



Report and Recommendation of the President to the Board of Directors

Project Number: 46378-002
November 2015

Proposed Loan Islamic Republic of Pakistan: Central Asia Regional Economic Cooperation Regional Improving Border Services Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 9 November 2015)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.009478
\$1.00	=	PRs105.50

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
FBR	–	Federal Board of Revenue
ICT	–	information and communication technology
IEE	–	initial environmental examination
ITTMS	–	Integrated Transit Trade Management System
LARP	–	land acquisition and resettlement plan
NLC	–	National Logistics Cell
PLPA	–	Pakistan Land Port Authority
PMU	–	project management unit
SDR	–	special drawing right

NOTE

In this report, “\$” refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46378-002	
Project Name	Central Asia Regional Economic Cooperation Regional Improving Border Services Project	Department /Division	CWRD/CWTC
Country Borrower	Pakistan Ministry of Finance, Revenue, and Economic Affairs	Executing Agency	Federal Board of Revenue
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Multimodal logistics		250.00
		Total	250.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG) Regional integration (RCI)	Pillar 1: Economic opportunities, including jobs, created and expanded Pillar 1: Cross-border infrastructure	Climate Change impact on the Project	Medium
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	No gender elements (NGE)	✓
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		250.00	
Sovereign Project loan: Ordinary capital resources		150.00	
Sovereign Project loan: Asian Development Fund		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		50.00	
Government		50.00	
Total		300.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

PAKISTAN
**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION
 REGIONAL IMPROVING BORDER SERVICES PROJECT**



- Project Site
 - National Capital
 - Provincial Capital
 - City/Town
 - Airport
 - Port
 - Motorway
 - National Highway
 - CAREC Corridor 5
 - CAREC Corridor 6
 - Railway
- Boundaries are not necessarily authoritative.

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Islamic Republic of Pakistan for the Central Asia Regional Economic Cooperation Regional Improving Border Services Project.¹

2. The proposed project will (i) improve border crossing point infrastructure and facilities at Chaman, Torkham, and Wagha; (ii) assist the government in establishing the Pakistan Land Port Authority (PLPA); and (iii) establish a border point management regime and enhance knowledge and skills of border point operating agencies.

II. THE PROJECT

A. Rationale

3. Pakistan is strategically located to connect South Asia to Central Asia and Europe, and it provides the landlocked Central Asian countries with access to seaports. With this strategic location, Pakistan has the potential to be a regional transport hub. The government's national trade corridor improvement program launched in 2006 realized this potential and highlights the importance of regional connectivity through improving linkages with neighboring countries. The Pakistan Vision 2025 strategy embraces the country's potential as a hub and corridor of regional trade, and aims to help integrate the region into an interconnected market and make Pakistan a hub of regional trade and commerce.²

4. In 2011, Pakistan joined the Central Asia Regional Economic Cooperation (CAREC) Program. Pakistan's accession to the CAREC Program will enable subregions in Asia and Europe to be virtually integrated and seamlessly connected from East Asia through South Asia and Central Asia to Europe. In 2013, the CAREC corridors were extended to Pakistan to connect Afghanistan, Central Asia, and the People's Republic of China to Gwadar and Karachi ports on the Arabian Sea. The CAREC Transport and Trade Facilitation Strategy 2020, endorsed by the CAREC ministers at the 12th Ministerial Conference in 2013, proposes \$5.6 billion of investment projects to build the extended CAREC corridors in Pakistan to streamline transport, trade logistics, customs, and other trade-related border control operations, which would increase cross-border trade in South and Central Asia.³ In tune with these various government visions and CAREC initiatives, the Asian Development Bank (ADB) country partnership strategy, 2015–2019 for Pakistan emphasizes the necessity of modernization of transport infrastructure and greater regional connectivity.⁴

5. The performance of Pakistan Customs has improved substantially since 2010. In 2012, it was ranked by international freight forwarders as being the best in the Central Asia region.⁵ In 2012, Pakistan Customs started the rollout of its Web Based One Customs system, which has helped achieve gradual reduction of paperwork and processing time. Pakistan Customs implements preliminary assessment of cargo pre-arrival information and uses risk management for selective customs inspections. However, the performance of border point

¹ The design and monitoring framework is in Appendix 1.

