access and improved road safety to local communities. At the end of May 2018, physical progress of AH-2 was at 83%; AH-48 was at 79%. The total ADB disbursement for these subprojects was \$89,123,564.69 as of 31 May 2018.

6. ADB approved a subproject—the construction of about 103 km of the Imphal–Kangchup–Tamenglong state highway in Manipur (Manipur state highway subproject)—on 2 March 2016 to be financed by tranche 1. Manipur Public Works Department (MPWD) is the executing agency of the subproject. The works contract was awarded in March 2016, with an amount of about \$167.5 million. The civil works began in August 2016 and are scheduled to be completed in February 2020 in accordance with the contract. Following pre-construction activities, including access road provision, physical work started on 24 November 2016. At the end of May 2018, the Manipur state highway subproject had 7.56% physical progress. The total ADB disbursement for the subproject is \$37,858,241.95 including an advance fund as of 31 May 2018. An institutional support and capacity development consultant is supporting MPWD in implementing the subproject, and the capacity development activities by the consultant are *on track*.

7. **Change of the multitranche financing facility.** One amendment was made to the FFA during the implementation of tranche 1. The FFA designated reimbursement as the sole procedure for ADB disbursement. During the due diligence of the Manipur state highway subproject, ADB concluded that MPWD is unable to use the reimbursement procedure under which timely payments will be initially made to the contractor from its own funds. ADB approved the government's request to use the advance fund procedure for the subprojects to be executed by MPWD, as a minor change of the multitranche financing facility (MFF) on 1 March 2016.

8. **Consistency with multitranche financing facility constituents.** The government has been preparing subprojects from the list of the investment program. In accordance with the selection criteria in the FFA and current project preparation status, the government proposes to implement the investment program in three tranches, against the two tranches indicated in the FFA. The indicative subprojects to be financed in each tranche are in Table 1.

9. **Compliance with framework financing agreement undertakings and loan covenants.** All undertakings set forth in schedules 1, 3, and 5 of the FFA, and loan covenants attached to tranche 1, are being complied with. The submission of audited project financial statements in fiscal year 2016 for national highway subprojects was delayed by 8 months from the agreed due date. MORTH was reminded to submit them before the agreed deadline for subsequent periods.

**Table 1: List of Proposed Subprojects to be Financed Under Each Tranche**

Tranches	Subprojects		
Tranche 1	AH-2 (37.3 km)	AH-48 (90.6 km)	Manipur state highway subproject (103.0 km)
Tranche 2	AH-1: Imphal–Moreh Priority section (65.7 km)	Mechi Bridge (1.5 km)	Additional financing for Manipur state highway subproject
Tranche 3	AH-1: Imphal–Moreh last mile (about 30 km)	Imphal–Moreh Alternate Road (about 62 km)	

AH = Asian Highway, km = kilometer.

Source: Asian Development Bank.

10. Under tranche 2, the government requests ADB to finance (i) upgrading of about 66 km of the AH-1 (AH-1 priority section subproject), (ii) construction of about 1.5 km of Mechi Bridge (Mechi bridge subproject), and (iii) additional financing for the Manipur state highway subproject. The government continues to prepare candidate subprojects for tranche 3.

11. The revised investment program and financing plans are in Tables 2 and 3. Further details are in the updated facility administration manual (Appendix 4).

**Table 2: Revised Investment Program (\$ million)**

Item	Tranche 1	Tranche 2	Tranche 3	Total
<b>A. Base Cost<sup>a</sup></b>				
1. Road Improvement	367.30	268.20	106.70	742.20
2. MPWD Capacity Development and Implementation Support	1.00	0.00	0.00	1.00
3. Five-Year Performance-Based Maintenance	24.10	16.50	7.00	47.60
<b>Subtotal (A)</b>	<b>392.40</b>	<b>284.70</b>	<b>113.70</b>	<b>790.80</b>
<b>B. Contingencies<sup>b</sup></b>	<b>23.10</b>	<b>17.00</b>	<b>4.00</b>	<b>44.10</b>
<b>C. Financing Charges During Implementation<sup>c</sup></b>	<b>9.30</b>	<b>6.10</b>	<b>2.00</b>	<b>17.40</b>
<b>Total (A+B+C)</b>	<b>424.80</b>	<b>307.80</b>	<b>119.70</b>	<b>852.30</b>

ADB = Asian Development Bank, MPWD = Manipur Public Works Department.

