

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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June 30, 2009

Mr. S.K. Ray
Engineer-in-Chief-cum-Secretary
Works Department
Government of Orissa
Secretariat Building
Bhubneshwar 751 001
Fax: 0674-2391651



Dear Mr. Ray:

***India: Orissa State Road Sector Project, (Ln. 7577-IN)
Implementation Support [INTERIM] Mission (June 16-20, 2009)***

I would like to thank the Government of Orissa for the assistance and support extended to our interim mission in support of implementation of the Orissa State Road Project. The mission visited ongoing civil work contracts and held extensive discussions with the officers of OWD and the Project Management Unit and the staff of contractors and consultants. The mission also met with the Revenue Secretary of GOO.

I am enclosing the interim mission note which details the key findings and the agreements reached during the mission, including a time bound action plan to address these issues. Here, we would like to draw your attention to two areas of concern, which were highlighted during the previous mission and are still awaiting a satisfactory resolution.

First, the progress on the pre-construction activities, the land acquisition in particular, has been particularly slow, which has a direct impact on the progress of civil works and could pose a significant risk to the Phase-2 as well as overall project performance, if it is not addressed urgently with attention from highest level within the government.

Second, the apparent inadequacy in the capacities of the "common" local JV partner in all the three Phase I contracts, who seems to be struggling to mobilize and manage works with proper planning, in the absence of any support from the lead partners. This situation is not sustainable in the long run and needs to be rectified on urgent basis. I would request you, if possible, to take up this issue with the senior management of all partners and obtain their commitment to participate in the contracts in the spirit of contractual framework.

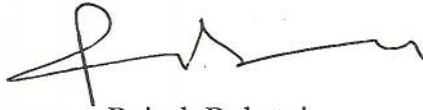
Finally, I feel that the coming lean working period due to the monsoon season provides us with an excellent opportunity to take a good control of the situation and achieve good progress on all fronts including the pre-construction activities. We have agreed an Action plan (refer para 19 of the mission note) with PMU/Contractors/Consultants to address various implementation issues. We would carefully monitor the

implementation of the said Action plan and would appreciate if you could also do the same during your review meetings as your personal intervention and guidance will immensely help the project staff.

Should you require any clarifications, please do not hesitate to contact me at e-mail rrohatgi@worldbank.org or my colleague Mr. Sri Kumar Tadimalla; e-mail: stadimalla@worldbank.org.

With regards,

Yours sincerely,



Rajesh Rohatgi
Task Team Leader

Encl:

cc: Mr. A.K. Tripathi, Chief Secretary, Government of Orissa; Fax: 0674-2536660
Mr. R. K. Sharma, Commissioner-cum-Secretary-Revenue & Disaster
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Mr. S.K. Ray

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June 30, 2009

bcc: OSRP Team

ORISSA STATE ROADS PROJECT (P096023)

MISSION NOTE

Implementation Support [INTERIM] Mission (June 16-20, 2009)

1. A World Bank (Bank) team comprising messrs Sri Kumar Tadimalla (PPP specialist cum Co-Task Leader), A.K. Swaminathan (transport specialist- consultant) and Rajesh Rohatgi (Task Team Leader), visited Bhubaneswar in connection with the above mentioned project. The mission visited selected sites and met with the Chief Engineer/Project Director and other key officers of the Project Management Unit (PMU) as well as the Secretary of the Orissa Works Department (OWD) to discuss current implementation issues and ways to improve the situation on ground. The team also met with the representatives of supervision consultant (SC) and the local JV partner of the contractors of Phase I roads.
2. The mission also met with the Revenue Secretary and discussed the criticality of timely land acquisition in order to achieve tangible progress on all the three contracts and requested his cooperation in alleviating this important constraint. The mission was pleased to note a positive response from the Secretary, who kindly agreed to review the situation as soon as possible and also follow-up with periodic meetings, if required, to expedite the process of land acquisition for all phase I roads.
3. The primary focus of the mission was to
 - i. Review the Phase I civil works progress including mobilisation of contractors and SC;
 - ii. Undertake site visits to the road sections, which could not be visited in the March, 2009 interim mission (i.e. Anandpur-Bhadrak-Chandbali and Bhawanipatna-Khariar);
 - iii. Inform about the project supervision framework which the Bank would follow to supervise and monitor the project;
 - iv. Ascertain status of the Institutional Strengthening Action Plan.
 - v. Discuss the downstream process like the project launch workshop along with the dates of the first implementation support mission;

