



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF

ADDITIONAL FINANCING FOR PMGSY RURAL ROADS PROJECT

APPROVED ON MAY 25, 2018

TO

REPUBLIC OF INDIA

TRANSPORT

SOUTH ASIA

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## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
DEA	Department of Economic Affairs
DLIs	Disbursement Linked Indicators
GIS	Geographic Information System
MoRD	Ministry of Rural Development
NRIDA	National Rural Infrastructure Development Agency
PDO	Project Development Objective
PMGSY	Pradhan Mantri Gram Sadak Yojana



**BASIC DATA**

**Product Information**

Project ID P124639	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 20-Dec-2010	Current Closing Date 15-Dec-2020

**Organizations**

Borrower Republic of India	Responsible Agency National Rural Infrastructure Development Agency, Ministry of Rural Development
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**Project Development Objective (PDO)**

Original PDO

The objective is to strengthen the systems and processes of the national PMGSY rural roads program for the expansion and maintenance of all-season rural access roads. The result will enhance the road connectivity to economic opportunities and social services for beneficiary communities in the participating states.

Current PDO

The objective is to strengthen the systems and processes of the national PMGSY rural roads program for the expansion and maintenance of all-season rural access roads. The result will enhance the road connectivity to economic opportunities and social services for beneficiary communities in the participating states.

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Commitment	Net Disbursed	Undisbursed
IBRD-88640	25-May-2018	31-May-2018	18-Jun-2018	15-Dec-2020	500.00	145.93	354.07



IBRD-79950	20-Dec-2010	14-Jan-2011	18-Feb-2011	30-Jun-2018	500.00	500.00	0
IDA-48480	20-Dec-2010	14-Jan-2011	18-Feb-2011	30-Jun-2018	279.40	246.58	0
IDA-48490	20-Dec-2010	14-Jan-2011	18-Feb-2011	30-Jun-2018	620.60	607.49	0

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No

**I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING**

**A. Project Status**

1. The US\$500 million IBRD loan for the Additional Financing for PMGSY Rural Roads Project was approved by the World Bank Board on May 25, 2018 and became effective on June 18, 2018; the closing date of the loan is December 15, 2020. The Additional Financing operation is a follow on to the original lending operation, known as the PMGSY Rural Roads Project (Rural Roads Project-II or RRP-II, 2010-18) which included: (a) PMGSY Program lending, to finance civil works expenditures in eight participating states (Bihar, Himachal Pradesh, Jharkhand, Meghalaya, Punjab, Rajasthan, Uttar Pradesh, and Uttarakhand); and (b) Institutional strengthening, a technical assistance program designed to strengthen the capacity of relevant agencies to implement and enhance the program. The Original Project has been a successful operation with a ‘Highly Satisfactory’ rating in achieving its project development objective (PDO) and significant accomplishments on civil works, institutional development, and disbursement linked indicators (DLIs) was fully disbursed and in compliance with all key loan covenants

2. The PDO of the Additional Financing (AF) remained unchanged “to strengthen the systems and processes of the national PMGSY rural roads program for the expansion and maintenance of all-season rural access roads”. The AF comprises of two components: Component A - PMGSY Program Financing (US\$970 million) (split into sub-components A1 (Green and Climate Resilient Rural Roads), A2 (Pilot Projects to Introduce New Technologies), and A3 (Rural Roads under the Original Project)); and Component B - Institutional Strengthening (divided into nine sub-components).

3. **Current Progress:** Despite its excellent performance in the past, the project implementation has significantly slowed down. As of August 2020, disbursement stood at US\$146 million or about 29 percent of the loan amount. An IUFR of about US\$16.85 million is under process for the expenditure incurred until October 2020. The status of implementation of the two project components is summarized below:

- i. **Component A: PMGSY Program Financing (US\$970 million, IBRD US\$485 million).** Ministry of Rural Development (MoRD) has sanctioned about US\$1.5 billion worth of civil works (17532 km), 90 percent of these works have been procured and are under implementation. Out of the awarded works, construction of 750 km has been completed so far. Most of the awarded works are moving slowly for the reasons explained in paragraph 4 below. Many states have started to use climate resilient and road safety complied engineering design and modern asset management practices.



- ii. **Component B: Institutional Strengthening (US\$30 million, IBRD US\$15 million).** Good progress has been made on road safety, climate resilient designs, GIS based road inventory and condition database, and training and capacity building. Project Management Consultants are already in place and assisting NRIDA in monitoring and supervision of all project activities.