² Government of Pakistan, Planning Commission. 2014. *Pakistan 2025: One Nation–One Vision*. Islamabad.

³ CAREC and the Asian Development Bank (ADB). 2014. *CAREC Transport and Trade Facilitation Strategy 2020*. Manila.

⁴ ADB. 2015. *Country Partnership Strategy: Pakistan, 2015–2019*. Manila.

⁵ World Bank. Doing Business: Trading Across Borders Dataset.

<http://www.doingbusiness.org/data/exploretopics/trading-across-borders> (accessed 3 July 2015); World Bank. Logistics Performance Index Dataset. <http://lpi.worldbank.org/> (accessed 3 July 2015).

management still lags behind and consequently poses a fundamental obstacle to promoting transit and intraregional trade through Pakistan. The main reasons for this poor performance include the following: (i) poor infrastructure and facilities at border points; (ii) lack of governance structure in border point management; (iii) remote locations of border points, which are generally in security-sensitive areas; and (iv) lack of internet service, which hinders connectivity to the central database of the Web Based One Customs system.

6. Torkham and Chaman are the major transit stations for Afghan transit trade (84% of cargo flows through Torkham and 16% flows through Chaman as of 2014). Traffic volume at the Torkham border crossing point now amounts to 700 vehicles per day.⁶ However, both border points face challenges to meet demand for quality services, characterized by nonavailability of modern and sufficient physical infrastructure, nonavailability of suitable information and communication technology (ICT) infrastructure, poor logistics for staff and officers, lack of equipment and scanners to detect explosives, and insufficient facilities to manage movement of people (estimated to be more than 25,000 people per day for Torkham). Currently, the trade volume between India and Pakistan is less than \$3 billion. With full normalization of their political and trade relationship, potential trade volume between the two countries would likely grow substantially, and Wagha, the only open land route connecting South Asia to Central Asia, will not be able to handle the trade and traffic volumes owing to a lack of infrastructure allowing the transport of containerized cargo by road.

7. According to the CAREC corridor performance measurement and monitoring study, the major bottleneck for transport and trade in the CAREC region is border crossing points.⁷ For a typical 500-kilometer journey by a 20-ton truck, more than three-quarters of the total stopping time, or 24 hours, occurs at border crossing points, with more than 18 hours of this time spent waiting for border-crossing formalities to commence.⁸ A significant portion of delays are attributable to poor physical infrastructure, low utilization of ICT for efficient border control, and limited supporting trade logistics facilities at the border crossing points. In Pakistan, border crossing points are the worst bottlenecks for cross-border transport and trade because of poor infrastructure at the border points, such as poor customs facilities, insufficient and outdated office and cargo handling equipment, limited parking spaces for vehicles near border crossings, frequent power failures, insufficient and unplanned supporting infrastructure, poor ICT infrastructure, and difficult terrain and uncertain road security conditions in the area of border crossing.

8. There is no legally established border point management regime in Pakistan. All border points are physically possessed and controlled by security forces whose only interest is border security, with no concern for trade facilitation. The National Logistics Cell (NLC),⁹ filling this governance vacuum, has developed border point facilities at some border points, acting as a custodian, and plays the role of a border point facility manager. Recognizing the necessity of a legally transparent border point management regime, the government decided in April 2014 that

⁶ Pakistan and Afghanistan signed the amended Afghanistan–Pakistan Transit Trade Agreement in 2010, which gives Pakistani vehicles access to Central Asian countries, and gives Afghan vehicles access to Pakistan's seaports and to the land port of Wagha for exports to India.

⁷ ADB. 2014. *Central Asia Regional Economic Cooperation Corridor Performance Measurement and Monitoring A Forward-Looking Retrospective*. Manila.