<sup>a</sup> In end of 2016 prices, including taxes and duties of about \$87 million to be partially financed from ADB loan resources.

<sup>b</sup> Physical contingencies computed at 5% for civil works. Price contingencies computed at 1.5% on foreign exchange costs and 5.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>c</sup> Includes interest and commitment charges. Interest during construction for ADB loans has been computed at the 5-year forward London interbank offered rate plus a spread of 0.5% and applicable maturity-based premium of 10 basis points. Commitment charges for an ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank.

**Table 3: Financing Plan (\$ million)**

Source	Tranche 1	Tranche 2	Tranche 3	Share of Total (%)
Asian Development Bank				
Ordinary capital resources (loan)	300.00	150.00	50.00	58.7
Government	124.80	157.80	69.70	41.3
<b>Total</b>	<b>424.80</b>	<b>307.80</b>	<b>119.70</b>	<b>100.0</b>

Source: Asian Development Bank.

### III. PERIODIC FINANCING REQUEST

#### A. Impact and Outcome

12. The impact will be connectivity with the North–East, both within the region and with the far eastern region, including Myanmar, Bangladesh, and Thailand improved, which is aligned with the government’s Twelfth Five Year Plan.<sup>4</sup> The outcome will be road connectivity and efficiency of the international trade corridor in northern part of West Bengal and North Eastern Region of India improved.

#### B. Outputs

13. The output will be roads for regional connectivity improved. This will be achieved through (i) upgrading of about 66 km of national highway in Manipur state, (ii) construction of about 1.5 km of an international bridge between India and Nepal, and (iii) construction of about 103.0 km of a state highway in Manipur state.<sup>5</sup>

#### C. Investment and Financing Plans

14. The tranche is estimated to cost \$307.80 million (Table 4).

**Table 4: Tranche Investment Plan (\$ million)**

Item	Amount <sup>a</sup>
<b>A. Base Cost</b>	
1. Road improvement	268.20
2. 5-year performance-based maintenance	16.50
<b>Subtotal (A)</b>	<b>284.70</b>
<b>B. Contingencies</b>	<b>17.00</b>
<b>C. Financing Charges During Implementation</b>	<b>6.10</b>
<b>Total (A+B+C)</b>	<b>307.80</b>

<sup>a</sup> In end of 2016 prices, including taxes and duties of about \$31 million to be partially financed from Asian Development Bank (ADB) loan resources. Exchange rate at \$1 = ₹66.

<sup>b</sup> Physical contingencies computed at 5.0% for civil works. Price contingencies computed at 1.5% on foreign exchange costs and 5.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>c</sup> Includes interest and commitment charges. Interest during construction for ADB loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.50%.

Source: Asian Development Bank.

<sup>4</sup> Government of India, Planning Commission. 2013. *Twelfth Five Year Plan, 2012–17. Economic Sector (Volume II)*. Delhi.