Phase I Civil Works

4. ***In all the three contracts, mobilization efforts by the contractors have been very unsatisfactory and the participation of lead partners in all the JVs has been virtually non-existent.*** The mission visited Anandpur-Bhadrak-Chandbali and Bhawanipatna-Khariar sites and met with the local partner (M/s ARSS) of the JVs. The mission noted with concerns that the mobilization of equipments and manpower by the contractor on both of these contracts is extremely slow and need expediting at the earliest so that the work can be commenced on the available work front. The mission observed that the lead partners' participation continues to be virtually non-existent and the local partner is managing all the 3 projects with very poor planning, mobilisation and progress. This current situation needs to be improved urgently and the mission strongly urge OWD/PMU, the SC and the contractors to implement corrective actions under the contract management framework to rectify the situation within the next one month. During discussions it was made clear to all the three parties i.e. OWD, SC as well as the contractors that these contractors have been qualified based on the joint strength and capabilities and hence the JV agreement between the two partners is sacrosanct. While there could be a mutual agreement between the two parties to marginally adjust their respective levels of the participation, such adjustments should not amount to one of the parties (the lead partner in particular) being completely absent from the site in terms of manpower as well as equipment provided. It is the duty of the SC to ensure that the participation by all the parties in the JV are as per the JV agreement and, if not, appropriately document the deviations and bring them to the Employer's notice immediately so as to enable the Employer to initiate suitable remedial actions as envisaged under the contract.
5. ***Mobilization efforts by the Consultant, too, have been fraught with frequent changes as well as inadequate staffing of key positions :*** The mission noted with concerns that the international firm

selected for supervision, M/s SMEC, has not fully mobilised and the key positions like the environmental officers are continue to be vacant. The mission was informed that the Team Leader has resigned and there is an urgent need for quick substitution as per the provisions of the contract. The SC would need to address these critical gaps in staffing within the next one month and start working as per the requirements of their contracts. During the last mission, it was discussed and agreed that the PMU and the SC would agree on a list of fixed key and non-key personnel who would be made available with little or no interruptions so as to provide continuity in this critical contract supervision function. Another list of variable manpower of the SC would be subjected to review by the PMU every quarter to optimise the cost of services depending on the actual requirements at site.

6. **Slow Progress on Pre-Construction Activities:** The mission expressed its serious concern over the slow progress in land acquisition, R&R, tree cutting and utility shifting etc, which is progressing very much behind the schedule. As discussed during the last visit, the mission was informed that the PMU, SC and the contractors have discussed and agreed to swap some of the handing over milestones, to enable the contractors to have at least 5km road stretches completely acquired and free of encumbrances. However, it was noted by the mission that the new milestones were still not completely encumbrance free. It was decided and agreed that the PMU, SC and contractors would jointly visit all the 3 contracts and list all encumbrances in the first milestone stretches. The PMU would need to closely monitor this list and take action to clear encumbrances within a month of the site visit i.e. latest by July 31, 2009.

7. **Revised Work Plan.** In order to make up for the lost time and effectively manage the works in remaining project period, the mission suggest that OWD, SC and Contractors would need to work closely in mutual co-ordination with each other, focusing on areas where rapid progress can be achieved. The mission suggest that all the 3 contractors would now have to submit a resourced based revised work plan, which the Engineer would have to review/approve based on the ground realities and in consultation with OWD. It was agreed that all projects should have a revised resourced based work plan, approved by the 'Engineer' latest by July 31, 2009.