4. **Reasons for Slow Progress:** AF has only 30 months implementation period that was found inadequate to implement a US\$1 billion worth of civil works program mostly in a low capacity environment and difficult hilly terrain; involving use of climate resilient designs as well as rich technical assistance program covering the entire country. The climate resilient designs are being introduced for the first time in the country for rural roads and require extra time and considerable efforts. Inadequate time for implementation was identified as a key risk in the AF project paper. The impact of limited time was further aggravated due to enforcement of code of conduct for national elections, delay in launch of PMGSY III by the government of India, unusual prolonged heavy rains and floods in many states and COVID-19 led lockdown and stoppage of work which was further aggravated by shortage of labour and material. In addition, sizeable eligible expenditures under the parent project got time barred as these were incurred 12 months prior to signing of the legal documents.

5. The project complies with Bank fiduciary and safeguard policies and with the legal covenants. There are no overdue audits and no unresolved observations from the audit reports.

### ***B. Rationale for Restructuring***

6. Based on the request received from MoRD, Department of Economic Affairs (DEA) has suggested to front load the project by increasing the share by Bank financing to allow availability of Bank funds beyond the project closure date to partly meet the big commitments already made by Ministry of Rural Development (MoRD). The proposed restructuring entails (i) the Bank financing percentage to be increased from 50 to 100 percent w.e.f. from the effectiveness date of June 18, 2018 to allow front loading of the disbursements; and (ii) cancellation of US\$230 million of the loan. The proposed cancellation is taking in to account the quantum of work likely to be completed within the time available till the loan closing date, December 15, 2020. This will be in line with DEA's request to ensure an overall funding pattern i.e. ratio of loan and counterpart funding to remain at 50: 50.

7. The Bank team is working with MoRD to agree an action plan for satisfactory conclusion of the project to be implemented during the next 12-18 months to utilize the frontloading amount in addition to MORD's own funding for PMGSY. In addition, the Bank is also considering seeking a six-months extension for the preparation of the Implementation Completion Report to capture the progress made beyond the project closure.

## **II. DESCRIPTION OF PROPOSED CHANGES**

8. The below listed changes are proposed as part of this restructuring:
  - a. Re-allocation between disbursement categories. The proposed restructuring entails (i) the percentage share of World Bank financing (as per Section III.A of Schedule 2 of the Loan Agreement) proposed to be changed retroactively w.e.f. the loan effectiveness date i.e. June 18, 2018 from 50 percent to 100 percent; and (ii) cancellation of US\$230 million of the savings from the project with all other aspects of the project viz; project components, results indicators, etc. remaining unchanged. This cancellation is being proposed considering the current progress and the progress likely to be achieved by the loan closing date, December 15, 2020.



- b. In view of the proposed cancellation, the category allocation of the loan amount is proposed to be revised as follows:

Category	Amount of Loan Allocated (expressed in US\$) – Existing	Proposed Amount for Cancellation (US\$m)	Amount of Loan Allocated (expressed in US\$) - Proposed	Percentage of expenditures to be financed (inclusive of taxes) - Existing	Percentage of expenditures to be financed (inclusive of taxes) - Proposed
(1) Program of eligible expenditures	150,000,000	-	150,000,000	50%	100%
(2) Program of eligible expenditures	348,750,000	230,000,000	118,750,000	50%	100%
Front-end fee	1,250,000		1,250,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions	Same
Interest rate cap or Interest rate collar premium	0		0	Amount due pursuant to Section 4.05 (c) of the General Conditions	Same
<b>Total amount</b>	<b>500,000,000</b>	<b>230,000,000</b>	<b>270,000,000</b>		

### III. SUMMARY OF CHANGES

	Changed	Not Changed
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Loan Closing Date(s)		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓



Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

#### IV. DETAILED CHANGE(S)

##### CANCELLATIONS

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-79950-001	Repaying	USD	500,000,000.00	0.00		500,000,000.00	
IBRD-88640-001	Disbursing	USD	500,000,000.00	230,000,000.00	14-Dec-2020	270,000,000.00	BORROWER'S REQUEST FOR COUNTRY REASONS
IDA-48480-001	Repaying	XDR	176,152,600.00	0.00		176,152,600.00	
IDA-48490-001	Repaying	XDR	394,900,000.00	0.00		394,900,000.00	

##### REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed



# The World Bank

PMGSY Rural Roads Project (P124639)

IBRD-88640-001 | Currency: USD

iLap Category Sequence No: 1	Current Expenditure Category: Program of Elig Expnd			
150,000,000.00	144,676,222.68	150,000,000.00	50.00	100
iLap Category Sequence No: 2	Current Expenditure Category: Program of Elig Expnd			
348,750,000.00	0.00	118,750,000.00	50.00	100
<b>Total</b>	<b>498,750,000.00</b>	<b>144,676,222.68</b>	<b>268,750,000.00</b>	