<sup>5</sup> Implementation of the state highway subproject is ongoing under the tranche 1 loan. Tranche 2 will finance the cost overrun, which the tranche 1 loan would not cover. The cost overrun results from the underestimate at tranche 1 loan processing. ADB’s eligibility criteria for additional financing have been met. Tranche 1 remains technically feasible, economically viable, and financially sound after taking the additional financing into account. It aligns with the country partnership strategy and additional financing policy (ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila). The government accords the state highway subproject high priority, and the additional financing will be consistent with the development objectives of the subproject. Tranche 1 is performing well in delivering expected outputs, and its implementation progress has been satisfactory. Out of the tranche 1 loan amount (\$300 million), the cumulative contract awards total is \$308.5 million (over 102.8%) and the disbursements are \$85.2 million (or 28.4%) at the exchange rate as of the end of May 2017. Compliance with safeguard policy requirements has been satisfactory. Risks have been managed successfully, and the project has an *on track* rating. Based on these criteria, the tranche 1 project performed well for the 12 months before interdepartmental review, and the design and implementation problems have been fully and satisfactorily addressed. Details are in the Summary of Additional Financing Under Tranche 2 (Appendix 15).

15. The government has requested a loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 20-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London Interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 12.75 years. There is no maturity premium payable to ADB.<sup>6</sup>

16. The overall financing plan of the tranche is in Table 5.

**Table 5: Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	150.00	48.7
Government	157.80	51.3
<b>Total</b>	<b>307.80</b>	<b>100.0</b>

Source: Asian Development Bank.

17. The investment plan and financing plan of the additional financing component of the tranche are in Tables 6 and 7.

**Table 6: Revised Investment Plan for Manipur State Highway Subproject (\$ million)**

Item	Current Amount <sup>a</sup>	Additional Financing <sup>b</sup>	Total
<b>A. Base Cost</b>			
1. Road improvement	157.50	32.00	189.50
2. Capacity development	1.00	0.00	1.00
3. 5-year performance-based maintenance	8.00	1.40	9.40
<b>Subtotal (A)</b>	<b>166.50</b>	<b>33.40</b>	<b>199.90</b>
<b>B. Contingencies</b>	<b>1.40</b>	<b>0.00</b>	<b>1.40</b>
<b>C. Financing Charges During Implementation</b>	<b>4.30</b>	<b>0.90</b>	<b>5.20</b>
<b>Total (A+B+C)</b>	<b>172.20</b>	<b>34.30</b>	<b>206.5</b>

<sup>a</sup> Refers to the original amount to be financed under tranche 1. Includes taxes and duties of about \$17 million to be partially financed from Asian Development Bank (ADB) loan resources. Exchange rate at \$1 = ₹66.

<sup>b</sup> Includes taxes and duties of about \$4 million to be partially financed from ADB loan resources.

Source: Asian Development Bank.

**Table 7: Revised Financing Plan**

Source	Current <sup>a</sup>		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Ordinary capital resources (regular loan)	155.00	90.0	22.0	64.1	177.0	85.7
Government	17.20	10.0	12.3	35.9	29.5	14.3
<b>Total</b>	<b>172.20</b>	<b>100.0</b>	<b>34.3</b>	<b>100.0</b>	<b>206.5</b>	<b>100.0</b>

Source: Asian Development Bank.

<sup>6</sup> This is based on the above loan terms and the government's choice of repayment options and dates.

## D. Implementation Arrangements

18. MORTH has designated National Highways and Infrastructure Development Corporation Limited (NHIDCL) as the implementing agency for the national highway subprojects. NHIDCL was established in July 2014, as a fully owned company of MORTH, to expedite national highways and other infrastructure development in the North Eastern region and strategic areas of India sharing international boundaries. NHIDCL officials have vast experience in project procurement and implementation in public infrastructure development entities. MPWD continues as the implementing agency of the state highway subprojects.

19. The implementation arrangements for the tranche are summarized in Table 8 and described in detail in the updated facility administration manual (Appendix 4).

**Table 8: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	August 2018–December 2021		
Estimated completion date	31 December 2021		
Estimated loan closing date	30 June 2022		
Management			
(i) Oversight body	SASEC Transport Working Group Representative for India; MORTH		
(ii) Executing agency	MORTH (for national highways), MPWD (for state highways)		
(iii) Key implementing agencies	NHIDCL, MPWD		
(iv) Implementation unit	National highways: NHIDCL branch offices (Gangtok and Imphal) State highways: MPWD in Imphal and 2 site offices with 15 staff		
Procurement	International competitive bidding	3 contracts <sup>a</sup>	\$151 million <sup>a</sup>
Retroactive financing and advance contracting	Works		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, MORTH = Ministry of Road Transport and Highways, MPWD = Manipur Public Works Department, NHIDCL = National Highways and Infrastructure Development Corporation Limited, SASEC = South Asia Subregional Economic Cooperation.

