

Date of Meeting: July 12, 2005

**Compliance Review Panel Final Report for
The Southern Transport Development Project—
Asian Development Bank Loan 1711-SRI (SF)**

U.S. Statement

We commend the Compliance Review Panel (CRP) for this report. We believe the report gives a balanced assessment of the compliance issues in this project, including the problems caused by non-compliance with Bank policies. We support all of the recommendations made by the Panel, noting that Bank Management is in general agreement that the recommended actions will bring the project into compliance. We fully expect Management to provide its course of action and timelines by August 31, 2005 as requested.

As we delve further into this case, we see some troubling signs about the way in which staff and Management present projects to the Board, and subsequently execute them. We have seven issues related to the project and the Panel report, and one broader issue.

First, the CRP report details how significant details relating to this project were not included in the Report and Recommendation of the President (RRP) when presented to the Board in November 1999. For instance, it was known that the road trace and scope of resettlement under the project were substantially different than detailed in the RRP. We are concerned with this apparent lack of adequate oversight and the needless risk to the ADB's reputation, not to mention the disregard for potentially affected persons, for the sake of making a loan.

Second, we note with concern that it took 30 months from loan signing to make the ADB loan effective. As is detailed in the Panel's report, the loan effectiveness conditions were unrealistic. To our mind, this indicates a lack of understanding of the realities facing the project and a push to get loans to the Board before projects are fully ready. We have gone on record numerous times over the years—and supported the request from the Board's Development Effectiveness Committee (DEC)—that the Bank needs to establish a set of project-readiness criteria. As was urged by donors during the ADF-IX replenishment, Management must realign the incentive structure for Staff to reward them for development outcomes and not loan commitments.

Third, we strongly support the Panel's recommendation that the Bank review selected road projects to see how changes of scope may make the application of environment and resettlement policies difficult. It is clear from this compliance review that changes in the road alignment made after the 1999 environmental assessment are at the root of the contentiousness that has permeated this project. Unfortunately, this is not the first time that we have seen problems with policy compliance resulting from major changes to projects in the post-approval period. This issue was also at the heart of the inspection of the Samut Prakarn Wastewater Treatment Project.

Given the many changes in this project, including the road alignment, the environmental impacts, the significant increase in the number of affected people, and the co-financing arrangements, we question Management's response that a change in scope for this project *may* be processed when the executing agency has completed some unidentified studies. We support the Panel's recommendation that Management make a decision on the scope of this project. However, we are even more concerned about seeing how the Bank can better handle the issue of change of scope for projects throughout its portfolio. The point is not to fulfill a bureaucratic formality but to recognize that changing circumstances and project features warrant new analyses in order to comply with safeguard policies and to ensure development effectiveness.

Fourth, combined with the inadequacy of the public consultation process, the failure to conduct an environmental assessment of the new sections of the road alignment has undermined support for a project that should bring many development benefits. The delay in setting up a well-functioning management information system also hampers the project's ability to demonstrate progress in the resettlement and compensation process. We hope that current efforts underway to improve the information system will allow both the Bank and the implementation agency to better monitor resettlement outcomes and make necessary changes expeditiously. Management should deploy to the field all necessary specialized personnel—particularly for resettlement—to aid in the implementation of this project.

Fifth, we understand Management is moving forward on changing the monitoring process for the project. Frankly, it is difficult for us to believe that Management would have agreed to the current institutional setup in the first instance. Given the contention that has arisen in this project, and the need to resolve the issues as quickly as possible, we believe that it would be in the interest of all stakeholders that an independent monitoring process with **public** reporting be established. Given the high level of mistrust among the various groups involved in this project, it is our firm belief that it is not sufficient for ADB alone to maintain the third-party reports. It is important that all stakeholders be given full information about this process.

Sixth, the Panel's report has drawn attention to the persistent delay in setting up the grievance redress committees. As the pace of construction accelerates and the resettlement process moves towards completion, the volume of grievances is likely to increase. Management should assist the implementation agency in getting these committees up and running as soon as possible.

Seventh, the Panel's review of the 1999 environmental assessment notes that the assessment was weak in examining the effects of induced development in the project's area of influence. The failure to consider the environmental impacts of induced development is at odds with the fact that one of the major objectives of the project is to stimulate new economic activity. We have on other occasions emphasized the need for environmental assessments to cover induced effects and cumulative effects. We emphasize this issue again today because additional environmental studies have to be

completed and the inclusion of this type of analysis will help maximize the effectiveness of new development activities in the region.

On the issue of the Bank's Accountability Mechanism itself, we find the Management response relating to institutional issues unhelpful. As the Panel has outlined in its report, issues of non-compliance with Bank policy have impeded the Staff and Management's ability to implement this project to the benefit of the citizens of Sri Lanka and have undermined ADB's credibility in the eyes of many observers.

Looking forward, we encourage the Management to rise above these issues and concentrate on fixing the problems with this project for the benefit of the people who have been most affected. The Accountability Mechanism and the CRP should be seen as a means to identify and help resolve issues relating to non-compliance with Bank policy. Under the Board's direction, Management still has the responsibility to carry this project forward. It is important to remember that we are one Bank working toward one common objective in the region.