



# Technical Assistance Consultant's Report

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Project Number: 46378-001/TA 8405-PAK  
June 2015

## Islamic Republic of Pakistan: Preparing the Regional Improving Border Services Project (Financed by the Technical Assistance Special Fund)

Prepared by SCHEMA Konsult, Inc.

For Government of Pakistan  
Federal Board of Revenue

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Asian Development Bank

**I. TITLE** **FINAL REPORT**

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01	08/05/2015	David Lupton	Addresses some issues raised in comments by ADB
02	06/07/2015	David Lupton	Final report incorporating comments

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The authors welcome further discussion of issues raised in this report.  
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<b>Project Title:</b> <b>TA-8405-PAK: Border Services Improvement Project</b>	
<b>Overall goal:</b> The primary objective of the project is to encourage economic growth and reduce poverty by addressing the inadequacies that are restricting trade and hampering full capitalization of the transit trade potential of Pakistan. The Project will encourage trade by providing the physical and information technology (IT) infrastructure that will allow improved and integrated processes to be introduced at border crossing points (BCP).	
<b>Overview and scope:</b> The Project is focused on three border crossings: Torkham, Chaman and Wagha. The aim is to reduce dwell time for cargo clearance at these border crossings, providing expeditious clearance and encouraging increased trade flows, without compromising essential checks. Integrated procedures will provide a common IT platform for all the organizations involved at the border, and will pave the way for one-window operation. Increased trading volumes are expected to spur greater economic activity, enhancing employment and economic growth, enhancing prosperity and reducing poverty. The purpose of phase II is to assess the technical, economic, financial, social, and environmental viability of the project, for which designs were completed in Phase I; and to prepare documentation for procurement. The TA will be conducted by a project team with international and national consultants.	
<b>Deliverables:</b> The reporting requirements are as follows: (i) <b>Inception Report:</b> Within 2 weeks of starting work. The inception report should detail the initial review of the TA design and TOR and matters arising from the Phase I report. The Consultant is not expected to provide a critical review of the Phase I report. (ii) <b>Interim Report:</b> Within 6 weeks of starting work. This is expected to be a comprehensive progress report. (iii) <b>Draft Final Report:</b> Within 6 months of starting work including draft land acquisition and resettlement plan, draft EIA/IEE, and draft EMPs. Due to the late start of Phase II and the new year break, the due date was extended to February 2015. Delays in undertaking the surveys extended this to May 2015 (iv) <b>Final Report:</b> At the end of assignment including all aspects of ToRs and acceptable to ADB.	
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## **TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>I. INTRODUCTION .....</b>	<b>4</b>
A. PROJECT OBJECTIVE.....	4
B. PHASE 1 REPORT.....	5
C. PURPOSE OF PHASE II.....	5
D. REPORTING FOR PHASE II .....	5
E. THIS DOCUMENT .....	6
<b>II. BACKGROUND .....</b>	<b>7</b>
A. PROJECT CONTEXT.....	7
B. SOCIO ECONOMIC BACKGROUND OF PAKISTAN.....	8
1. Location and Governance .....	8
2. Demography.....	8
3. Poverty.....	8
<b>III. RATIONALE AND PROJECT DESCRIPTION.....</b>	<b>10</b>
A. SCOPE .....	10
1. Border crossings.....	10
2. Overall Approach .....	10
B. WAHGA CUSTOMS STATION .....	11
1. Introduction.....	11
2. Current Import Procedure.....	11
3. Procedures for Exports.....	13
4. Proposed Project .....	14
5. Alternatives considered for Wahga.....	17
C. TORKHAM.....	18
1. Introduction.....	18
2. Procedure on Import and Export of Goods:.....	18
3. Proposed Project .....	18
4. Alternatives Considered .....	19
D. CHAMAN CUSTOMS STATION.....	21
1. Introduction.....	21
2. Procedure for Import and Export of Goods:.....	21
3. Proposed Project .....	21
4. Options Considered.....	22
<b>IV. DEMAND ESTIMATION.....</b>	<b>24</b>
1. EXISTING TRAFFIC.....	24
a. Torkham.....	24
b. Chaman.....	24
c. Wahga .....	25
2. DIVERTED TRAFFIC.....	26
3. GENERATED TRAFFIC .....	26
4. BASELINE TRAFFIC.....	26
A. GROWTH RATE.....	27
1. Foreign Trade.....	27
2. Pak-Afghan Trade.....	28
3. Afghan Transit Trade.....	28
4. Central Asian Land Locked Countries.....	28
5. Forecast GDP .....	29
<b>V. ECONOMIC ANALYSIS .....</b>	<b>30</b>
A. SCOPE .....	30
B. VEHICLE QUEUING.....	31
1. Current Situation.....	31
2. Opportunity for Improvement .....	31

3.	<i>Estimating time savings</i> .....	32
4.	<i>Valuation of time savings</i> .....	34
C.	CAPITAL COSTS.....	35
1.	<i>Financial Costs</i> .....	35
2.	<i>Economic Cost</i> .....	35
3.	<i>Operation and Maintenance Costs</i> .....	35
4.	<i>Project Life</i> .....	36
D.	COST BENEFIT ANALYSIS .....	36
1.	<i>Summary of Results</i> .....	36
2.	<i>Sensitivity Analysis</i> .....	36
3.	<i>Conclusion</i> .....	37
<b>VI.</b>	<b>FINANCIAL ANALYSIS</b> .....	<b>39</b>
A.	FINANCIAL OBJECTIVES .....	39
B.	PROJECT COST AND FINANCING .....	39
1.	<i>Capital Cost</i> .....	39
2.	<i>Operating and Maintenance costs</i> .....	40
C.	FUND FLOW MECHANISM.....	42
1.	<i>Disbursement Procedures</i> .....	42
2.	<i>Institutional Arrangements/Mechanisms</i> .....	42
3.	<i>Supporting documents</i> .....	43
4.	<i>Imprest account</i> .....	44
D.	PROJECT ACCOUNTING .....	47
1.	<i>Pakistan government accounting policies and procedures</i> .....	47
2.	<i>Books of account for ADB-assisted BSIP</i> .....	47
E.	PRIVATE SECTOR INVOLVEMENT IN BCP OPERATIONS.....	49
1.	<i>PPP Concept in Turkey</i> .....	49
2.	<i>Relevance to Pakistan</i> .....	50
3.	<i>Land Port Authority</i> .....	50
F.	FINANCIAL MANAGEMENT ASSESSMENT .....	51
<b>VII.</b>	<b>SOCIAL ISSUES, LAND ACQUISITION AND RESETTLEMENT</b> .....	<b>52</b>
A.	TERMS OF REFERENCE .....	52
B.	RESEARCH AND SECONDARY DATA.....	52
C.	SOCIO ECONOMIC BACKGROUND .....	53
D.	PUBLIC CONSULTATION, PARTICIPATION AND DISCLOSURE .....	53
1.	<i>General</i> .....	53
2.	<i>Identification of Project Stakeholders</i> .....	54
3.	<i>Consultation with the Stakeholders</i> .....	54
4.	<i>Information Disseminated</i> .....	56
5.	<i>Gender Involvement in the Consultation Process</i> .....	56
6.	<i>Indigenous People</i> .....	56
E.	SURVEY FINDINGS.....	57
1.	<i>Findings of the Household Survey</i> .....	57
2.	<i>Findings of Focus Group Discussions</i> .....	58
3.	<i>Key Findings from the Women's Surveys</i> .....	60
F.	PROJECT IMPACTS AND MITIGATION PLANS.....	60
1.	<i>Benefits of the Project</i> .....	60
2.	<i>Issues and Mitigations</i> .....	61
G.	LAND ACQUISITION AND RESETTLEMENT.....	62
1.	<i>Land acquisition committees</i> .....	62
2.	<i>Disclosure of the LARP</i> .....	62
H.	DISPUTE RESOLUTION AND GRIEVANCE REDRESS MECHANISM .....	63
<b>VIII.</b>	<b>ENVIRONMENT</b> .....	<b>66</b>
A.	OBJECTIVE .....	66