⁸ In the cases of Torkham and Chaman, the waiting time is 12 hours.

⁹ The NLC was originally established in 1978 as an attached department of the Ministry of Planning and Development to manage the nationwide logistics problems for transportation of important commodities. Functionally, it is under the administrative control of the Pakistan Army. Since its establishment, it has gradually evolved into a state-owned organization with expanded areas of operation including development and management of cross-border terminals and dry ports.

the PLPA should be established. In February 2015, the government defined the PLPA as a custodian of nationwide border points and a border point facility manager and the Federal Board of Revenue (FBR) has developed, through ADB's assistance, a PLPA establishment plan and a draft executive order. Upon government endorsement, the executive order will be issued to effectively establish the PLPA, which will take the responsibility to possess and manage the border point facilities of Chaman, Torkham, and Wagha that will be improved by the project. The project is also designed to assist the FBR in (i) establishing the PLPA according to the PLPA establishment plan; and (ii) training border point operating agencies, including the PLPA.

9. Given the challenges facing border crossing points in Pakistan, many aid agencies have conducted studies, surveys, and needs assessments, particularly on the subject of simplifying and harmonizing customs procedures, improving border services, and modernizing border crossing point infrastructure. While some infrastructure improvement projects have been undertaken to equip border points with computers, scanners, or weighbridges, these efforts have been piecemeal and have not resulted in conspicuous improvements. To avoid coordination issues among development partners, the FBR has formed an Integrated Transit Trade Management System (ITTMS) Steering Committee headed by the minister for finance and including the ministers of commerce, foreign affairs, defense, and railways to guide the trade facilitation agenda.

10. When the project was conceptualized in 2013, ADB adopted a proactive donor coordination approach, setting up and chairing a donor coordination group on trade facilitation at border points; acting as a bridge between all stakeholders, including the government; and holding regular meetings, which improved the timely sharing of information. The coordination mechanism adopted by ADB enabled donors to design their own assistance programs to complement other donors' programs. ADB has led infrastructure development, while other development partners have focused their attention on other areas, particularly the simplification and harmonization of cross-border procedures (e.g., the Japan International Cooperation Agency has focused on enhancing operational efficiency at seaports in Karachi, the International Finance Corporation has focused on involving the private sector, the United States Agency for International Development has focused on supporting capacity development, and the World Bank has focused on trade reforms). The coordination efforts led by ADB in trade facilitation have helped in promoting knowledge and information sharing among development partners, avoiding duplications of assistance, and more effectively using development resources.

B. Impact and Outcome

11. The impact of the project will be an increased value of export, import, and transit trade. The outcome will be reduced cross-border processing time for goods and cargo in Chaman, Torkham, and Wagha.

C. Outputs

12. The outputs will be (i) improvement of the border crossing point infrastructure and facilities at Chaman, Torkham, and Wagha; (ii) production and adoption of a national border point management regime governance structure, and production and adoption of organizational design, management structure, financial and administrative procedures, and financial modeling for the PLPA; and (iii) enhancement of knowledge and skills of border point operating agencies.

13. Infrastructure and facility development works include (i) site development, approach and internal roads, bridges, and boundary walls; (ii) overhead water reservoirs, water supply, and drainage works; (iii) streetlights, floodlights, solar power systems, power supply networks,

watchtowers, and security gates; (iv) central administration building with separate toilets for males and females, small offices, customs laboratory, passenger terminal building, service areas, and a business center; (v) warehouses for seized goods, tollbooths and canopies for toll collection, secondary inspection areas, cargo immigration areas, and quarantine sheds; (vi) separate male and female accommodation facilities and related infrastructure; and (vii) installation of ICT, security, and trade facilitation equipment.

