I. Introduction and Context

Country Context

Among the Indian states, Tamil Nadu ranks 7th in terms of population and 2nd in economic importance. The state contributed to 7.7% of the country’s GDP in 2010-11 and over the past six years, its Gross State Domestic Product (GSDP) has grown at an average of 10.3% per annum, which was higher than the national average and also highest among the developed states. During the same period, the state’s per capita income increased at a CAGR of 15.9% during 2004-11, to reach USD 1528, which is about 40% higher than the national average (USD 1108). A quick review of the composition of the state’s GSDP and the workforce distribution reveals the significance of the transport infrastructure in the state’s economy. On one hand, nearly three quarters of the GSDP comes from the services sector and on the other hand the industry sector, which is dominated by
mining, quarrying, automotive and textile sub-sectors, are transport-intensive and accounts for 18% of the GSDP. The government intends to increase this share to about 23% by 2023.

Sectoral and Institutional Context
Tamil Nadu has an extensive road network of about 189,000 km. Of this, 62,017 km comprising of National Highways (4,974 km), State Highways (10,764 km), Major District Roads (11,247 km), and Other District Roads (35,032 km) are managed by the Highways Department (HD). The outlay and expenditures of the Highways Department have significantly increased over the years, and with this, allocations for maintenance have progressively moved up to match 100% or more of the norms indicated by the Finance Commission, which is a significant achievement in comparison to many other states. On the capital expenditure front, barring a few initiatives such as the Bank-assisted first Tamil Nadu Road Sector Project (TNRSP I), most of the budgetary allocations in the recent years are being directed towards upgrading the roads at the bottom-rung of the core road network (CRN, of about 22,000 km comprising of State Highways and Major District Roads) in terms of traffic volumes. These are mostly single and intermediate lane roads which are being upgraded to two-lane roads.

Even so, currently 40% of the CRN is of either single-lane or intermediate standard. As part of its strategic plan (Vision Tamil Nadu 2023), the state government is aiming to (a) enhance 2000 km into 6/8 lane expressway corridors between Chennai and major towns; and (b) modernize 5000 km of state highways into four-lane roads and an additional 16,000 km of state highways and other roads into two-lane roads with paved shoulders.

The Highways Department which is responsible for about 1/3rd of the state road network is traditionally organized mainly along the lines of funding or schemes, e.g., NH-wing, NABARD, TNRSP, Investigation & Designs, Highway Research Station, etc.. A process of re-orienting the organization along functional lines was initiated under TNRSP I, and will be further pursued in the proposed project. Two other corporations – namely, Tamil Nadu Road Infrastructure Development Corporation (TNRIDC) and Tamil Nadu Road Development Corporation (TNRDC) – are also engaged in road sector projects. The scope and reach of these institutions is, however, limited. Mandated to work on projects to be entrusted by the state government from time to time, they are currently focusing on the development of road and bridge infrastructure required in industrial areas (TNRIDC) and a few PPP projects (TNRDC). Also, Government of Tamil Nadu (GoTN) has recently enacted the Tamil Nadu Infrastructure Development Act, 2012, and notified the establishment of the Tamil Nadu Infrastructure Development Board (TNIDB). TNIDB is envisaged to play a cross-sectoral facilitation role for the development of infrastructure projects, with particular focus on PPP-type projects, through handholding the line departments and also providing funding support for project preparation.

Relationship to CAS
The proposed project is in line with the Country Strategy (CS) for FY09-12, which focuses inter alia on removing structural constraint to growth, through bridging the infrastructure gap. In particular, as envisaged in the CS, the project will assist GoTN in improving asset management practices, planning and budgeting, road safety and adoption of commercial practices including mainstreaming of the PPP approach. Also, in line with the Finance-Plus vision underpinning the CS under development for the next three years, the project will support Tamil Nadu in piloting/implementation of transformative second generation reforms, e.g., mobilization of additional resources through user charges and building the capacity of the HD to undertake better contracting.
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to assist the Highways Department of the Government of Tamil Nadu, in improving the road services over its core road network (CRN) in terms of capacity enhancement, better maintenance and lower accident fatalities.

Key Results (From PCN)

Achievement of the PDO will be demonstrated through improvements by the end of project w.r.t. to the following key results indicators, apart from the applicable Core Sector Indicators : (i) increase in lane capacity and road user satisfaction over CRN; (ii) reduction in travel time, vehicle operating costs and fatal accidents on the roads upgraded/maintained through the Bank loan; (iii) increase in the level of expenditure for upgrading/maintenance of CRN roads through improved planning, allocation and procurement practices, viz., % of expenditure allocated on the basis of the results of the road asset management system, increase in the number of contracts awarded and implemented through new modes such as EPC, PPP, multi-year performance-based contracts; and (iv) increase in the number of HD field divisions/circles that have implemented at least two large civil works contracts under the new modes of contracting.

III. Preliminary Description

Concept Description

The proposed project is designed to improve the strategic and operational effectiveness of the Highways Department in substantially improving the quality and level of services over the CRN in a phased manner. In the first phase, GoTN is planning to focus on improving about 7,000 km of CRN over an 8-10 year period, through a combination of resources from the exchequer, external aid (including the World Bank) and direct/indirect user charges. About 2000 km of these roads, which carry greater than 20,000 PCU traffic, will be developed on PPP basis.

Specifically, the project will provide lending and technical assistance support for upgradation/maintenance works (following new contracting approaches) and policy & institutional strengthening measures, through the following four components:

Component 1: Civil Works (USD 565 million): The project will support the upgradation (700 km approx.) and maintenance (2000 km approx.) of roads with medium to high-density traffic within the state’s core road network of about 22,000 km. These civil works will be implemented through new contracting approaches such as EPC+5-year maintenance, PPP and multi-year performance-based contracts, which provide better incentives for reducing time and cost overruns over the respective project life cycles. The constituent roads will be chosen from the top-rungs of the CRN, leaving the stretches with very high traffic volume which can potentially support themselves through a combination of tolls and viability gap funding support from the central/state government. The works would include widening, strengthening and/or re-construction of existing carriageways.

Component 2: PPP Facilitation Support (USD 10 million): This component will support GOTN/HD
in (i) creating appropriate framework conditions for harnessing private sector participation in road development and maintenance, including through mobilization of direct and indirect user charges through measures such as drafting of a toll policy and establishment and operationalization of a state road fund; and (ii) developing about 500 km of the CRN on PPP-basis, through supporting the engagement of transaction advisory consultants to help HD in preparing, structuring, awarding and implementation of about 6-8 road concessions. These activities together will help the GoTN/HD in developing about 2000 km of roads on PPP basis on their own.

Component 3: Road Safety (USD 15 million): This component will support the achievement of the objective of safer roads through (a) integrating the safety aspects right from the inception stage of the roads proposed/upgraded through the Bank loan; and (b) technical assistance for implementing key elements of the existing road safety policy through HD and other key stakeholder departments, that is, transport, police, health and education (e.g., training, awareness campaigns, education, equipment etc.).

Component 4: Institutional Strengthening (USD 10 million): This component will support (a) enhancing the capacity of HD staff to better prepare, structure, award and implement new methods of contracting for upgradation/maintenance including adopting sound environmental and social safeguard practices; and (b) restructuring of HD to endow with the new skill sets necessary for managing such new modes of contracting e.g., financial analysis/modeling, risk management, contract management, legal due diligence, dispute resolution, safeguard management etc.

Safeguards: The proposed project will trigger OP/BP “Involuntary Resettlement” and OP/BP 4.12, as the proposed roads are likely to involve substantial land acquisition. It is also likely that there will be bypasses to avoid the impacts to structures in the built-up areas, which also trigger large scale private land acquisition. Since most of the small towns in Tamil Nadu are congested and the available Right of Way is narrow, the impacts to houses and shops in the built-up areas including non-title holders is also anticipated. As part of preparatory studies, the Resettlement and Rehabilitation (R&R) policy framework adopted for TNRSP I will be updated taking into account the relevant policy provisions in the new National Land Acquisition and Rehabilitation and Resettlement Bill, 2011, National R&R policy, 2007 and the Bank’s operational policy on Involuntary resettlement. Most of the provisions in NLARR bill are in line with the Bank’s Operational policy, except the cut-off date for eligibility. It is also proposed to set a minimum percentage of road length to be handed over to the contractor on the date of award of the contract.

Environment: As observed during TNRSP1, the potential environmental concerns in the project, depending on the choice of project corridors and final alignments, are expected to include: (a) loss of roadside trees, which are generally found along most of the road corridors in TN; (b) possible impact of road improvements/upgradation in reserve forest and social forestry areas (c) impacts on water bodies and natural drainage areas; and (d) community/common property resources. The project implementation also would lead to temporary environmental impacts during construction stage. Thus OP 4.01 is triggered. The presence of natural habitats along the project corridors and impact on such natural resources depends on the final choice of corridors and proposed alignments. The applicability of OP 4.04 will be determined during project preparation.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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