B.	PRELIMINARY ENVIRONMENTAL ASSESSMENTS .....	66
1.	Wahga .....	66
2.	Torkham.....	67
3.	Chaman .....	68
C.	INITIAL ENVIRONMENTAL EXAMINATION .....	69
1.	Introduction.....	69
2.	Project Description.....	69
3.	Environmental and Socioeconomic Conditions .....	71
4.	Impacts and EMP.....	71
5.	Consultation and Participation .....	72
6.	Grievance Redress Mechanism.....	72
7.	Conclusion and Recommendation.....	73
<b>IX.</b>	<b>PROCUREMENT .....</b>	<b>74</b>
A.	OVERVIEW.....	74
1.	Phase I report.....	74
2.	Procurement Considerations .....	74
3.	Procurement Options.....	75
4.	Implementation Arrangements.....	75
B.	CONSULTING SERVICES .....	76
1.	ICB Construction Contracts.....	76
2.	Based on Design-Build Contract.....	76
3.	Requests for Proposals.....	77
4.	Short-listing Criteria .....	77
5.	Advance Contracting .....	77
C.	PROCUREMENT OF WORKS AND GOODS .....	77
1.	ICB Contracting.....	77
2.	Design-Build Contract.....	77
D.	PROCUREMENT RISK ASSESSMENT AND PROCUREMENT PLAN .....	78
E.	CONCLUSION.....	78
<b>X.</b>	<b>CONCLUSIONS .....</b>	<b>80</b>

## **APPENDICES**

**Appendix A: Financial Management Assessment**

**Appendix B: Project Procurement Risk Assessment**

**Appendix C Summary Poverty Reduction and Social Strategy**

**ABBREVIATIONS AND ACRONYMS**

AADT	Annual average daily traffic
ADB	Asian Development Bank
AIDS	Auto-immune deficiency syndrome
BCP	Border crossing point
BOQ	Bill of quantities
EA	Executing Agency
EIA	Environmental impact assessment
FBR	Federal Board of Revenue
FGD	focus group discussion
FIDIC	International Federation of Consulting Engineers
FMA	Financial management assessment
GOP	Government of Pakistan
HCV	Heavy Commercial Vehicle
IA	Implementing Agency
ICB	International competitive bidding
ICT	Information and communications technology
IEE	Initial environmental examination
IR	Involuntary resettlement
IT	Information technology
ITTIC	International transit and trade immigration complex
KII	key informant interviews
km	kilometre
LARAP	Land acquisition and resettlement action plan
LPA	Land port authority
MTDF	Medium term development framework
NHA	National Highway Authority
O&M	Operations and maintenance
PC-1	Planning commission submission (required for GOP projects)
PKR	Pakistani rupees
PKR B	Pakistani rupees (billion)
PMU	Project management unit
PPP	Public private partnership
PPTA	Project preparation technical assistance
PSIA	Poverty and social impact assessment
ROW	Right-of-way
RRP	Report and recommendations to the President (ADB internal report)
SAFE	Standards to secure and facilitate trade
SDAP	Social development action plan
SIA	Social impact assessment
SWS	Single window system

TA	Technical assistance
ToR	Terms of reference
USD	United States dollar



## **EXECUTIVE SUMMARY**

### *Objective*

This is the final report for Phase II of the Border Services Improvement Project. Phase II was undertaken by Schema of Philippines in conjunction with ECIL of Pakistan for the Asian Development Bank (ADB). ‘

The primary objective of the Project was to encourage economic growth and reduce poverty by addressing the inadequacies that are restricting trade and hampering full capitalization of the transit trade potential of Pakistan. Due to its location, Pakistan has the potential to become a regional trade hub of significant importance. It provides a communication link to the two largest global economies, People's Republic of China (PRC) and India; and is a natural transit hub for Afghanistan and other Central Asian States. There is an opportunity for increased trade and transit activities to drive economic growth and subsequent reduction in poverty. The Project will encourage trade by providing the physical infrastructure and information and communications technology (ICT) that will allow improved and integrated processes to be introduced at border crossing points (BCP).

The objective of the Phase II study was to undertake a due diligence of the Project developed and designed under Phase I. The due diligence covered economic and financial analysis, environmental and social safeguards and procurement.

### *The Project*

The Project will upgrade the border crossing infrastructure, systems and equipment at three official border crossing points:

- Wahga between Pakistan and India
- Torkham between Pakistan and Afghanistan in Khyber Pakhtunkhwa
- Chaman between Pakistan and Afghanistan in Baluchistan

These border crossings are currently chaotic and disorganized. Partly for cultural and historical reasons, and partly due to poor infrastructure and lack of resources, the flow of people across the borders is largely unchecked, yet delays for goods in transit are excessive. Investing in new facilities and technology is expected to increase throughput by helping each BCP become more efficient and user friendly and to reduce export, import and transit processing times. It will provide a better working environment and improve Pakistan's image. The proposal includes integrated administrative offices, safe and secure secondary inspection areas, angled truck parking, multi-lane entry and exit complete with check booths and electronic gates and signs, canopies, new transit sheds and new pedestrian processing halls.

### *Demand*

Estimating the expected traffic is of crucial importance to the project both to ensure that the project is appropriately sized, and that the costs and benefits are correctly estimated. The Phase I report gives figures for average daily vehicle in the low and high season and an annual estimate for Torkham, Chaman and Wahga. However there are some inconsistencies in the data and hence traffic data available from other sources was used to validate the Phase I figures and arrive at consistent estimates of base year traffic.

Realisation of the transit trade potential will depend upon normalization of conditions in Afghanistan and changes in government policies, neither of which appear imminent. Thus while there is significant potential for increased trade and transit traffic out of Central Asia, and indeed that is one of the reasons for the project, the analysis was undertaken based primarily on the benefits to existing traffic.

Future traffic growth was also estimated based on past trends and expected future growth in GDP. On balance, the figure of 7.8% calculated for Pakistan-Afghanistan exports has been adopted as a best estimate of future growth for both imports and exports. This is approximately double the increase in national GDP (expected to be 4%) which is not unusual for export led growth in developing countries.

### *Economic Analysis*

In undertaking the economic analysis, it was noted that many of the benefits from the Project perceived by the Government of Pakistan relate to national imperatives such as managing the integrity of the country's borders. These benefits are difficult to quantify. This report concentrated on the quantifiable benefits, mainly time savings for the movement of international freight through the three border crossings. The compliance, national security and prestige aspects are difficult to quantify and have been treated as additional unquantified benefits. It was concluded that the expenditure could be justified on these benefits alone, and that therefore the Project as a whole was economically justified with an EIRR estimated to be 17.2%. Taken individually, Torkham has an EIRR of 25.5%, over two times the target rate of 12 percent while Chaman and Wahga have EIRR marginally above the target rate at 12% and 13.1% respectively. They could slip down with minor changes in cost or benefits, but as the analysis does not include significant non-quantifiable benefits, this is considered acceptable.

### *Financial Analysis*

It was concluded that although there may be some revenue implications from the Project, it is essentially non-commercial in character and that a financial investment analysis would be inappropriate. The financial analysis concentrated on identifying the financial consequences of the Project and associated funding arrangements for the government. As part of this analysis, a financial management assessment was undertaken. This concluded that although the FBR is a financially strong organization that follows robust accounting procedures, it has only limited experience in managing a project of this type. The Consultant recommended that a project management consultant be appointed to assist the FBR in its management of the project.

The standard accounting system should be adequate for the Project. The Pakistan government's accounting rules mandate that accounts be set up for each development, regardless of fund source, i.e., whether internal (national budget) or external (official development assistance). The projects are classified in accordance with the elements contained in the government-prescribed Chart of Accounts and the procedures for recording expenditures incurred in development projects are indicated in the government accounting system.

### *Environment*

All ADB projects are required to comply with both the country's environmental policies and regulations and those of ADB as set out in ADB's Safeguard Policy Statement 2009 (SPS). Where there is conflict, the more stringent requirement (usually ADB) prevails. In either case, the objective of the environmental safeguards is to ensure safe implementation of the Project without unacceptable adverse impacts on the environment, including human health and wellbeing within the project affected area.