14. Capacity development of border point operating agencies includes (i) legal assistance in setting up the PLPA; (ii) assistance in developing organizational structures, job descriptions with no gender bias, and gender-sensitive standard operating procedures and compliance standards for the PLPA; (iii) assistance in planning and setting up the financial model of the PLPA; (iv) assistance in project planning for the takeover of border point facilities by the PLPA after completion of construction works; (v) assistance in developing long-term and short-term operational planning for the PLPA, as well as a performance management and appraisal system; (vi) design and implementation of training activities for the PLPA and border point operating agencies; (vii) assistance in implementing capacity development plans for staff of the PLPA and border point operating agencies; and (viii) assistance in developing employee skills as well as a performance appraisal and motivation system for the PLPA and border point operating agencies.

D. Investment and Financing Plans

15. The project is estimated to cost \$300 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Items	Amount ^a
A. Base Cost^b	
1. Border point improvement	251.2
2. Capacity development	6.0
Subtotal (A)	257.2
B. Contingencies^c	29.4
C. Financing Charges During Implementation^d	13.4
Total (A+B+C)	300.0

^a Includes taxes and duties of \$20.9 million to be financed from government resources.

^b In June 2015 prices.

^c Physical contingencies computed at 10% for civil works and equipment. Price contingencies computed at 1.4%–1.5% on foreign exchange costs and 5.5%–6.0% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges.

Source: Asian Development Bank estimates.

16. The government has requested a loan in various currencies equivalent to SDR71,605,000 from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement. The government has also requested a loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 21-year term, including a grace period of 6 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan), and such other terms and conditions set forth in the draft loan agreement.

17. The financing plan is in Table 2. The government portion will finance land acquisition and resettlement cost, taxes and duties, and contingencies.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	150.0	50.0
Special Funds resources (loan)	100.0	33.3
Government	50.0	16.7
Total	300.0	100.0

Source: Asian Development Bank estimates.

E. Implementation Arrangements

18. The executing agency will be the FBR. The ITTMS Steering Committee headed by the finance minister will act as the highest decision-making authority for project implementation issues and provide overall guidance for all agencies involved in project implementation. A project management unit (PMU) headed by a project director will be established in the FBR that will provide guidance on, and oversight to, the overall implementation and performance of the project. The PMU's technical expertise will be complemented by the project management consultant, who will be recruited externally. A project implementation committee, headed by the chairperson of the FBR and consisting of senior officers from the Ministry of Commerce and the Ministry of Defense, as well as the project director of the PMU, will be established to guide the PMU, review the progress of implementation, and coordinate with relevant ministries and departments to resolve any project implementation problems.

19. Procurement of goods, civil works, and related services financed from the ADB loan will be done in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). For Wagha, the entire works will be tendered by an engineering–procurement–construction contract through international competitive bidding. For Torkham and Chaman, the entire works will be directly contracted to the NLC (footnote 9) by an engineering–procurement–construction contract. The NLC as a government agency and state-owned organization would originally not be eligible to participate in ADB-financed project. Participation of government-owned enterprises in ADB-funded projects is permitted provided they comply with the eligibility test set forth in ADB's Procurement Guidelines.¹⁰ The NLC is not legally autonomous from the government, although it has partial financial autonomy and is managerially independent from the FBR. However, because the project sites are located in security-sensitive areas on the border with Afghanistan to which private contractors will have no access¹¹ and it is considered that direct contracting with the NLC would be appropriate subject to a waiver of the eligibility criteria as discussed above. The NLC has technical capacity to undertake and complete large-scale infrastructure projects on a turnkey basis. ADB will assess the adequacy of contract prices under direct contracting by benchmarking and referencing the price of an engineering–procurement–construction contract for Wagha to be determined through international competitive bidding. ADB will also validate final contract prices under direct contracting through a third-party independent validator.

¹⁰ Paragraph 1.8(c) of Procurement Guidelines states: "Government-owned enterprises in the borrower's country may participate as a bidder only if they can establish that they (i) are legally and financially autonomous, (ii) operate under commercial law, and (iii) are not dependent agencies of the borrower or sub-borrower."