<sup>a</sup> Refers to the estimates of contracts to be procured under tranche 2.

Source: Asian Development Bank.

## E. Project Readiness

20. Detailed project reports for the subprojects under the tranche have been completed under an ADB technical assistance project.<sup>7</sup> Bidding documents have been issued for all three procurement packages.

## F. Advance Contracting and Retroactive Financing

21. NHIDCL has started advance contracting activities for all subprojects based on provisions in the FFA. The FFA also has a provision to allow retroactive financing of eligible expenditures toward civil works, equipment and materials up to 20% of the proposed individual loan, incurred before loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. The government requests retroactive financing for tranche 2.

<sup>7</sup> ADB. 2009. *Technical Assistance to India for Advanced Project Preparedness for Poverty Reduction – Detailed Design for the Subregional Road Connectivity Project*. Manila.

## IV. DUE DILIGENCE

### A. Technical

22. The engineering design was prepared to minimize land acquisition as well as social and environmental impacts. The recommendations of the road safety audit were incorporated in the design. Key climate change risks were identified as increased temperature and rainfall, which may cause flooding and landslides. The engineering design of the road embankment, drainage, culverts, and bridges has been adjusted to mitigate risks. Engineering, procurement, and construction forms of contracts will be used for national highway subprojects, including five-year performance-based maintenance, following the successful cases in India. The civil works contractor for the Manipur state highway subproject was procured under an item rate contract using ADB's standard bidding documents.

### B. Economic and Financial

23. **Economic analysis.** The economic evaluation for subprojects under the tranche was carried out in accordance with ADB's guidelines. The principal benefits are savings in vehicle operating costs and travel time. The estimated overall economic internal rate of return (EIRR) of tranche 2 is 15.4%. EIRRs for individual subprojects are 16.2% for the AH-1 priority section, 15.0% for the Mechi bridge, and 14.2% for the Manipur state highway. The sensitivity analysis indicates that the AH-1 priority section and Mechi bridge have EIRRs above the 9% threshold with most adverse variations in costs and benefits. The Manipur state highway subproject has an EIRR of 11.9% under the most adverse variation in costs and benefits.

24. **Financial sustainability.** The project will not generate revenue. Incremental recurrent costs for all subprojects under the tranche are estimated to amount to ₹112 million per year, or 0.4% of MORTH's budget for maintaining national highways. The Manipur state highway subproject road will be declared a national highway after project completion, and MORTH will provide the budget required for its maintenance as part of its national highway network. All subprojects will have five-year performance-based maintenance after completion of construction.

### C. Governance

25. **Financial management.** The financial management assessment concluded that the capacity of NHIDCL is adequate, and the overall risk is moderate. NHIDCL has satisfactory financial management capacity to record the required financial transactions, provide regular and reliable financial statements and monitoring reports, and safeguard its financial assets.

26. **Procurement and anticorruption.** NHIDCL is carrying out all procurement exercises in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). An assessment of NHIDCL's e-procurement system concluded that it is generally compliant with ADB's requirements. The bidding documents were adjusted to ensure full compliance with ADB's Procurement Guidelines. ADB will closely monitor the use of the system during project implementation. MPWD will procure no contracts under the tranche. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, NHIDCL and MPWD. The specific policy requirements and supplementary measures are described in the updated facility administration manual (Appendix 4).