No significant environmental issues were identified. The Project was classified as category B for environment requiring the preparation of an IEE for each site. These have been prepared and are available as separate documents.

### *Social and Poverty*

A significant part of the early effort related to the gathering of secondary data such as socio-economic data of Pakistan and legal frameworks applicable to the project. The macro data of the socio-economic description of Pakistan, its political system, and gender and development data were compiled for use in this report

Preliminary surveys were undertaken at the three Project sites. Reconnaissance of the locations of existing economic and social activity and potential relocation sites involved photo documentation of the existing situation to the extent that it is relevant to the proposed scenarios. The surveys also established: a) the area of land needed for the expansion of the infrastructure; b) the area currently occupied by the border operations office; c) the extent of the land to be acquired; and d) the proposed relocation sites.

ADB procedures emphasize the importance of a well-informed consultation process with affected communities and in particular with people displaced by land acquisition and resettlement. A robust public consultation and information disclosure process is required for information dissemination and identification of stakeholders' concerns. Consultations were required for the development of the land acquisition and resettlement plans (LARP) as well as the social and poverty analysis and the initial environmental examination (IEE) for each border. Particular care was taken to include people who would be displaced by the project and local women. The objective was to understand stakeholder views and concerns so that project benefits could be maximized and negative impacts mitigated.

The Consultants concluded that there were no significant social or poverty issues.

Land acquisition will be required at all three sites. LARP have been developed for each site and are available separately. In the case of Wahga, most of the land is already held by the National Logistics Cell, but some additional privately held land will be acquired. At Torkham, the land is tribally held. The tribal representatives are in agreement with the land being used for the new BCP facilities and are in the process of negotiating a lease agreement with the Political Agent. At Chaman, the land is already in government ownership but does require the transfer to FBR to be documented. At both Torkham and Chaman, there are resettlement issues relating to taxi operators and stall holders operating on the sites, with the preferred solution being for them to be accommodated appropriately in the new facilities.

### *Procurement*

Procurement documents were initially prepared on the assumption that the facilities would be procured through international competitive bidding. The Consultant noted that the designs were not in sufficient engineering detail to produce BOQ for inclusion in bidding documents, and recommended that consultants be engaged to undertake detailed engineering design using advanced action for retroactive funding. Subsequent discussions between ADB and FBR in view of the security situation at the borders have led to consideration of the possibility of a sole source contract with Frontier Works Organisation. Documents have been prepared for both scenarios. A procurement risk assessment has been prepared which identified lack of experience in managing large internationally funded projects as a possible risk. The proposed approach is for the National Logistics Cell to be the Implementing Agency, supported by project management consultants.

### *Conclusion*

Overall the conclusion is that the project is implementable, is economically and financially sound and can meet the ADB and Government safeguard requirements.

## II. INTRODUCTION

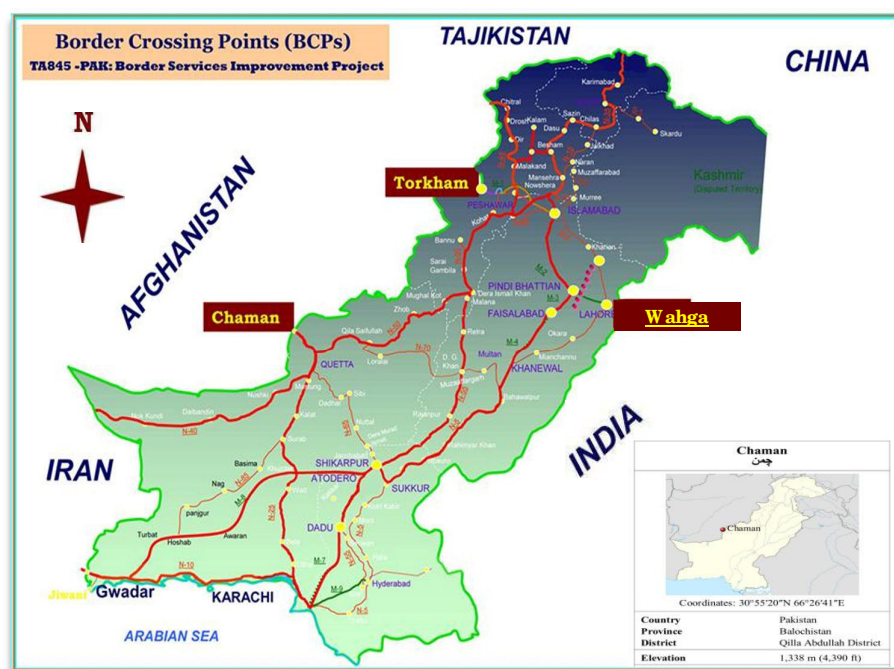
1. This is the final report for Phase II of the Border Services Improvement Project for the Asian Development Bank (ADB). The project preparation was in two phases, with the first phase preparing the project design and the second undertaking due diligence tasks including financial and economic analysis, social and environmental safeguards and procurement. Phase II was undertaken by Schema Konsult Inc., Philippines in association with Engineering Consultants International Limited, Pakistan.

### A. Project Objective

2. The primary objective of the Border Services Improvement Project is to encourage economic growth and reduce poverty by addressing the inadequacies that are restricting trade and hampering full capitalization of the transit trade potential of Pakistan. The Project will encourage trade by providing the physical and information and communications technology (ICT) infrastructure that will allow improved and integrated processes to be introduced at border crossing points (BCP). Integrated procedures will provide a common information technology (IT) platform for all the organizations involved at the border, and will pave the way for one-window operation. The aim is to reduce dwell time for cargo clearance, providing expeditious clearance and encouraging increased trade flows, without compromising essential security and the integrity of national borders. Increased trading volumes are expected to spur greater economic activity, enhancing employment and economic growth, enhancing prosperity and reducing poverty.

3. The Project relates to three BCP: Wahga, the only official crossing point with India; Torkham and Chaman, both crossing points with Afghanistan. The locations of selected BCPs are shown on the map at Figure 1.

**Figure 1: Location of the Selected BCPs**



**B. Phase 1 Report**

4. Phase I was completed in 2014. The Phase I consultants surveyed and identified bottlenecks that currently create delays and reduce throughput and have proposed solutions and prepared new design and layout options for the Wahga, Torkham and Chaman road border crossing points. Their report proposes new infrastructure such as integrated administrative offices, widened approach roads, new angled vehicle parking, multi-lane traffic access roads, pedestrian processing facilities, canopies and bridges. They noted that the Federal Board of Revenue (FBR), with the cooperation of local authorities, will need to solve the land acquisition challenge.
5. New equipment such as cargo X-Ray scanning, truck weighing and pedestrian multi entry and exit lane scanning and detection equipment is proposed. New ICT hardware and software will be installed as part of the transition to a single window system (SWS). The report also recommends using international good practice export, import and transit processes. The consultants examined the ability of the Customs training structure to train staff and managers in the new SWS and future World Customs Organization standards to secure and facilitate trade (SAFE) and Authorized Economic Operator (AEO) programs to give safe and secure international supply chains for Pakistan.
6. The Phase I consultants identified the amount of land needed to accommodate the current levels of traffics as well as giving enough land for future expansion. They made provision for extra traffic lanes, extra X-Ray scanning and weighing machines and extra commercial vehicle parking. They also reviewed the legal framework as part of the strategy to develop international transport corridors and improve the efficiency of the border crossings; and listed the actions they felt FBR should consider implementing.
7. The proposed project as designed in Phase 1 is seen as a transition to the ultimate goal of establishing a single window system of border clearance for all import, export and transit shipments. The final version of the Phase 1 report has been accepted by ADB and the project concept has been approved in principle by the Planning Commission of the Pakistan government.

**C. Purpose of Phase II**

8. The purpose of Phase II is to assess the technical, economic, financial, social, and environmental viability of the designed project and to prepare documentation for procurement.
9. The terms of reference also require the possibility of private sector participation in the operation of the BCP to be assessed and assistance to be given to FBR in the preparation of the PC-1 for the Planning Commission. The first of these issues is also being addressed by a parallel study into the creation of a Land Port Authority, while on the second issue, a draft PC-1 has already been prepared by FBR.