¹¹ Torkham is located in Khyber Pakhtunkhwa, a sanctuary of the Pakistani Taliban where the Taliban insurgency is entrenched. Chaman is located in Balochistan, where armed violence from conflicts with Baloch nationalists is ongoing. It would be impossible for any private contractor to have unhindered access to project sites to carry out construction works without disruption or safety risks. The cost of doing so would be exorbitant, and even the government would not be able to guarantee the safety of private contractors.

20. The project will require consulting services for project management, design review, and construction supervision. Consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Advance contracting will be undertaken to assist with timely implementation of the project. The government has been advised that approval of advance contracting does not commit ADB to finance the project.

21. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.¹²

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2016–December 2021		
Estimated completion date	31 December 2021 (loan closing date: 30 June 2022)		
Management			
(i) Oversight body	Integrated Transit Trade Management System Steering Committee Finance Minister (head) Ministers of foreign affairs, defense, railways, communication, and commerce, as well as concerned federal secretaries (members) Project implementation committee Chairperson of the FBR (head) Senior officers from the Ministry of Commerce and the Ministry of Defense, as well as the project director of the PMU (members)		
(ii) Executing agency	FBR		
(iii) Implementation unit	PMU under the FBR, headed by project director		
Procurement	International competitive bidding	1 contract	\$82.5 million
	Direct contracting	2 contracts	\$148.4 million
Consulting services	Project management	QCBS	International: 90 person-months National: 192 person-months \$3.0 million
	Construction supervision	QCBS	International: 108 person-months National: 666 person-months \$12.0 million
	Establishment of the PLPA	QCBS	International: 42 person-months National: 138 person-months \$3.0 million
	Training of border point operating agencies	QCBS	International: 12 person-months National: 132 person-months \$3.0 million
Advance contracting	Advance contracting for civil works and equipment and consulting services.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, FBR = Federal Board of Revenue, PLPA = Pakistan Land Port Authority, PMU = project management unit, QCBS = quality- and cost-based selection.

Source: ADB estimates.

III. DUE DILIGENCE

A. Technical

22. Border sites and infrastructure and facilities at the three border points were designed based on the following design parameters, which are technologically viable, particularly if sufficient space is secured to adopt them at the three border points:

¹² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

- (i) segregating vehicle and passenger and bus traffic lanes;
- (ii) laying multi-entry and multi-exit traffic lanes, and equipping each entry lane with an inspection booth built to the height of a truck cab window and linked to passport, road transport, immigration, and customs databases;
- (iii) laying multi-entry and multi-exit pedestrian lanes for males and females, complete with walk-through detectors, handheld metal and explosive detectors, large-scale baggage scanning equipment, and passport and visa scanning equipment;
- (iv) building export, import, and transit cargo processing areas complete with angled vehicle parking spaces with safe paths for drivers to walk to the one-stop-shop office building;
- (v) installing vehicle weighing machines that can also measure vehicle dimensions;
- (vi) installing new fit-for-purpose fixed tunnel and mobile X-ray scanning machines;
- (vii) building primary inspection and safe and secure secondary vehicle inspection areas;
- (viii) constructing an integrated administrative building for all border point operating agency staff and managers, with no public access;
- (ix) constructing an office building for users such as customs brokers, banks, freight forwarders, and transport service providers complete with ICT connectivity, including fiber optic cable;
- (x) building a control room complete with closed-circuit TV and accommodation for multi-agency staff;
- (xi) building sanitary and phytosanitary facilities, including a disinfection facility;
- (xii) installing traffic signposting (bilingual or multilingual) plus electronic lane signs; and
- (xiii) anticipating a 100% increase in current traffic flow and securing extra land for future expansion.

23. Following the preset design parameters, new border point infrastructure and facilities at the three border points will be constructed to (i) fit into site-specific geographic, topographic, and climatic environments; (ii) support the unhindered flow of traffic; (iii) provide safe and secure working environments; (iv) enable a long-lasting power supply that relies on a renewable power generation option; and (v) secure internet data connectivity to the primary customs data center in Karachi, to the backup customs data center in Islamabad, and among the three border points that enables electronic filing of import and export documents and a paperless workflow.