#### D. Poverty, Social, and Gender Dimensions

27. The AH-1 will provide better road connectivity to local people who could not reap the benefits of locational advantages despite proximity to Myanmar and other Indian states. Half of the working population is self-employed in trade and business, including cross-border trade. Agriculture, non-farm labor, and the service sector each account for an equal proportion of workers. For Mechi bridge, the project area is an international border and a hub for cross-border commercial activities. About 11% of the respondents work in tea gardens. The bridge will provide stronger links between remote, poor regions and more developed markets, improving the region's socioeconomic situation and enhancing poverty reduction.

28. **Gender.** Women in project areas are mainly involved in household work, cultivation, farming activities, and working in tea estates near the project areas. Women indicated that improved road conditions and connectivity would provide better access to health services, better education, economic opportunities, and social interactions. Mitigation and key actions for tranche 2 include (i) physical improvements, including constructing about 66 km of paved shoulder, two rest areas, and at least nine bus bays that will be beneficial to the elderly, women, and children; (ii) encouraging civil works contractors to engage women workers and ensuring equal pay for equal work; and (iii) providing awareness-raising seminars in the project areas on HIV/AIDS, health and hygiene, road safety, and human trafficking.

29. **HIV/AIDS and trafficking.** Subproject areas are characterized by increasing rates of HIV/AIDS and other sexually transmitted infections, with concentrated epidemics. The National AIDS Control Organization of the Ministry of Health and Family Welfare and the State AIDS Prevention and Control Society are tasked with providing medical and health services, public awareness raising and social sector services, and monitoring. The state governments have set up the District AIDS Prevention and Control Unit to provide targeted interventions to high-risk groups, and an integrated and augmented system of prevention, care, support, and treatment at the district level. Based on existing government initiatives, mitigating measures are in place to address all health and social risks and impacts associated with infrastructure development in the project area. NHIDCL and MPWD will ensure that civil works contractors conduct awareness programs in HIV/AIDS, human trafficking, and child labor.

#### E. Safeguards

30. **Environmental impact.** Tranche 2 is categorized *B* in accordance with ADB's Safeguard Policy Statement (SPS 2009). No significant, irreversible environmental impacts are anticipated from the subprojects since none are located inside or near any protected or environmentally sensitive areas. Initial environmental examinations (IEE) have been prepared for each subproject. Environment safeguards compliance under tranche 1 has been found satisfactory; the environmental due diligence report is disclosed on the ADB website.

31. Anticipated environmental impacts from the subprojects entail typical road construction related issues such as removal of trees, generation of dust, noise, exhaust, waste from construction and worker camps, water contamination, occupational health and safety, slope failures, erosion, and siltation. Mitigation measures have been included in the environmental management plan, which the contractor will implement. Long-term impacts are mainly related to noise and emissions from the increased traffic, which will be curbed through the construction of noise barriers and speed control measures. For the Mechi bridge subproject, precautionary measures will be taken to avoid disturbing the hydrology, contaminating the water, and preventing social and health issues from the construction workers. Meaningful consultations were held with



affected persons and other key stakeholders while preparing the IEE. A grievance redress mechanism will be established to address any concerns and complaints during implementation.

32. The capacity of the project implementation units (PIUs) responsible for the AH-1 priority section and Mechi bridge subprojects needs to be strengthened during implementation. A safeguards focal person will be appointed at each PIU. The environment specialist engaged by NHIDCL will support the PIUs. The environment specialist of the authority's engineer engaged by NHIDCL will supervise and monitor the contractor. Each PIU will organize an initial workshop to clarify the roles and responsibilities of each party to comply with the requirements of the environmental assessment and review framework, IEEs, and environmental management plans.