**D. Reporting for Phase II**

10. The primary documents produced by phase II are this report, the social and environmental safeguard documents and the bidding documents. Because the social and environmental safeguard documents are of prescribed form and content, they have been prepared separately from the final report, which therefore covers only their methodology

and conclusions – together with the results of the financial and economic analyses. The bidding documents are also a separate report.

11. The ToR calls for a separate financial management assessment (FMA) and financial and procurement risk assessments. These are attached as Appendix A and B.

**E. This Document**

12. The remainder of this document includes a description of the project context (Chapter II) followed by a project rationale and description (Chapter III). Chapter III includes material from the Phase I report, supplemented by the Consultant's own work and material from a recent World Bank Group time release study of Wahga. Chapter IV details the demand and traffic growth estimates while Chapters V and VI provide the economic and financial analyses respectively. Social issues are covered in Chapter VII and environment in Chapter VIII. Procurement is covered in Chapter IX.



### **III. BACKGROUND**

#### **A. Project context**

13. Due to its location, Pakistan has the potential to become a regional trade hub of significant importance. It provides a communication link to the two largest global economies, PRC and India; and is a natural transit hub for Afghanistan and other Central Asian States. There is an opportunity for increased trade and transit activities to drive economic growth and subsequent reduction in poverty within Pakistan.

14. The border crossings between Pakistan and Afghanistan are currently chaotic and disorganised. Partly for cultural and historical reasons, and partly due to poor infrastructure and lack of resources, the flow of people across the border is largely unchecked, yet delays for goods in transit are excessive. The road border with India is synonymous with delay and impediments to travel.

15. Problems for cross border and transit trade mean a lost opportunity for Pakistan and its neighbours. Pakistan's geographic location offers the potential to create a preferred economic corridor between the landlocked countries of Central Asia, Western PRC, and the Arabian Gulf. Existing and forecasted volumes of transit cargo to/from the emerging economies of Central Asia, PRC and India constitute a sizeable portion of global trade.

16. New policies and strategies are being developed by the Federal Board of Revenue and the Ministry of Commerce to capitalise on the potential for increased transit trade. A greater focus on trade with regional markets is also being pursued. Improved border crossing points are part of the strategy to develop more efficient transport corridors. Current border crossing points are not fit for purpose because they can no longer process the volumes of export, import and transit cargo and pedestrians. Cargo dwell times are long and commercial trucks and pedestrians suffer long waiting times often in challenging climatic environments. Improved border crossing point infrastructure, equipment and procedures are required to reduce cargo dwell time and increase throughput. The benefits to traders and manufacturers in Pakistan will be lower transaction costs and more predictable export and import supply chains so they can get products to markets faster; this should help increase exports. For the project affected people and communities, the project will increase employment opportunities and intensify trading and commerce.

17. Current border crossings do not have the space to cope with the current volume of exports, imports and transit cargo, never mind coping with predicted future increases. They are a confusion of mixed traffics and pedestrians. The current border crossings lack modern good practice infrastructure and procedures. Customs and other border agencies lack appropriate equipment, ICT infrastructure and IT systems that would help make the border crossings more efficient, safer and more secure.

18. Encouraging cross border traffic is not without its dangers. The international border crossings are exploited by activities such as smuggling and trafficking of humans, drugs, and weapons. Border crossings are a conduit for environmental hazards including micro / macro organisms. Most bio hazards are associated with the transport of fresh fruits, plants, meat items, seeds and animals. Fruits and vegetables can also be contaminated with chemicals (used as fertiliser or preservatives), while import of contaminated (radio-active) metal scrap has also been reported. In fact a variety of discarded commodities

such as used nickel-cadmium and lithium batteries, computer equipment, TV and computer monitors, used automobile engines and spare parts are being imported in an unregulated manner. These can carry toxic substances that add to environmental degradation.

19. The aim of the Project and in particular Phase II is to enable the potential benefits of improved trade and transit to be realised while ensuring that adverse social and environmental impacts are avoided or appropriately mitigated.

## **B. Socio Economic Background of Pakistan**

### **1. Location and Governance**

20. Pakistan is situated in South Asia: to the north lie PRC, the Central Asian republics and the Russian Federation; to the west is Afghanistan and Iran; to the east is India; and to the south the Arabian Sea. It is a country of contrast and diversity in culture, landscape, and climate with the highest mountain system of the world on its northern boundary, fertile plains along the Indus valley, and deserts with high summer temperatures to the west. The Arabian Sea has a moderating influence on the climate of southern Pakistan.

21. Pakistan is a federal republic has four provinces, namely Punjab, Baluchistan, Khyber Pakhtunkhwa and Sindh; the federal capital territory (Islamabad); and four federally administrated areas. The chief of state is the President and the head of government is the Prime Minister. Pakistan has a mixed economy It is a member of the South Asian Association for Regional Cooperation (SAARC).

### **2. Demography**

22. The total population of the region is approaching 200 million and is growing at just under two percent per year placing pressure on resources. Young people were estimated to comprise over 50% percent<sup>1</sup> of the total population in the year 2014. The government is working on both population control and capacity building of the young under the concept of inclusive growth. The government family planning program encompasses family welfare centers, reproductive health service centers, regional training institutes and mobile service units. The aim is to reduce Pakistan's population growth rate, fertility rate, infant mortality rate and maternal mortality rate.

### **3. Poverty**

23. Poverty is measured traditionally in terms of ability to meet a minimum number of calories of intake or to have a minimum level of income to satisfy basic needs of an adult per day. Because the poor spend sixty percent of their income on food related expenditures, the official poverty line in Pakistan is calorie based and is defined as per capita food and non-food expenditure per month to support food consumption yielding 2350 calories per adult equivalent per day. According to Pakistan's Millennium Development Goal Report issued in 2013<sup>2</sup>, the incidence of absolute poverty decreased from 22.3 percent in 2005-06 to 12.4 percent of population living below official poverty line in 2010-11.

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<sup>1</sup> Economic Survey of Pakistan, 2013-14

<sup>2</sup> Millennium Development Goal Report 2013



24. Per capita income is defined as gross national product (GNP) at market prices in dollar terms divided by the country's population. Per capita income recorded a growth of 3.5 percent in 2013-14 compared to 1.44 percent the previous year, reaching \$1,386<sup>3</sup> in 2013-14. The main factors responsible for the increase include acceleration in real GNP growth and the appreciation of Pakistan Rupee.

25. The overall unemployment rate has increased from 6.0 percent in 2010-11 to 6.2 percent in 2012-13 with rural unemployment increasing from 4.7 percent in 2010-11 to 5.5 percent in 2012-13. Urban unemployment was stable at 8.8 percent. The rise in rural unemployment is accounted for by a rise in population, low growth and less job opportunities, while power shortages are resulting in lower production. Policy makers in Pakistan are identifying overseas employment opportunities for unemployed youth, providing appropriate training and bridging the gap between employer and employee in the global labour market.

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<sup>3</sup> Ibid Note the GDP figure includes inflation - growth in real terms was only 2.5%.

#### **IV. RATIONALE AND PROJECT DESCRIPTION**

26. The Phase I report provides a full description of the proposed Project. That is not repeated here. The discussion and description given here is intended solely to provide context for the Phase II due diligence.

##### **A. Scope**

###### **1. Border crossings**

27. The Project will upgrade the border crossing infrastructure, systems and equipment at three official border crossing points:

- Wahga between Pakistan and India
- Torkham between Pakistan and Afghanistan in Khyber Pakhtunkhwa
- Chaman between Pakistan and Afghanistan in Baluchistan

28. Neither the infrastructure - administrative buildings, entry and exit gates, roads, parking - nor the equipment such as baggage and vehicle scanning - are fit for purpose. All the border crossing points all lack information communication technology. As a result there are longer than necessary processing times which lead to long queues of trucks and hard and soft security concerns.