B. Economic and Financial

24. The economic analysis was undertaken on the proposed modernization of the three border points in accordance with ADB Guidelines for the Economic Analysis of Projects. The analysis compared incremental changes to both investment and operation and maintenance costs resulting from the project, to incremental changes in journey time costs and net revenue lost from delays to goods vehicles at border points. The analysis used 2015 domestic prices. The calculated economic internal rate of return (EIRR) is 19.5% for Torkham, 11.4% for Wagha, and 10.5% for Chaman, with an EIRR of 14.1% for all three border points combined, above the 12% discount rate used for ADB projects. Wagha and Chaman are considered economically viable despite EIRRs of less than 12% because of substantial unquantified benefits (e.g., improvements in security, reduction in the smuggling of illicit goods, and better quality facilities for users and staff).

25. The project will build public infrastructure, the operation and maintenance cost of which will be financed by fiscal budget allocation. The PLPA will be established as a government

agency to be supported by fiscal budget. However, financial planning and financial modeling for the PLPA will identify possible revenue sources for the PLPA to operate and maintain border points with minimal fiscal budgetary support. In the long term, however, the government's goal is to transform the PLPA into a financially self-sufficient entity like Pakistan's seaport or airport authorities.

C. Governance

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the FBR. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 12).

27. ADB and the World Bank jointly conducted the FBR's public financial management assessment. The assessment notes that the FBR has a well-defined budgeting process in terms of the annual development program (development budget). It has acceptable accounting standards for formulating and reporting the budget, and for recording the current and development expenditures and revenue with low entity-specific risks. A detailed financial management assessment was conducted for the PMU during project preparation, which noted that the government-established budgetary, accounting, financial reporting, and auditing systems and procedures are functioning effectively in the FBR. On the whole, the financial management assessment concludes that the pre-mitigation of financial management risk is important. Key issues include adequately staffing the PMU, building the capacity of PMU staff, and operationalizing the internal audit functions.

D. Poverty and Social

28. The project aims at (i) improving border crossing point infrastructure, (ii) reducing processing and dwell times for cargo clearance, (iii) increasing trade flows, and (iv) improving the security and integrity of national borders. The project will indirectly contribute to curbing poverty, as the investment will improve local economic activity as well as increase trade and transport through project border points and along the connector roads. Increased business in trade and transportation service sectors around and along project border points will contribute to increasing employment opportunities, generating revenue, and increasing the social mobility of the communities. The local population will also benefit, as they will be recruited as workers during the project's construction and operation phases.

29. As of 2014, Pakistan's gender inequality index ranking was 126 out of 149 countries; the labor force participation rate of women was 24.4% compared to 82.9% for men.¹³ Project design and implementation will allow for women to participate in the consultative process and raise their concerns. The project will be designed to address (i) the lack of women-friendly border facilities (e.g., separate toilets for females), (ii) the lack of gender sensitivity among border officials in processing cross-border movement of goods, especially those of women entrepreneurs; and (iii) the limited (or lack of) female participation in land port or cross-border operations.

E. Safeguards

30. **Environment.** The project has been categorized as B for environment as there are no major long-term impacts associated with the project. An initial environmental examination (IEE) study has been conducted for each border point, which discusses the likely impacts and

¹³ United Nations Development Programme. 2014. *Human Development Report 2014*. New York.

recommends mitigation measures to minimize these impacts. The environmental impacts of each of the border points are confined to the construction phase. Each IEE contains an environmental management plan (EMP) that guides the implementation of mitigation measures during project implementation. Environmental safeguards specialists of the contractors will prepare site-specific EMPs based on the generic EMPs. The construction supervision consultant's environment specialist will monitor the contractors' compliance with environmental safeguards. During the project implementation stage, the construction supervision consultant's environment specialist will monitor contractor compliance with the IEEs and EMPs.

