



Project Readiness Financing Report

Project Number: 52159-003
May 2021

India: Sikkim Major District Roads Upgradation Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 February 2021)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.013672
\$1.00	=	₹73.1415

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
PAM	–	project administration manual
PRF	–	project readiness financing

NOTE

In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52159-003	
Project Name	Sikkim Major District Roads Upgradation Project	Department/Division	SARD/INRM
Country	India	Executing Agency	Roads and Bridges Department State of Sikkim
Modality	Project Readiness Financing (Loan)		
Country Economic Indicators	India		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=52159-003-CEI		
	https://www.adb.org/Documents/LinkedDocs/?id=52159-003-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		2.50
		Total	2.50
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Promoting rural development and food security		Climate Change impact on the Project	Medium
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Poverty Targeting	
SDG 1.a		General Intervention on Poverty	✓
SDG 3.6			
SDG 9.1			
SDG 10.1			
4. Risk Categorization:	Low		
5. Safeguard Categorization	No Safeguards Categorization available.		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		2.50	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		2.50	
Cofinancing		0.00	
None		0.00	
Counterpart		0.63	
Government		0.63	
Total		3.13	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. Sikkim is a landlocked state in the northeastern region of India and is characterized by mountainous terrain, rivers, and a fragile ecosystem, and is located in a high-activity seismic zone. Sikkim is solely dependent on roads as it lacks air, rail, and sea connectivity.¹ The state's economy is largely agrarian, with terraced farming and rice cultivation. Because of its hilly terrain and poor transport infrastructure, Sikkim lacks a large-scale industrial base. Brewing, distilling, tanning, and watchmaking are the main industries, and these are mainly located in the southern part of the state. In addition, a small mining industry exists in the state. As Sikkim is rich in natural resources and biodiversity, the government of Sikkim envisions accelerating economic growth, incomes, and employments by promoting eco-tourism, organic agriculture, agro-processing, and other small-scale industries. A good all-weather road network in Sikkim is crucial for the growth of the state's economy as well as accessibility for the people in the remote villages.

2. The state Roads and Bridges Department is the nodal agency responsible for developing and maintaining road infrastructure and has the responsibility to ensure mobility and access for road users throughout the year. However, lack of adequate funding and maintenance has resulted in an inadequate road network and poor road quality. The state is highly susceptible to frequent landslides, erosion, and cave-in of roads brought about by heavy rains during the monsoon period, which further deteriorates the road network. These conditions lead to longer travel times and high vehicle operating costs. Investment in upgrading and improving the roads, including drainage and safety features to maintain accessibility for people and goods, is essential.

3. Efforts are being made by the Roads and Bridges Department to improve the road network throughout the state under various programs so as to provide better connectivity to the places of economic importance, including tourist and religious destinations, health centers, schools, and villages. Road improvement works in Sikkim were included as part of the Asian Development Bank (ADB)-funded North Eastern State Roads Investment Program.² In 2012, ADB provided technical assistance (TA) to help the government of Sikkim prepare the Land Transport Management and Master Plan for Sikkim.³ Some of the priority roads in the master plan have already been improved by the government through various programs and funding sources. However, the central and state resources are not adequate for the development of the entire road network in the state. The capacity of the Roads and Bridges Department in project preparation and implementation for large projects is also weak. Based on the Land Transport Management and Master Plan for Sikkim, Roads and Bridges Department has prepared a tentative list of remaining candidate roads and bridges which are yet to be improved and has included some additional roads that have emerged because of their importance. The selection and finalization of priority roads and bridges and further project preparation is yet to be undertaken.

4. The government of Sikkim has requested project readiness financing (PRF) assistance for the preparation of the Sikkim Major District Roads Upgradation Project for the improvement of selected major district roads and other district roads and rehabilitation and/or replacement of

¹ An airport at Pakyong near Gangtok, the state capital of Sikkim, has been constructed but is not yet fully functional for sustained commercial operations.

² ADB. 2011. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the North Eastern State Roads Investment Program](#). Manila (Loan 2770-IND, \$74.8 million, approved on 22 August 2011).

³ ADB. 2011. [Technical Assistance for Advanced Project Preparedness for Poverty Reduction - Land Transport Management and Master Plan for Sikkim \(Subproject 6\)](#). Manila (TA 7538-IND).