33. **Involuntary resettlement.** Tranche 2 is categorized *A* in accordance with the SPS. The projects were developed to minimize impact. All plans were prepared in accordance with the resettlement framework of the investment program. One combined resettlement and indigenous peoples plan was prepared for AH-1 priority section, and two resettlement plans were prepared for Mechi bridge—one for India and one for Nepal. A total of 84.28 hectares will be acquired at replacement cost; 2,359 households comprising 12,888 persons will be affected, occupying 621 structures. Of these households, 404 will be physically displaced, 1,955 will be economically displaced, and 1,007 will experience significant impact. The displaced households will be entitled to compensation for the loss of land and structures at replacement cost, shifting cost, and other income restoration assistance. The resettlement cost is estimated at about \$64.5 million. Meaningful consultation and information disclosure have been undertaken to seek the affected peoples' concerns. Channels are in place for grievance redress. The implementing agencies have adequate capacity to implement the resettlement plans. Due diligence of tranche 1 found that ongoing subprojects are in compliance with loan covenants.

34. **Indigenous peoples.** Tranche 2 is categorized *B* in accordance with the SPS. Planning was undertaken in accordance with the indigenous peoples planning framework of the investment program. A total of 262 indigenous peoples' households will be impacted by involuntary resettlement, but this does not trigger the requirement for broad community support. The census found that tribal groups in the subproject areas freely interact with outside communities and live along existing roads to benefit from better connectivity. A combined resettlement and indigenous peoples plan has been prepared for the AH-1 priority section subproject. Adequate compensation provisions are made to mitigate adverse impacts on indigenous peoples' households.

## F. Risks and Mitigating Measures

35. Major risks and mitigating measures are summarized in Table 9 and described in detail in the updated risk assessment and risk management plan (Appendix 13).

**Table 9: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Project implementation delay	Advance actions are being taken to ensure high implementation readiness. The independent agency status of NHIDCL will lead to efficient decision-making process during project implementation.
Safeguard compliance	Adverse impacts of land acquisition and social and environmental impacts have been minimized by undertaking all engineering measures. Consultants will be engaged for implementation support.
Sustainability	Five-year performance-based contracts are adopted in all the works contracts under the tranche. ADB and the World Bank are supporting the development of a road asset management system.

ADB = Asian Development Bank, NHIDCL = National Highways and Infrastructure Development Corporation Limited.  
Source: Asian Development Bank.

## **G. Risk Categorization**

36. The safeguard categorization of the tranche is *A* for involuntary resettlement, and so tranche 2 is categorized as *complex*.

## **V. ASSURANCES**

37. The government, MORTH, NHIDCL, and MPWD have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as detailed in the facility administration manual and loan documents.

38. The government, MORTH, NHIDCL, and MPWD have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreements.

## **VI. MINOR CHANGE OF THE MULTITRANCHE FINANCING FACILITY**

39. As described in para. 11, the government intends to implement the MFF under three tranches instead of two tranches as described in the FFA. The intention is in accordance with the preparation status of the respective candidate subprojects.<sup>8</sup>

40. As described in para. 18, the government intends to designate NHIDCL as the implementing agency for the national highways subprojects under the MFF, in addition to WBPWD as indicated in the FFA. Due diligence has concluded that the implementation capacity of NHIDCL is satisfactory. The change does not affect the safeguard implementation.

41. In accordance with Project Administration Instruction 5.02, para. 7,<sup>9</sup> the proposed changes to the MFF are considered minor as they do not involve any substantial and material changes as described in Operations Manual Section D14, para. 42.<sup>10</sup>

## **VII. RECOMMENDATIONS**

42. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$500,000,000 to India for the South Asia Subregional Economic Cooperation Road Connectivity Investment Program, the President has approved the tranche as described in para. 15 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.

43. In accordance with para. 14 of PAI 5.02, the President has approved the minor changes to the MFF as described in paras. 39 and 40.

<sup>8</sup> The estimated cost of the investment program has increased from \$761.6 million to \$852.3 million due to increased financing from the central and state governments.

<sup>9</sup> ADB. 2015. Change of Loan and/or Grant Funded Projects. *Project Administration Instructions*. PAI 5.02. Manila.

<sup>10</sup> ADB. 2015. Multitranchise Financing Facility. *Operations Manual*. OM D14/OP. Manila.