31. **Land acquisition and resettlement.** The project social safeguards impacts have been adequately assessed; the measures developed in the land acquisition and resettlement plans (LARPs) are adequate to address identified impacts. Of the three border crossing points, only Torkham and Wagha require land acquisition. At Chaman, all land required is government-owned and unencumbered. A LARP has been prepared for each border point. Key resettlement impacts include the acquisition of 115.1 acres of privately owned land (64.8 acres of agricultural land at Wagha and 50.3 acres of barren hilly land at Torkham), and the relocation of three residential structures at Torkham and 42 commercial structures (28 in Chaman, 12 in Torkham, and 2 in Wagha). There are 91 affected households across the three subprojects, with a total of 192 affected persons entitled to compensation.

32. According to all the LARPs, (i) all impacted assets will be compensated in cash at a full replacement cost basis; (ii) business structure owners will be provided with replacement land and/or structures in the service and/or business area in the improved border points with a secured tenure; and (iii) affected households losing residential structures will reconstruct new residential structures at nearby locations of their choosing, so no off-site relocation is envisaged under the project. Within the three subproject areas, no groups fit the Safeguard Policy Statement (2009) criteria for indigenous people; local tribal communities represent the mainstream culture within the respective areas. The project is classified as category B for involuntary resettlement and category C for indigenous peoples.

F. Risks and Mitigating Measures

33. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.¹⁴ The risks are assessed as manageable by adopting mitigating measures, and the integrated benefits and impacts are expected to outweigh the costs of mitigation.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Few internationally qualified contractors and consultants are interested in the work because of security concerns.	Other than in Wagha, a settled area free of security concerns, civil works will be directly contracted to the NLC. By involving the NLC, which has full access to project sites and working relationships with other security agencies like the Frontier Corps and tribal powers, international consultants will have unhindered access to Torkham and Chaman and be given satisfactory assurance on their security.
Local tribal powers near the Afghanistan border disturb construction works outside of government's control.	In the course of project preparation, local tribal people were fully engaged. They were convinced that the project would bring huge benefits to the local community both during project implementation (in the form of increased jobs from construction works) and after completion of the project (in the form of increased trade and opportunities to create local businesses).
The executing agency does not have adequate experience in	The implementation arrangement was devised to bolster the executing agency's knowledge of and experience with ADB's rules, procedures, and safeguard requirements. The NLC, an experienced border point facility designer, builder, and manager, will

¹⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
implementing ADB projects, and is not yet conversant with ADB's rules, procedures, and safeguard requirements.	construct the Torkham and Chaman facilities with minimum supervision from the PMU. The expertise of the PMU will be complemented by the project management consultant, which will be recruited externally. Safeguards capacity building of the executing agency will be included in the terms of reference of the project management consultant.
Countrywide law and order situation remains unstable.	The new government is committed to restoring law and order. The geopolitical environment in the region around Pakistan is also changing to the benefit of Pakistan (e.g., the new governments of both Afghanistan and India are actively engaging Pakistan, the Government of the United States continues its support of Pakistan's effort to incapacitate Taliban forces near the Afghanistan border). In addition, development partners are cooperating with the government in restoring law and order.

ADB = Asian Development Bank, NLC = National Logistics Cell, PMU = project management unit.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

34. The government and the FBR have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.

35. The government and the FBR have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement. In addition, as a condition of loan disbursement, the FBR will (i) establish a PMU headed by a project director; and (ii) assign adequate accounting and finance staff to the PMU.

V. RECOMMENDATION

36. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$150,000,000 to the Islamic Republic of Pakistan for the Central Asia Regional Economic Cooperation Regional Improving Border Services Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 21 years, including a grace period of 6 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (ii) the loan in various currencies equivalent to SDR71,605,000 to the Islamic Republic of Pakistan for the Central Asia Regional Economic Cooperation Regional Improving Border Services Project, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (iii) the waiver of the eligibility requirement for the use of direct contracting as discussed in paragraph 19 above.