bridges. Under the PRF, project readiness will be enhanced by preparing investment-ready road and bridge subprojects and their detailed engineering design, along with strengthening of the institutional capacity of the Roads and Bridges Department to facilitate effective and efficient implementation of ensuing projects. Under the ensuing project, adequate links with the national and state highway network will be established, and connectivity improved to important towns, commercially important rural areas, and pilgrimage and other tourist destinations in the state. An indicative list of subprojects is included in the project administration manual (PAM).⁴ The impact of the ensuing project will be improved access to markets and health and educational facilities and increased economic activity. The outcome of the ensuing project will be improved road accessibility, efficiency, and safety in Sikkim. The proposed PRF and the ensuing project are listed in the country operations business plan, 2020–2022 for India with indicative financing of \$5 million for the PRF and \$75 million for the ensuing project, to be financed from ADB's ordinary capital resources.⁵ The project follows priorities set in the country partnership strategy, 2018–2022 for India by supporting improved road connectivity at the state and district levels, road safety, sustainable road maintenance, and capacity building.⁶ The coronavirus disease (COVID-19) pandemic will not have any impact on the ensuing project as road connectivity will remain as relevant, if not more relevant, to boosting the economy and providing connectivity to remote areas. The COVID-19 pandemic has not affected the project implementation arrangements or cost estimate. The PRF implementation period of 3 years provides adequate cushion for some delays in undertaking the studies. High readiness of the PRF (para. 13) and the implementation arrangements (para. 11) will ensure completion of the PRF within the implementation period.

B. Outputs and Activities

5. The PRF will ensure high readiness of the ensuing project by delivering the following outputs:

6. **Output 1: Feasibility studies and detailed engineering designs for priority subprojects completed.** The consulting services under the PRF, in close coordination with the Roads and Bridges Department and ADB, will deliver output 1 through (i) initial screening of the tentative list of candidate roads and bridges; (ii) feasibility studies of the shortlisted roads for final selection; and (iii) detailed design for selected road and bridge subprojects, including the environmental and social safeguard assessments and preparation of (a) environmental and social safeguard planning documents, (b) gender analysis and a gender equality and social inclusion plan, (c) realistic cost estimate benchmarking with contracts of similar nature and conditions, (d) bid documents, (e) economic analysis, and (f) due diligence on financial management. The subprojects will be selected and designed while considering the existing local hazard maps or actual surveys, and current and future climate information. Disaster risk and climate change features will be integrated into the design of resilient all-weather roads.

7. **Output 2: Institutional capacity of PRF executing agency strengthened.** The consulting services under the PRF, in close coordination with the Roads and Bridges Department and ADB, will deliver output 2 through building capacity in financial management; assisting and building capacity in procurement, including streamlining the decision-making processes and the use and phased adoption of an e-procurement system; supporting the bidding process until contract award; and assisting in sector analysis and developing the institutional strengthening and

⁴ Project Administration Manual (available from the list of linked documents in Appendix 1).

⁵ ADB. 2019. [Country Operations Business Plan. India 2020–2022](#). Manila.

⁶ ADB. 2017. [Country Partnership Strategy. India, 2018-2022 —Accelerating Inclusive Economic Transformation](#). Manila.

capacity development component (including road maintenance and asset management, road safety, and preparedness for and management of disaster and climate risks) of the ensuing project.

C. Ensuing Project

8. The ensuing project (para. 4) is proposed to be financed from ADB ordinary capital resources, with indicative financing of \$75 million and expected approval in 2023. The specific loan amount for the ensuing project will be determined on completion of the detailed engineering design for the selected subprojects, the implementation period, absorptive capacity of the executing agency and the contracting industry, and the availability of counterpart funding from the government of Sikkim. The cost of climate adaptation and mitigation for the ensuing project will be confirmed during PRF implementation when more information is available.

D. Cost Estimates and Financing Arrangements

9. The PRF is estimated to cost \$3.13 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the PAM (footnote 4).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Feasibility studies and detailed engineering designs	2.34
2. Institutional capacity building	0.41
Subtotal (A)	2.75
B. Contingencies^c	0.33
C. Interest During Implementation^d	0.05
Total (A+B+C)	3.13

^a The government will finance taxes and duties of \$0.42 million by cash contribution.

^b In mid-2020 prices using an exchange rate of \$1 = ₹73.1415.

^c Contingencies computed at about 12% for consulting services.

^d Interest during implementation for the ordinary capital resources loan has been computed at the 5-year dollar fixed-swap rate plus a spread of 0.5% per year.

Sources: Asian Development Bank estimates.

10. The government has requested a regular loan of \$2,500,000 from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, and such other terms and conditions set forth in the draft loan agreement. The summary financing plan is in Table 2.

Table 2: Summary Financing Plan^a

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	2.50	80.0
Government ^b	0.63	20.0
Total	3.13	100.0

^a A project readiness financing loan can be refinanced under an ensuing loan to the same borrower and the refinancing date will be the expected date of effectiveness of the ensuing loan agreement and will generally be adjusted to coincide with the actual effectiveness date of the ensuing loan agreement. The refinancing date will be before the first principal repayment date of the project readiness financing loan. Where refinancing arrangements are not used for the ensuing loan, the project readiness financing loan must be repaid.

^b The government contribution includes interest and other charges during implementation, taxes, and duties.
Source: Asian Development Bank.