8. **Quality Control** The mission was informed that as agreed during the last mission, a basic contract management framework for the submission and approvals of all the Requests For Inspection (RFIs) and other decisions have been agreed upon. However, the mission noted with concern and observed on sites that this has not been implemented yet and the construction of layers of the road had apparently commenced by the contractors without the approval of the Engineer. It was agreed that SC should review on case by case basis all RFIs and clear/reject all executed work until June 16, 2009 by July 15, 2009. The mission also requested OWD to send all submitted RFIs until June 16th to the Bank for its own review. It was agreed that starting June 16, the contract management framework including the submission of RFIs needs to followed in total, failure to which may result in the Bank not allowing disbursement to the particular part of civil work. It was also agreed that a copy of the RFIs should also be electronically sent to the Employer and/or its representative on the same day on which, it was sent to the Engineer.

9. **Monitoring by PMU.** The mission suggested that there is a need to closely monitor and strengthen overall project management. The concerned PMU staff must undertake frequent visits from the HQ. The mission also suggested that there is an urgent need to depute one or two AE level staff in the field, who will be dedicated to the project to coordinate pre-construction activities and will provide periodic updates to the concerned EE at PMU and/or the Project Director. This person has to work within the mandate of existing contractual framework.

10. **Routine Maintenance and Construction Safety:** During site visits it was noted that the routine maintenance of the three roads is not being done even though it has been provided for in the contracts. The road conditions in many stretches are very poor and many stretches are full of potholes. The safety aspects during construction are also being grossly ignored at the site. The mission urge the SC to closely supervise this aspect of work and issue a final warning before starting to impose penalties provided for in the contract. The mission informed the project authorities that Bank may consider applying legal remedies under the loan agreements, if such violations of construction and traffic safety stipulations provided for in the contracts and specifications continue. The mission also informed that if

the SC does not supervise these aspects of construction or does not impose penalties as provided for in the contract, the PMU may also penalise the payments to the consultant's appropriate key persons.

11. The mission noted with concern that contractors have yet to obtain the necessary licenses and permits for quarrying and establishing crusher/batching plant sites in some of the contracts. This was also pointed out in the last mission but no corrective action has yet been taken by the contractor. Instead, it was reported that the plants were being operated and materials being taken out for use in other projects. During the site visits it was pointed out to the mission that the contractors camp and the WMM plant were set up in violation of the stipulations of the country and the EMP.

Phase-2 Contracts

12. Considering the slow progress on LA/R&R and utility shifting in the Phase-1 contracts, the mission informed the OWD/PMU, that it would not be in a position to allow invitation of bids for phase-2 works, till it is confident that encumbrance free land for 40% of the contract length in stretches of continuous length of at least 10km would be available for upgrading works at the time of contract signing. It was also advised that the contract documentation would be modified to indicate to the contractor that the entire stretch would be handed for maintenance works but major upgrading/strengthening/widening works can only be undertaken in a sequential manner (with specific chainages mentioned). The mission also advised that the procurement of SC for phase-2 works also to be put on hold for the time being.

13. During the previous mission it was agreed that the construction of the Bansadhara bridge on the Bank financed Behrampur-JKPur road corridor would be taken out of the works enlisted for Bank financing. This bridge was washed out during the previous year's floods and needs to be reconstructed and had been provided for under our Bank loan as a design-build pilot. The mission was informed that after extensive hydrological investigations by CWPRC, Pune, a decision has been taken to re-align the approaches and construct a longer bridge. Otherwise, it is a missing link on the above corridor and financing the remaining road corridor is futile. The Bank mission reminded OWD that even if it is financed by the state, the fact that it falls on the Bank financed corridor would mean that the safeguards aspects would have to be reviewed and cleared by the Bank.

14. In consequence to the above missing link as well as the law and order problems being faced in the Phase-2 sections of the Behrampur-Taptapani road, the Project Director requested whether the Taptapani-JKpur section of the road could be dropped and substituted by the Bhawanipatna-Rayagada-Kerada road. The Bank mission has requested the PMU to examine and submit a proposal in this regard including an economic justification etc.