Takehiko Nakao
President

13 November 2015

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with Value of exports, imports, and transit trade increased (Pakistan Vision 2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Reduced cross-border processing time for goods and cargo in Chaman, Torkham, and Wagha.	By 2022 (first full year of operation) a. Cross-border processing time for exports reduced to 4.8 hours for Chaman (2015 baseline: 8.0 hours), 3.0 hours for Torkham (2015 baseline: 5.5 hours), and 4.4 hours for Wagha (2015 baseline: 7.6 hours) b. Cross-border processing time for imports reduced to 3.7 hours for Chaman (2015 baseline: 6.2 hours), 1.6 hours for Torkham (2015 baseline: 3.3 hours), and 3.3 hours for Wagha (2015 baseline: 5.1 hours)	a.–b. Statistics compiled by the FBR on border point processing time	Law and order situation remains unstable. Security situation at borders deteriorates, leading to closing of border points either by Pakistan or by a neighboring country. Local tribal powers disturb border point operation beyond federal government's control.
Outputs 1. Border crossing point infrastructure and facilities at Chaman, Torkham, and Wagha improved 2. Governance structure of national border point management regime produced and adopted; and organizational design, management structure, financial and administrative procedures, and financial modeling for the PLPA produced and adopted 3. Knowledge and skills of border point operating agencies enhanced	1a. Border point facilities certified as compliant to internationally accepted standards at Chaman, Torkham, and Wagha by 2021 2a. PLPA established with transparent governance structure and clear vision and mandate statement by 2021 3a. Professionally qualified border point agencies and officials appointed by 2021	1a.–3a. Project progress report and project completion report	Few internationally qualified contractors and consultants are interested in the work because of security concerns. Local tribal powers disturb construction works outside of government's control.
Key Activities with Milestones 1. Border crossing point infrastructure and facilities at Chaman, Torkham, and Wagha improved 1.1 Project management consultant to be recruited by 30 June 2016, and supervision consultant to be recruited by 31 December 2016. 1.2 Land acquisition and resettlement plan for three border points to be implemented by 31 December 2016. 1.3 EPC contractors for Chaman, Torkham, and Wagha to be mobilized by 31 March 2017. 1.4 Detailed design to be completed by 31 December 2017. 1.5 EPC works for three border points to be completed and commissioned (after tests are run) by 31 December 2021.			

Key Activities with Milestones	
2. Governance structure of national border point management regime produced and adopted; and organizational design, management structure, financial and administrative procedures, and financial modeling for the PLPA produced and adopted	
2.1	Consultants to be recruited by 30 June 2016.
2.2	Planning and design of the PLPA to be completed by 30 June 2018.
2.3	PLPA to be established with a board of directors, a chief executive, and core staff by 30 June 2019.
2.4	PLPA takes over improved border points by 31 December 2021.
3. Knowledge and skills of border point operating agencies enhanced	
3.1	Consultants to be recruited by 31 December 2016.
3.2	Training needs assessment to be completed by 30 June 2017.
3.3	Training program to be designed by 31 December 2017.
3.4	Training program to be implemented by December 2021.
Inputs	
ADB:	\$150,000,000 (ordinary capital resources loan)
	\$100,000,000 (Asian Development Fund loan)
Government:	\$50,000,000
Assumptions for Partner Financing	
Not applicable.	

ADB = Asian Development Bank, EPC = engineering–procurement–construction, FBR = Federal Board of Revenue, PLPA = Pakistan Land Port Authority.

^a Government of Pakistan, Planning Commission. 2014. *Pakistan 2025: One Nation–One Vision*. Islamabad.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=46378-002-3>

1. Loan Agreement: Ordinary Operations
2. Loan Agreement: Special Operations
3. Sector Assessment (Summary): Transport
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Initial Environmental Examination: Chaman
11. Initial Environmental Examination: Torkham
12. Initial Environmental Examination: Wagha
13. Resettlement Plan: Chaman
14. Resettlement Plan: Torkham
15. Resettlement Plan: Wagha
16. Risk Assessment and Risk Management Plan