###### **2. Overall Approach**

29. The inadequate infrastructure and equipment is an opportunity to invest in new technology. This is expected to increase throughput by helping each BCP become more efficient and user friendly and to reduce export, import and transit processing times. It will provide a better working environment and improve Pakistan's image. The proposal includes integrated administrative offices, safe and secure secondary inspection areas, angled truck parking, multi-lane entry and exit complete with check booths and electronic gates and signs, canopies, new transit sheds and new pedestrian processing halls.

30. Equipment solutions include passport baggage and visa scanners, CCTV, lighting, fencing, CBRN (chemical biological radiological and nuclear), drug testing kits, inspection equipment as well as new weighing machines and vehicle X-Ray scanners. These will all help reduce cargo processing times and increase export, import and transit throughput. Constructing new facilities and upgrading equipment will allow the transition to Single Window Systems (SWS) and World Customs Organisation's SAFE and authorised economic operator (AEO) protocols. The short term future should include a border crossing strategy plus an inter border agency agreement becoming part of an Integrated Transit Trade Master Plan.

31. ICT infrastructure and systems are lacking at all three BCP. Torkham and Chaman are processing imports, exports and transit in the absence of any IT systems. IT systems at Wahga are being used as an electronic register rather than a tool for reducing consignments processing time and facilitating trade. Manual processing of consignments increases processing time. The Project includes investment in ICT infrastructure such as servers, computers, etc. that will reduce processing time and increase the BCPs capacity so they can handle additional international trade.

## **B. Wahga Customs Station**

### **1. Introduction**

32. Wahga is the only official border crossing between Pakistan and India. It is located between Lahore in Pakistan and Amritsar in India on the Grand Trunk Road. It is about 25 km from Lahore. It is well known for the lowering of the flag ceremony witnessed daily by hundreds of people on each side of the border.

33. There has been some restricted trade between India and Pakistan since independence. Regulations restricting cross border movement of trucks were eased as a result of a Joint Statement signed between the governments of Pakistan and India in August 2007. In order to streamline and regularize the system at Wahga, FBR established a Land Freight Unit (LFU) of Customs in March 2009. Exports from Pakistan by road started in October 2010.

34. The Wahga LFU is located in an area of 65 acres land owned by the National Logistics Cell (NLC)<sup>4</sup>. Facilities on the site, including three sheds with some hard standing for trucks and cargo, two scanners, three weighbridges and a cargo gate for movement of trade goods, are also owned by NLC. The main building accommodating the offices of the Customs officers and staff, Pakistan Tourism Development Corporation (PTDC) motel and the National Bank of Pakistan (NBP) is owned by FBR.

35. The site is flat and all operations and goods are exposed to the summer heat because of the lack of canopies and transit sheds. Export and import trucks get mixed and transshipment is carried out manually. It is difficult for the border agencies to control operations and movements in such challenging working and environmental conditions.

### **2. Current Import Procedure**

36. Goods entering Pakistan from India are transported on Indian trucks that are issued a Single Entry Permit (SEP) valid for one day only by the custom authorities at the Indian Border. Access is restricted to the Wahga Border area only.

37. In order for an Indian truck carrying import cargo to enter Pakistan, the vehicle and its cargo must undergo several procedures administered by various border agencies. These can be broadly categorized as Customs procedures relating to the manifesting, assessment, examination and clearance of the cargo and vehicle and cargo handling procedures concerning weighing, scanning unloading and loading of the trucks. Fees and duties are paid at the National Bank of Pakistan within the complex.

38. Customs agents (private entities acting on behalf of importers) play a major role in clearing shipments and the majority of the delays within the Customs processing are under their control. This is because it is a largely manual system, with the progress from one step to the next relying on the agent physically moving bits of paper from one desk to another.

39. The Customs process involves the following steps:

- i. The Inspector/ Examiner examine the imported goods against the Goods Declaration Form (GD) which is input into the system by the customs agent. It

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<sup>4</sup> NLC is an entity under the Ministry of Defense, Government of Pakistan (GoP). It was established in the 80s' to cater the transport requirements of the Armed Forces of Pakistan and later went in to commercial activities.

must be supported by the shipping documents i.e. commercial invoice, packing list and truck receipt submitted by the importer.

- ii. The Deputy Superintendent/Appraiser appraises the value of the goods and levies appropriate duties/taxes in accordance with the Pakistan Custom Tariff (PCT) code and forwards the documents to the Deputy Collector.
  - iii. The Superintendent/Principal Officer verifies the assessment of the value of goods and the duties/taxes levied as per the PCT Code and under relevant Statutory Regulatory Order (SRO), in case of any applicable exemptions, reductions, relaxations, or even increase in duties/taxes during the interim period of the financial year.
  - iv. The customs agent, on receipt of the approved GD, pays the duties/taxes levied and approved by way of a Pay Order and deposits in the National Bank of Pakistan Branch located within the premises of LFU.
  - v. The Deputy Collector approves the GD and issues the release order after ascertaining that all the duties/taxes have been paid as assessed by the Superintendent/Appraiser.
  - vi. The importer submits the receipt of the payments deposited with NBP receipt of the clearance from the office of Deputy Collector, moves the goods from the customs area to the unloading area (an open yard) and reloads it onto a local truck for onward transport to its destination.
40. The trucks and cargo follow a parallel process<sup>5</sup>
- i. Trucks from India are checked at the import gate to confirm commodities are permitted for import. The driver pays a gate fee.
  - ii. The truck is weighed by an NLC subcontractor and a fee charged. The time taken is under 10 minutes
  - iii. The truck is scanned. Import trucks have priority at the scanner. As a result, the queue for scanning is 30 minutes or less. Nevertheless this is the bottleneck for import trucks. Actual scanning takes 2 minutes, and the entire process about 5 minutes.
  - iv. Import trucks normally proceed to the offloading site immediately after scanning. Tallying of the load also takes place along with offloading. Labour is arranged by the agent and this may take 20 to 30 minutes depending on the availability of labourers. LFU has 200 loaders on its established strength, mainly local residents. Offloading can take 40 minutes to 1 hour and 40 minutes after which the Indian truck leaves and goes back to the Indian yard – usually 2-4 hours after entry into the Wahga yard.
  - v. While the truck offloads, the agent arranges for Customs clearance. The cargo must then wait for Customs processes and other examinations by government agencies such as plant quarantine. If the goods are perishable, the agents try to have them released as soon as possible and arrange for the buyer to have the truck(s) available immediately.

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<sup>5</sup> Based on Pakistan Time Release Study: Wahga Land Freight Unit. World Bank Group. Nov 2014

- vi. Non-perishable goods generally remain in the yard longer. Reloading cannot commence until the agent receives an Out-of-Charge from Customs, which depends on the agent completing all the necessary steps. It usually takes less than 2 hours. However the agent may choose to delay clearance. He may be waiting for more trucks so that he can get them cleared simultaneously or he may deposit goods in the sheds for temporary storage. Demurrage is not payable until the goods have remained in the yard more than 7 days. Importers often take advantage of this free storage period. Importers sometimes use the yard as a makeshift market for selling the products to different buyers who may pick up the goods at different times. As a result the World Bank study found an typical dwell time for non-perishable goods of between three and five days.
- vii. Reloading onto Pakistani trucks takes less than an hour for perishable consignments and up to 2 hours for non-perishable consignments. Reloading is manual.
- viii. At the exit gate, documentation is checked for compliance and payment of all fees and duties.

### **3. Procedures for Exports**

41. Goods exported from Pakistan to India are transported on Pakistani trucks, which are issued a SEP valid for one day only by the custom authorities at the Wahga Border. Access by Pakistani trucks is permitted into the Indian border facility only. Customs officers at LFU do not have much role in the export of goods to India, with the exception that they randomly check to see that the exported items are not contraband.

42. The process for export cargo is simpler than for imports as transshipment does not occur until the truck reaches the India side. However export trucks encounter more bottlenecks during the clearance process. The following is a description of the process based on the World Bank study<sup>6</sup>.

- i. Outside queue. Since export trucks get low priority at the scanner, they usually arrive at night so they can be ready early in the morning to be scanned before the Indian import trucks start arriving. At 6:00am, truck drivers hold a ballot to determine the order in which trucks will enter the yard. Waiting time varies from 45 minutes to more than 12 hours with a reported average of 8 hours and 43 minutes.
- ii. On arrival at the entry gate, the goods declaration and supporting documents are submitted and an NLC gate pass issued. The processing of the documents proceeds independently and in parallel with processing of the truck.
- iii. The truck is weighed by an NLC subcontractor and a fee charged.
- iv. Export trucks queue for scanning. Recorded times varied from 12 minutes to 2 hours 35 minutes with an average of 1 hour and 43 minutes. Only 15-17 trucks an hour can get scanned - up to 180 trucks in a 12 hour day. Customs is responsible for checking and verification of goods by physically examining the consignment. Waiting time varies from half-an hour to more than 5 hours. The WB survey team observed very few physical examinations by Customs or

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<sup>6</sup> Ibid

other agencies during the study period. Agents carry the documents to relevant officials and have them processed by the officials in their offices. The main reason for delay is unavailability of the agent.

- v. Once the checks have been verified on the goods declaration, and duties and other charges paid in full, the SEP is issued. The SEP data is entered into a stand-alone automated system. This does not consume time except when there is a power failure, network error, or staff shortage.
- vi. Proceeding to the Indian side is at the discretion of the Customs staff in consultation with Indian officials. Export trucks may be delayed due to any one of a number of reasons including labour shortage or insufficient time for complete unloading on the Indian side. Pakistani trucks are sometimes sent back while still halfway through offloading if there is insufficient time to finalize the offloading before closure of working hours. The yard is congested with export trucks at around noon but the volume drops sharply after 3:00pm.

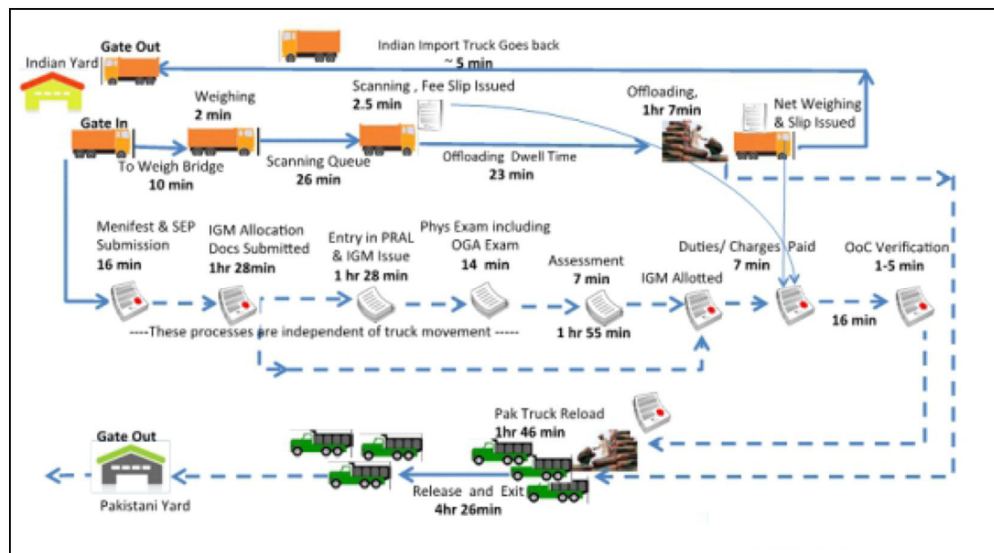
43. Figure 2 shows the import process while Figure 3 shows the export process. Truck movement is regulated and managed by NLC while document-checking and goods clearance is the responsibility of Customs. These are parallel processes.

#### 4. Proposed Project

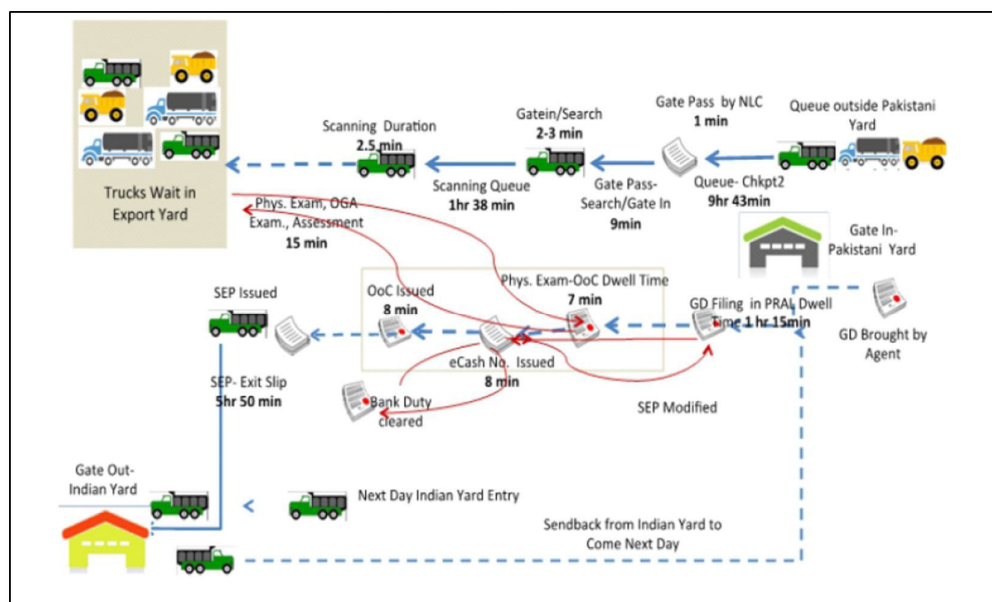
44. The proposal developed by the Phase I team aimed to solve current congestion and long processing times and also provide space for future expansion. As far as practical, export and import, and freight and passenger movements are kept separate with new separate export and import processing areas and infrastructure. The 'tourist' traffic to observe the closing ceremony is also separated.

**Figure 2: Wahga Import Process**

(Source: Pakistan Time Release Study, Wahga Land Freight Unit)



**Figure 3: Wahga Export Process**



45. The existing NLC transshipment yard area terminal is close to the border and there is insufficient space in the yard area. The area will be expanded by acquiring additional land from local people. Most of the land to be acquired is cultivated, primarily for growing fodder crops. The whole area is flat agricultural land and there is very little construction. Phase I selected export and import processing sites comprising 62 acres, one site for imports at the western side of the main road comprising 50 acres and a third site near the railway station and railway terminal comprising 40 acres. A new 4 kilometer 4 lane approach road is proposed on both sides of the canal at the western side of the main road and connected with the trade gate.

46. The main features of the proposal are as follows:

- Wahga will be connected to the WeBOC system enabling pre-notification of consignments. This will reduce queueing and processing time at the gate by enabling time slots to be allocated in advance and documentation to be pre-prepared. It will allow customs and other agencies to carry out risk assessments rather than have to inspect all shipments.
- The two import lanes will be increased to four lanes while the export approach road will be widened from one lane to four lanes. Each lane will have a booth built to the height of a truck cab window allowing Customs to check the driver has the required documents for entry into the Customs Control Zone: this is the primary check.
- Trucks selected for secondary inspection as a result of pre notification and trucks arriving without pre-notification will be moved along a new bypass road to a secure secondary inspection area complete with building and tools to carry out a physical inspection.
- Each lane will have electronic gates and an electric red and green lighting system, CCTV, vehicle number plate scanners and ideally sniffer dogs and a canopy. This combination of trade facilitation and security equipment will make the border



crossing more user friendly for agency staff and users plus making the border crossing more safe and secure.

- Each export and import traffic lane will have vehicle weighing and dimension equipment so that while customs are checking the driver has all his documents and while the truck drivers passport, ID and entry permit get scanned the truck is weighed and measured saving time by combining procedures. The truck driver stays in the cab.

47. The proposal includes new equipment such as two new truck back scatter and color X-Ray scanners and two new truck weighing and dimension measuring machines plus CCTV and overhead and task lighting to allow the terminal to move to 24 hour operation in the future.