PPP Roads

15. Mission reviewed the progress of various activities related to the three roads – namely, Sambalpur-Rourkela road (165 km), Joda-Bamberi road (18 km) and Koira – Lahunipara road (46 km) - being developed on PPP basis, with assistance from the Transaction Advisory consulting consortium comprising of M/s PriceWaterhouseCoopers and M/s LASA. In case of Joda-Bamberi road, the draft project report is ready and, after obtaining the approval of the state government's Empowered Committee on Infrastructure (ECI), Request for Qualification was issued in June 09. In case of Sampalpur-Rourkela road – proposed to be developed with Viability Gap Funding (VGF) assistance from the Central Government – the mission was informed that clearance from the High Level Clearance Authority (HLCA) is awaited to proceed to with the application to GoI for VGF support and to initiate the bidding process. The team was glad to note that the PPP Unit within the PMU is now regarded as the nodal agency for undertaking road PPPs and other related activities in the state and the state government is now working towards pronouncing a Toll Policy and also a Road Act, to facilitate PPPs in the state road sector. At the same time, the Mission noted with concern that, following certain local protests against payment of tolls at some locations, vehicles bearing Orissa registration numbers are now not paying tolls on National Highway projects. While the PMU is confident that this issue will be resolved soon and the tolling will resume, the team advised the PMU to constantly watch these

developments as the track record of non-payment of tolls can severely undermine the prospective private investors' appetite to participate in the proposed PPP roads

Road Asset Management System

16. Mission was informed that the revised final RFP for this procurement along with the approved shortlist has been sent to the Bank and OWD is awaiting the Bank's non-objection. The mission agreed that it would get the RFP reviewed and accord its views or NOL at the earliest (July 15, 2009)

Miscellaneous

17. *The mission informed the OWD, contractor and the SC, the Bank's supervision and monitoring system* of periodic visits focussing on technical, safeguards, financial and procurement/contracting aspects. Further, it explained other aspects of complaint handling within the Bank where-in any stakeholder in the project can complain to the Bank if he/she feels dissatisfied, which the Bank would take up for further investigation. If the Bank feels that the principles agreed during the loan negotiations, appraisal and elaborated in the various documents are not being adhered to, it always reserves the right to take corrective actions in accordance with the legal agreements.

18. The mission also suggested that it would try and make arrangements for training of PMU, consultant and contractor training through resource persons on the Bank's method of supervision and contract monitoring and the FIDIC based contract framework. The mission also advised that it would try and arrange site visits to other such construction sites to understand the good and bad practices in construction.

19. Following Action Plan was discussed and agreed by the mission with all the 3 concerned parties i.e. OWD, consultant and contractor

Action Reference	Action Required	Agency	By Date
A01	Undertake Joint site visit to list all encumbrances in the first milestone stretches of all contracts.	OWD/SC/Contractor	15/07/2009
A02	Closely monitor the above list and clear all encumbrances.	OWD	31/07/2009
A03	All contracts to have approved revised resource-based work programme based on the encumbrance-free land availability, in place.	Contractor/SC	31/07/2009
A04	Clear/reject all executed work until June 16, 2009 including clearing of RFI and any other requests of the contractor, based on the agreed contract management framework, supervision strategy and	SC/Contractor	15/07/2009
A05	Submit all RFIs submitted by the contractors to the Bank for work done until June 16, 2009	OWD	15/07/2009
A06	Assign 1 or 2 junior officers of the AE level at each of the 3 contract sites to enable the project director to get periodic updates on the progress and quality of works.	OWD	31/07/2009
A07	SC to fully staff manpower as per the contractor's revised work program	SC	31/07/2009
A08	Issue notice to the contractors as per the conditions of contract for violations in carrying out routine maintenance, EMP and road safety measures giving a response time to the contractor; failing which the contractual clauses for penalties would be imposed retroactively from the date of violation	SC	Immediate
A09	Obtain all necessary licences and permission to operate quarry, plants and campsite.	Contractors	15/07/2009
A10	Review RFP and provide comments/NO	Bank	15/07/2009

Note - Action in bolds are pending since last mission