### Key development issues and rationale for Bank involvement.

**Demographic and Socio-Economic Background:** Andhra Pradesh (AP) is one of the progressive States of India. As per the latest census information the population of AP is about 76 million with about 75% living in rural areas. About 15% of the population is below the official poverty line and this is better than the country average of about 26%. The contribution of tertiary sector towards the State’s economy, which also includes the transport services, has been on the rise over the past decade. Government of AP (GoAP) is taking steps towards (i) better fiscal and economic management and reining in the revenue and fiscal deficits; and (ii) accelerating economic growth and improving quality of life of its citizens. Improving infrastructure to facilitate agricultural and industrial growth would be the key to achieving the development goals. GoAP has been rightly doing so in the past decade by investing in them consistent with its Vision 2020 strategy and has provided for such investments in the current budget. The Roads Policy (2005-15) also aims at providing an efficient, safe and environmentally sustainable road network in the State. For achieving the goal of providing improved roads, the State has requested Bank’s assistance for a second State Roads Project to follow the first one which closed in 2004. The first project had helped improve about 3100 km of State Roads and initiated the process of institutional strengthening and reforms. There were a lot of lessons learnt from our previous interventions in this state and other state level projects which this project will take into account by elevating the level of dialogue with the State on a sector wide approach to deal with critical issues such as improved governance, social safeguards, contract management, etc.

**Road Sector Issues:** The length of State Highways (SH) and Major District Roads (MDR) in AP is about 43,000 km and managed by the Roads and Buildings Department (RBD). In 1997, from among the SH and MDR, GoAP selected about 10,000 km of roads with high traffic and strategic importance and declared them as the Core Road Network (CRN). The capacity constraints on the state road network and maintenance budget provision (as against the Finance Commission norms for maintenance of roads for AP) indicate that there is still a gap between the actual needs and the resources provided for capital and maintenance interventions. The proposed new Bank-aided project would further help the state in improving more of the above mentioned key roads in the state network. Under an act of Government, the AP Road Development Corporation (RDC) was formed in 1998, during the implementation of the first project, and about 5,400 km of CRN was transferred to it.
Lessons learnt from the first project will be given due consideration during the design of the second project. Some actions to rectify the above issues have already been initiated by GoAP as mentioned below. It is hoped that the two road projects in succession will help in creating a sustainable platform for improved performance of the road sector in the State. GoAP has already enacted an “Infrastructure Enabling Act, 2001”. RBD have now initiated some preliminary studies to identify roads/bridges for private financing. The existing framework may need to be updated to meet with the current trends and requirements based on the current studies. Procurement reforms are spearheaded by the use of electronic procurement for about 90% of all procurement done by the State. For increasing the capacity of contractors and other construction agencies so as to benefit the State and the country, GoAP has set up the National Academy of Construction to impart training to staff of the contractors and improve quality of works. The State was the first in the country to pilot performance based maintenance contracts and some new specifications for pavement construction and maintenance as part of the previous Bank-funded project. The average condition of the CRN and overall maintenance funding for the State roads improved quite a bit during and after the first project. Through Bank involvement in the road sector under the proposed project, the GoAP would also seek Bank support in expanding these reform initiatives. Passing of the Procurement and the Road Bills prepared by the State in the legislature will help in improving governance of the sector. The state level R&R policy, if harmonized to be consistent with OP/BP 4.12, will enable the Bank to work with the state on a sector-wide approach to support road investment initiatives in the public and private sectors.

Linkage to Country Assistance Strategy (CAS – 2004) and Rationale for Bank Involvement: India CAS-2004 has identified the transport sector as one of the key drivers of economic growth of India. This proposed project is consistent with the CAS requirements of working with the states and the sector. The sector issues prevalent in the state clearly show that there is value addition in Bank’s involvement in a second road sector project so as to (i) bridge the gap in financing requirement through actual funding of investments; (ii) catalyze and facilitate other forms of financing for sustainable road development and maintenance – private sector, road funds etc.; (iii) to further strengthen road agencies to effectively manage the improved road network to the satisfaction of road users and other beneficiaries; and (iv) share global knowledge and experience to help improve the sector.

2. Proposed objective(s).
Objective: Since this is the second roads project in AP, the main objective would be to further improve the state road network by providing better quality and safer roads to the users in a sustainable manner.
Monitoring Indicators: The above aspects will be broadly monitored through (i) quality of network and travel times; (ii) efficiency indicators for road service delivery by the road agencies; (iii) beneficiary satisfaction survey ratings; (iv) number or length of roads under Public Private Partnership (PPP) concessions; and (v) number of road accidents and other road safety aspects (including possibly some health related indicator). More specific indicators will have to be agreed and baselines finalized closer to completion of the project preparation.

3. Preliminary description.
As envisaged at this stage the size of the project will be around $350 to 400 million with a loan size, depending on the finally agreed financing percentages, of about $300-320 million. This will depend on the assessment of the debt capacity of the state and the Bank’s exposure in the state. As of now, it is proposed that the project would include three components, namely
(i) Road Improvement Works component (about 90-92% of loan size): This component will primarily focus on (a) widening, upgrading and strengthening of key road corridors with moderate to high traffic based on the roads prioritised through feasibility studies (about 800-850 km); (b) maintenance of previously improved key road corridors through long term performance-based contracts (about 1500 km); (c) supporting road development and management contracts/concessions through PPP using the viability gap funding support.
(ii) Institutional Strengthening component (about 4% of the loan size): Many of the actions initiated under the first project for institutional strengthening and capacity building of the RBD and RDC could not be completed during the life of the project and some were taken up by the GoAP/RBD later after the project closed. The proposed project will focus on completing some of the remaining actions like (a) ensuring proper management of the CRN either by fully operationalising RDC or as a fallback option
strengthening the division responsible for CRN which will include business like management of public funded and PPP roads; (b) strengthening RBD since the larger part of the road network would still be within its responsibility; (c) finalizing and passing of the AP State Road Act consistent with the policy developed in 2005 to give a legal basis to the road agencies to manage the roads.

(iii) “Safe Roads” component (about 4% of the loan size): This component will strive to make the road corridors safe for its users, other beneficiaries and stakeholders and will cut across various departments of the State like the Road Safety Council, Police, Health, RBD and Transport. The approach here would be two pronged – (a) making effective contributions to improve the road safety aspects on the core network which can then be scaled up to the remaining state roads; and (b) spreading awareness about spreading and prevention of HIV/AIDS and other sexually transmitted diseases focused specifically on populations by the side of roads and users.

4. Safeguard policies that might apply.
(i) Involuntary Resettlement OP/BP 4.12 and Indigenous Peoples (OP/BP 4.10). More details of likely social impacts will be available once the feasibility study is completed. A Resettlement and Rehabilitation Policy framework, with an entitlement matrix for different types of impacts/losses, will be prepared and Resettlement Action Plans and Indigenous Peoples Development Plans. Besides working on an agreed R&R policy framework that meets Bank's requirements, the team will focus on implementation arrangement and a strong mechanism to address grievances of the project affected people.
(ii) Environmental assessment OP/BP 4.01. Natural Habitats OP/BP 4.04 Forests OP/BP 4.06. Cultural Property draft OP 4.11 OPN 11.03. The focus of environmental safeguards will be to mainstream and institutionalize the Environmental Management through: (a) establishing an Environmental Management Framework and applying the same to carry out detailed EAs and prepare implementable EMPs; and (b) institutional capacity building for effective implementation.

5. Tentative financing

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<th>Source: BORROWER INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT</th>
<th>($m.)</th>
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<td>80</td>
<td>320</td>
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