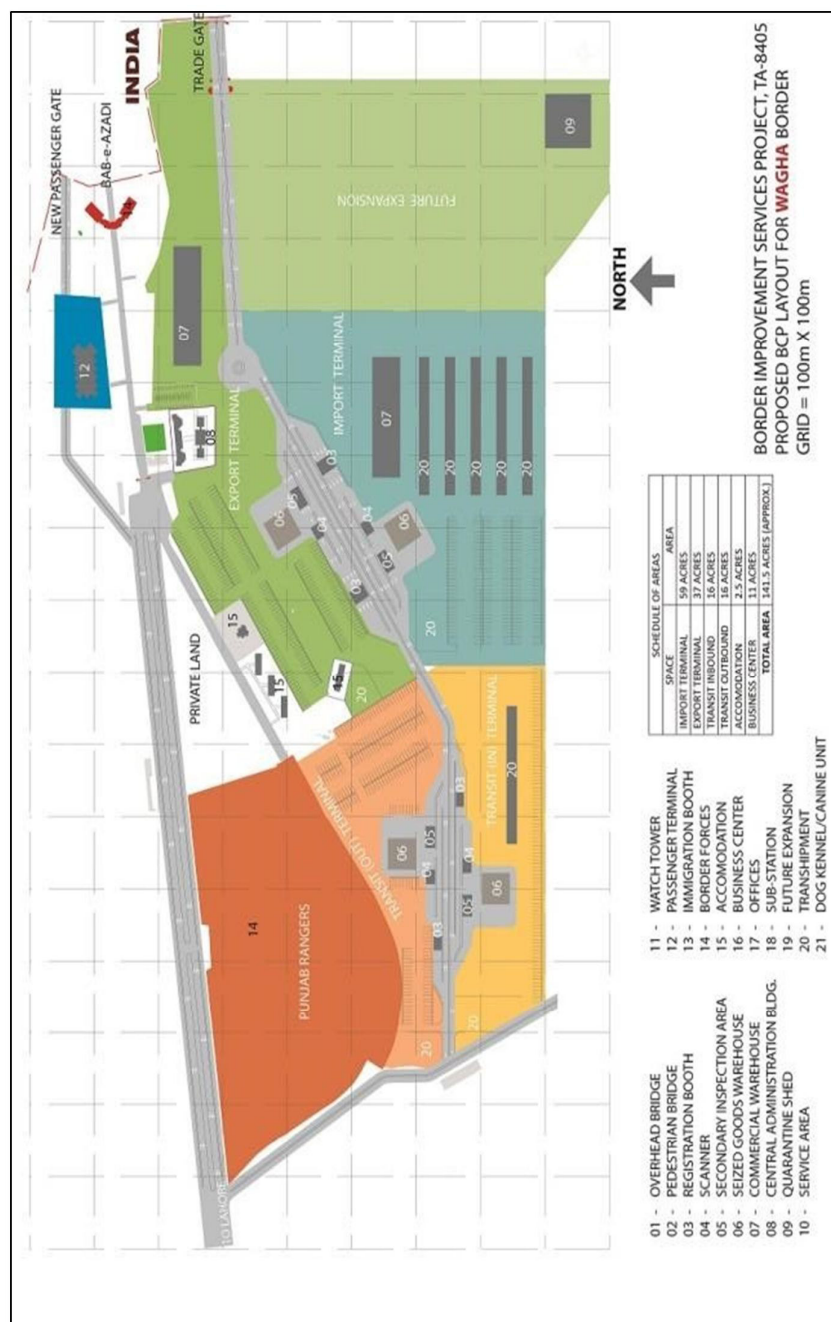
48. Ideally transshipment should use pallets and containers. In the absence of modern materials handling equipment new transshipment sheds are needed for perishable product plus refrigerated and chilled vehicle electric plus in facilities. If and when transport companies start using pallets and shrink wrap fork lift trucks will be needed. When containers get used stacker trucks will be needed.

49. The bus passenger and pedestrian entry and exit gate are located nearby the export traffic lane and truck exit gate. The new proposal will move the bus passenger and pedestrian entry and exit gates to the perimeter of the border crossing so that they are segregated from the cargo areas and cannot wander around the Customs Control Zone. The current one male and female gate entry needs expanding to at least four male and four female gates each equipped with person, baggage scanning equipment, passport and ID scanners, CCTV, overhead and task lighting, and covered with a canopy.

50. The proposed layout is shown as Figure 4.



**Figure 4: Proposed Wahga Border Crossing Design & Layout Proposal**



## 5. Alternatives considered for Wahga

51. The proposed development is an incremental improvement to the existing site. While there are no obvious alternatives at this site, the option of concentrating activity at the railway station site was considered. This would have required greater land acquisition and cost.

52. A long term option would be to remove the inspection from the border area completely, for example to a land port in the Lahore urban area with trucks moving to and from the border crossing under a secure transit arrangement. While this has the potential

advantage of removing some double handling, there would be logistics issues. Allowing Indian trucks to operate in India, obviating the transshipment requirement entirely would also reduce the land requirements at Wahga.

53. Phasing of construction was considered, particularly of road and parking infrastructure. The proposed space is expected to exceed normal current requirements. However given the large variability in travel demand, there is a good case for providing additional space now to provide flexibility. The cost savings from delaying the provision of road and parking would in any event be small.

## **C. Torkham**

### **1. Introduction**

54. Torkham is the border crossing on the traditional route for trade between Afghanistan and Pakistan via the Khyber Pass. The customs operations office was established in 1954 and is located beside the narrow and crowded road. Throngs of trucks and pedestrians passing by make the street extremely busy. The customs office and operations currently occupy 13 acres of land.

55. Transport connectivity with the Torkham border crossing is improving. The approach road from Peshawar to Torkham is under construction and is expected to be finalized during 2015. An alternative route called the “expressway” is also proposed although a completion timeline is not known. The road from the Afghanistan side of the border is proposed to be four lanes wide and the condition of the existing road is good.

56. The current site is constrained in a narrow valley and surrounded by steep mountains and as a result there is not a large amount of flat land near the border or the “zero gate” with Afghanistan. In addition the border crossing approach road goes through a market bazaar. There is not enough land to build good practice export and import commercial truck and pedestrian processing facilities near the border.

### **2. Procedure on Import and Export of Goods:**

57. The procedure for import of goods from Afghanistan is similar to that at Wahga, with the exception that no transshipment is required. Afghan and Pakistani trucks carrying goods from Afghanistan report to the Custom House and deliver an Import General Manifest (IGM). Afghan drivers are issued a token for them to travel into Pakistan. Customs retain the vehicle registration book as a security. There is no restriction on Afghan trucks operating beyond Torkham and immigration rules for drivers are relaxed.

58. Pakistani and Afghan trucks carrying goods for export deliver their Export General Manifest (EGM) to Customs at Torkham, The goods are examined under Customs supervision and issued an Exit Gate Pass.

59. Although the Torkham border crossing seems to be the busiest of the three, the infrastructure is quite outdated and requires lot of improvement.

### **3. Proposed Project**

60. The Phase I consultants have prepared proposals for completely new infrastructure and facilities at Torkham, A total of 56 acres are required. To minimise disruption to adjoining activities, the proposal is to move the office and freight operations some six kilometres back towards Peshawar. This will require some supervision of truck

movements between the border and the processing area, but is otherwise not expected to affect productivity. The area is under tribal ownership and the political agent is negotiating with the local Jirga for its use.

61. The new entry and exit pedestrian processing facility, not marked on the proposal map below, will be built close to the border. Ideally a new road bridge needs building for commercial vehicles. A new bus and bus passenger facility is proposed in the vicinity of the welfare center. The proposal includes a site of 17 acres for import, 46 acres for export and 32 acres for transit. The sites are identified Figure 5 below.