E. Implementation Arrangements

11. The implementation arrangements are summarized in Table 3 and described in detail in the PRF PAM. Procurement under the PRF assistance will follow the ADB Procurement Policy (2017, as amended from time to time), Procurement Regulations for ADB Borrowers (2017, as amended from time to time), Guidance Note on Procurement (2018, as amended from time to time), and its associated procurement staff instructions. ADB will provide a consultant under technical assistance to support the executing agency in supervising project preparatory activities under the PRF.⁷

Table 3: Implementation Arrangements for Project Readiness Financing

Aspects	Arrangements		
PRF implementation period	May 2021–March 2024		
Estimated PRF completion date	31 March 2024		
Management			
(i) Oversight body	Project steering committee chaired by development commissioner		
(ii) Executing agency	Government of Sikkim acting through Roads and Bridges Department		
(iii) Implementing agency	Project management unit (ADB Cell) under Roads and Bridges Department		
Consulting services	QCBS (quality–cost ratio 80:20)	202 person-months	\$2.75 million
Advance contracting and retroactive financing	The Roads and Bridges Department will use retroactive financing and advance contracting for consulting services. ADB will provide retroactive financing for expenditures incurred before loan effectiveness but not earlier than 12 months from the date of the legal agreements, subject to a maximum amount equivalent to 20% of the loan amount.		
Disbursement	Disbursements under the PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, PRF = project readiness financing, QCBS = quality- and cost-based selection.
Source: Asian Development Bank.

II. DUE DILIGENCE

12. **Technical.** The consultants under the PRF, in close coordination with the Roads and Bridges Department and ADB, will support initial screening of a tentative list of roads and bridges, and undertake a feasibility study for the shortlisted roads and the detailed design for the selected roads and bridges subprojects based on technical, social, environmental, and economic viability. The feasibility study will be used as the basis for completing detailed engineering designs for selected subprojects. The selection criteria and design prepared under the PRF will ensure the cost effectiveness, economic efficiency, and sustainability of the subprojects. The subprojects will be selected and designed considering existing local hazard maps or actual surveys. Disaster risk resilience and climate change impact factors will be taken into consideration in the design of resilient all-weather roads and bridges in the ensuing subprojects. A climate risk and vulnerability assessment will be done for the ensuing subprojects. A consultant engaged by ADB will provide support to the Roads and Bridges Department in supervising the project preparation activities by the consulting firm.

⁷ ADB. 2019. [Technical Assistance for Knowledge and Institutional Strengthening for Infrastructure Planning and Sustainable Development for Subregional Integration](#). Manila (TA 9797-IND).

13. **Governance.** The Roads and Bridges Department has been executing road improvement works in Sikkim as part of the ADB-funded North Eastern State Roads Investment Program (footnote 2). It recruited consultants and a contractor in accordance with ADB guidelines and has been conducting project implementation activities including project management and submission of progress and monitoring reports. Since approval of advance contracting under the proposed PRF by ADB in June 2018, the Roads and Bridges Department has successfully completed the selection of the consulting firm for the proposed PRF following ADB's Procurement Regulations for ADB Borrowers, which demonstrates adequate capacity of the executing agency to recruit consulting services. A financial management assessment has been undertaken and included in the PAM. The financial management assessment indicates a *moderate* risk in implementing the PRF. To mitigate financial management weaknesses identified, the executing agency will establish sufficient measures on financial management arrangements including procedures for making timely payments, undertaking financial reporting, and auditing project accounts. The consultants recruited under the PRF will further support the Roads and Bridges Department and enhance its procurement and financial management capacity.

14. **Safeguards.** Since the activities under the proposed PRF consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009).⁸ The ensuing project will avoid subprojects in or close to national parks, wildlife sanctuaries, or any other environmentally sensitive areas. Sikkim has mountainous terrain and forest zones, and it is likely that some sections of the selected roads may pass through forest areas. However, the expected environmental impacts of the selected subprojects are not substantial, and mitigation measures will be implemented to minimize them. Sikkim is a small state and road sections passing through hilly terrain are less likely to pass through populated areas and thus requiring significant resettlement and/or land acquisition. Any impact on indigenous peoples is expected to be limited. Improvement of the roads is expected to have positive impacts on the social and economic life of the population in the subproject influence zone, including indigenous peoples. The safeguard classification for the ensuing project is likely to be B for environment, involuntary resettlement, and indigenous peoples.⁹ The PRF will finance the preparation of necessary safeguard documents for the ensuing project. Gender analysis and a gender equality and social inclusion plan will be prepared under the PRF for incorporation of gender elements in the design of the ensuing project.

III. PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved the loan of \$2,500,000 to India for the Sikkim Major District Road Upgradation Project, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement, and hereby reports this action to the Board.

⁸ The facility will not finance any pilot testing of project design.

⁹ Categorization of the ensuing project will be confirmed by the safeguards specialists during project due diligence and project preparation, when information on the exact project locations, receptors, and nature and extent of works is available.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=52159-003-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual