

Appendix 4**Chashma Right Bank Irrigation Project – Stage III****Final Report of the Inspection Panel*****Management's Response*****Introduction**

Management is grateful to the Board Inspection Committee (BIC) for the opportunity to provide comments on the Final Report submitted by the Inspection Panel (the Panel) on the captioned Project.

In response to the Panel's draft Report, Management had given extensive comments on alleged breaches of operational policies and procedures in relation to both the processing and implementation of the Project, including the supplementary financing approved in 1999. It is regretted that the Panel essentially ignored Management's substantial evidence-based submissions. In view of this, Management requests the BIC to read this response in conjunction with the earlier response given to the Panel (see Appendix 4 of the Panel's Final Report).

Management is seriously concerned about the implications, for this and other projects, if the approach and premises applied by the Panel to reach its conclusions about compliance are accepted. This is notwithstanding that Management finds many of the Panel's recommendations (or parts thereof) to be in line with what Management believes should be done in moving forward. Indeed, many of the Panel's recommendations on remedial measures are consistent with the actions already undertaken by the Government and Management to address the concerns of potentially affected parties.

The main purpose of this additional submission, therefore, is to separate the issue of compliance from the need to move on, which will require continuing effort to monitor and address problems and issues encountered during the Project's implementation. Management wishes to be forward looking and constructive, especially with regard to what ought to be done in relation to this and future projects.

This submission is structured into two parts: (i) some general comments, and (ii) moving forward.

General Comments

Management submits that the Project was prepared with due diligence and that staff adhered to ADB operational policies and procedures that were applicable at the time. In the processing and implementation of the Project, staff and Management acted professionally and did their utmost to apply policies and procedures rigorously.

As we have noted previously, the supplementary financing of cost overruns was undertaken in line with the operational policies and procedures applicable at the time. The Project itself did not change; only its financing requirements changed due to implementation delays and foreign exchange fluctuations.

The Panel has retroactively applied ADB operational policies and procedures to assess compliance, i.e., it applied many policies and procedures approved **after** the approval of the Project. There is no explicit language in these policies and procedures that would require retroactive application.

Management acknowledges, however, that the supervision of the implementation process could have been handled more efficiently. This is not a criticism of the executing agency. There was considerable room for improvement in our own work. However, this is not a case of violation of operational policies and procedures. Although Management maintains that it has acted in accordance with applicable ADB policies and procedures, it acknowledges that resettlement, environmental and flooding issues could have been tackled more effectively earlier in the Project implementation process. During implementation, there were actual difficulties on the ground. Weaknesses in the supervision process were partly a function of (i) not enough continuity of the staff assigned to the supervisory task over the long implementation period of more than 10 years, and (ii) resource constraints given the scale and complexity of this Project.

The adverse effects caused during implementation were of varying degrees. In working with the Government to resolve these issues, innovative measures for broader and more systematic consultation were adopted during the implementation process. The Grievance Redress and Settlement Committee (GRSC) was a major initiative that involved full cooperation of the Government and widespread consultation with potentially affected communities. Unfortunately, the progress of this comprehensive approach for addressing all the major problems has slowed in order to avoid any perception of interfering with or preempting the Inspection process. Management is now keen to move forward together with the Government and other stakeholders to implement the GRSC recommendations and to resolve all issues of adverse impacts of the Project.

Moving Forward

Management submits that through the GRSC mechanism, a comprehensive plan of action has been formulated. This should be implemented without further delay, especially as the Government has demonstrated its willingness and commitment to proceed. In moving forward, continued dialogue with the Government and other stakeholders is of vital importance to resolve the outstanding issues. The Panel has made a number of recommendations in relation to the Project. In the attachment, we summarize and contrast these against the various actions taken and/or proposed under the mandate of the GRSC.

For the Project, and for ADB operations more broadly, Management is of the view that the way forward is to strengthen further the supervision of project implementation. Management recognizes the importance of effective and efficient preparation, but projects evolve and undergo changes during the final design and construction stages. It is virtually impossible to cater to all events and eventualities upfront during preparation. Tighter supervision will help address and deal more effectively with the potentially adverse effects of ADB-funded projects. ADB is now devoting greater attention to improving the effectiveness and efficiency of its operations. Management is putting in place a range of actions to improve development results, enhance organizational capacity, bring about greater openness and accountability, and improve staff skills and capacities. Management believes that these efforts will address issues related to the Project and preempt similar issues for future projects.

The experience gained from the Project shows that under certain policies, it is difficult for staff to gauge what constitutes compliance. Management proposes to review those policies and procedures to ensure adequate clarity and provide unambiguous guidelines to staff on what constitutes compliance. In particular, to define the nature of the appraisals needed for each type of cost overrun situation, revisions will be proposed to the policy on supplementary financing and related OM H5 (formerly OM 13).

Response to Panel Recommendations

Panel Recommendations	Response
<p>1. Extension of Project completion date and utilization of uncommitted loan amounts. Recommendation divided into parts:</p> <ul style="list-style-type: none"> ▪ Remedial actions to be carried out in accordance with currently applicable ADB policies with full participation of affected communities and their representatives. ▪ Assessment of environmental and social impact of any new construction works and/or major changes in the water management regimes. ▪ Monitoring and evaluation by an independent entity 	<ul style="list-style-type: none"> ▪ The Government requested a loan extension up to 30 June 2005 to complete pending contract payments and to implement remedial actions recommended by the GRSC. The loan has been extended only up to 30 September 2004 because of the ongoing inspection process. ▪ All remedial actions to be financed by loan proceeds, irrespective of whether these are proposed by the GRSC or the Panel, would always be carried out in accordance with ADB policies. However, the use of loan proceeds for these purposes requires the consent of the Borrower. Most remedial actions proposed by the Panel have already been dealt with under the GRSC. ▪ The environmental and social impact assessments would be carried out for both major and minor works, for ADB-financed works. On the water management regimes, Management submits that no significant changes are expected. Loan proceeds can be used for the purpose of a Hill Torrent Management Plan that would stabilize and improve Rod Kohi agriculture, provided the Borrower requests ADB financing. All such actions would be carried out in consultation and with participation of concerned parties. This is precisely the approach taken by the GRSC in relation to remedial actions under the Project. ▪ Management agrees with the concept of monitoring and evaluation. This task is the responsibility of the executing agency. Management proposes to discuss this proposal with Government.
<p>2. Long-term funding (i.e., for at least five years) for the implementation of a full Environmental Management Plan for the Project, following preparation of full Environmental Impact Assessment of the Project.</p>	<ul style="list-style-type: none"> ▪ Management is already working with the Government on implementation of the Environmental Management Plan (EMP). This is to be done under the National Drainage Project. WAPDA approved the EMP in May 2004 following two public consultations. ▪ Management views that an Environmental Impact Assessment will not add relevant new information at this stage of project implementation. The issues raised have been studied in depth, with adequate public consultation undertaken for the present EMP. At the same time, the proposal for monitoring and evaluation noted above will include environmental aspects relevant to the EMP and other identified environmental issues such as grazing land.
<p>2. Agreements between ADB and the Government, including any timetables, to be captured and carried out as legally binding obligations</p>	<ul style="list-style-type: none"> ▪ This would be subject to the Borrower's agreement.

Panel Recommendations	Response
<p>4. Approach and procedures for the processing of on-going and future large-scale canal irrigation projects, with a focus on:</p> <ul style="list-style-type: none"> ▪ compensation for land acquisition on a land-for-land basis or, when not possible, on a cash compensation basis at levels that enable the affected households to buy land of equivalent value; ▪ any issues relating to corruption; and ▪ resettlement in accordance with requirements under ADB's Policy on Involuntary Resettlement. 	<ul style="list-style-type: none"> ▪ Management would support these approaches to the extent consistent with ADB operational policies and procedures.
<p>5. ADB (<i>will</i>) ensure that (a) sufficient ADB human resources are available to ensure a satisfactory level of support for, and monitoring of, the implementation of any resettlement plans, environmental management plans or other measures required under ADB's safeguard policies; and (b) ADB staff are aware of their duties and obligations in the formulation, processing and implementation of ADB-assisted projects pursuant to ADB's operational policies and procedures.</p>	<ul style="list-style-type: none"> ▪ Management recognizes the importance of the proposal. This is an on-going requirement. Indeed, ADB as a whole plans to devote greater attention to improving the effectiveness and efficiency of its operations within the Reform Agenda Framework.