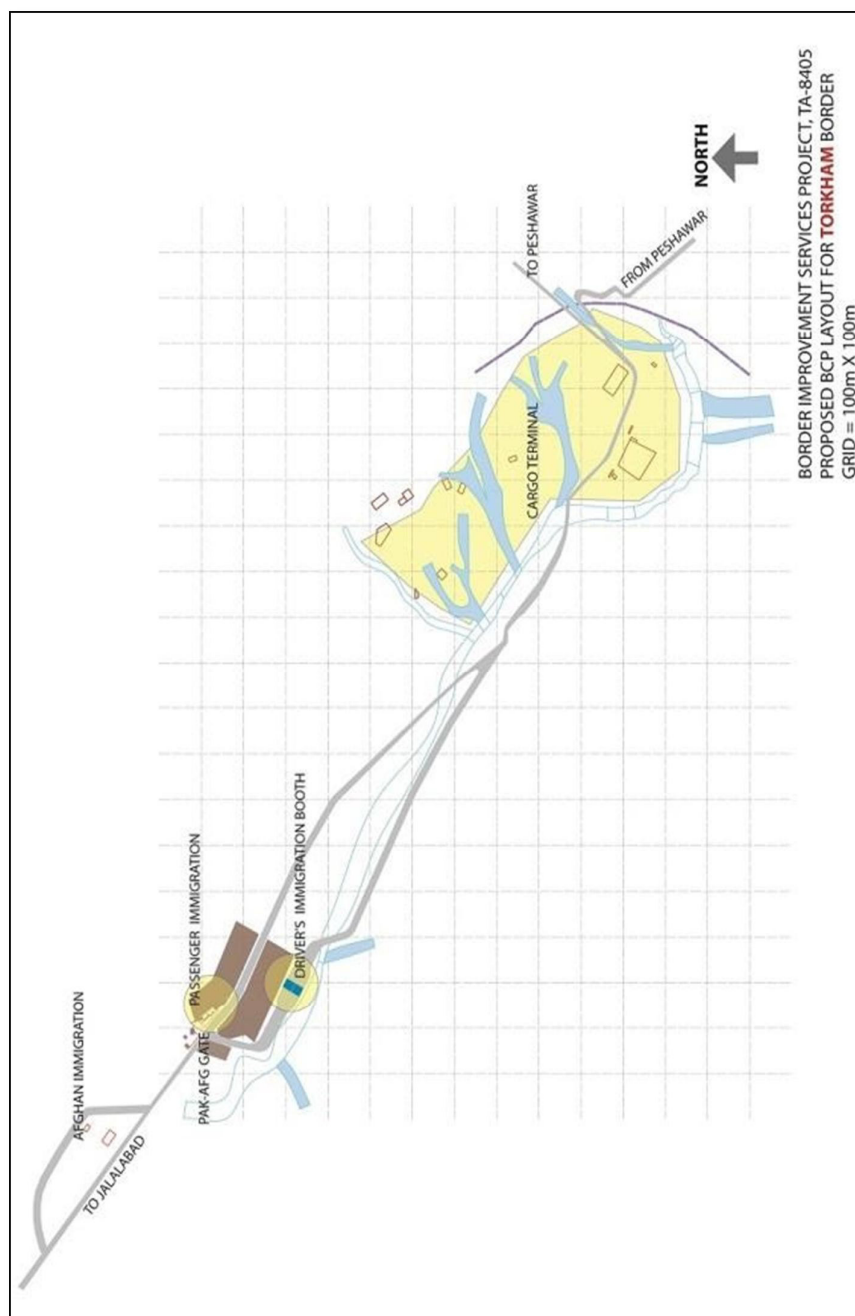
#### **4. Alternatives Considered**

62. The main alternative considered was development at the current site. However any attempt to build new facilities near the border would involve large scale dislocation of housing and business premises. It would not be possible to include multi-lane entry and exit traffic lanes and thus the facility would not give the reduced cargo dwell times required to increase throughput. An alternative temporary road (the 'cement road') was constructed recently at the south mountain base, which has improved connectivity but the approach road is not adequate for the volume of traffic. The project proposes a bypass road, not marked on the map below, which would enable trucks to avoid the congested bazaar and would also avoid conflict with pedestrian and bus traffic. This would solve the chaotic current situation of thousands of pedestrians having to get past moving heavy commercial trucks; a serious safety and security challenge

63. A railway line was laid from Peshawar to Torkham eight decades ago but was never operated beyond Landi Kotal and is not in a functional state. Considerable investment would be needed to repair and upgrade the line. One option would be to move the BCP facilities to Landi Kotal where an intermodal dry port could be established. This option was considered but rejected. Another option (particularly as the rail to Landi Kotal is currently not operational) would be to construct the BCP/Land port at Peshawar with vehicles moving between the land port and the border under a secure transit arrangement. The general security situation in the border area would add a further complication to any such arrangement.

64. There are proposals to construct a new railway between Peshawar and Jalalabad in Afghanistan. While this may attract some current traffic, it would not obviate the need for a truck and foot passenger processing facility.

65. These options were considered by the Phase I consultants in developing their recommendations.

**Figure 5: Proposed Torkham Border Crossing Design and Layout Proposal**

66. During stakeholder meetings in Karachi and Torkham participants suggested a terminal on the railway terminal land in Landi Kotal as another option. This site is flat and could serve as a future multi modal road and railway terminal. Commercial vehicles could move between the terminal and the border using RFID tags to alert customs in real time of any tampering with the container or goods or if there were any unexplained vehicle stops or deviation from prescribed routes. A logical extension of this concept would be to have a dryport in Peshawar and for customs clearance to be undertaken there. However such 'off site' options, while technically feasible, are considered to involve too many risks given the lack of security in the area.

**D. Chaman Customs Station**

**1. Introduction**

67. Chaman is the border crossing on a traditional trade route [between Afghanistan and Pakistan via the Khojak Pass. Whereas the Khyber Pass route serves Kabul and northern Afghanistan, the Khojak pass leads to Kandahar and south Afghanistan. The custom house at Chaman was built in 1965. Just less than 27 acres of land were allotted during 1960 and transferred to Customs in 1970. Presently four acres of land is utilized for the Customs House and one acre for the Transit Section situated at the railway station.

68. The approach road to the Chaman BCP from Chaman city is congested and passes through densely populated areas. The commercial vehicle transit terminal is not located at the border crossing and instead it is located in the city using the railway authority's space for parking.

69. The buildings and equipment are not fit for purpose.

**2. Procedure for Import and Export of Goods:**

70. The procedure for import of goods from Afghanistan is similar to Torkham. Afghan and Pakistani trucks carrying import goods report at the Custom House Chaman and deliver an Import General Manifest (IGM). There is no restriction on Afghan trucks moving beyond the Chaman border.

71. Trucks carrying export goods deliver their Export General Manifest (EGM) to customs at Chaman, goods are examined under Customs supervision and are issued with an Exit Gate Pass. These trucks pass through the Friendship Gate at the Border.

**3. Proposed Project**

72. The Project includes international good practice border crossing infrastructure and equipment that should reduce dwell times and increase throughput. The new design and layout will contribute to efficient export and import and transit traffic flows saving time and costs for users and should help develop the Chaman border crossing as an important part of the transport corridor to Central Asia. The new terminal includes:

- Link to the WeBOC system to enable pre-booking and allow customs and other agencies to carry out risk assessments rather than have to inspect all shipments.
- Terminals, sheds, weighbridges, Laboratory, Drug Cell, separate examination, processing and clearance areas.
- Installation of additional scanners, internet connectivity at facilitation centers for uploading of data on real time basis speedily.
- Modern equipment for handling of different type of cargo through dedicated terminals with all requisite facilities.

73. To segregate commercial truck traffic from pedestrians, the approach road at the Chaman border crossing is proposed to be widened from one lane each way to four lanes each way. Enough land must be made available to allow extra in and out lanes to be built in case of extra volume of traffic (commercial, pedestrian and or bus and cars) in the future and will also allow some lanes to be marked as priority lanes (or extra lanes added later) for perishable product, TIR and AEO.

74. In addition a new link of four lanes (two each way) is proposed from Chaman city to the Chaman BCP where all Custom export, import and transit facilities will be built. Chaman city will no longer have any customs or other agency facilities and functions.

#### **4. Options Considered**

75. The project team examined two border crossing options. Option 1 was development on the current site. It would have problems in the future which will limit expansion and because only about 30 acres are available. Option 2, the chosen option, has more than 100 acres of space. Furthermore, option 2 involves less building dislocation because there is less habitation nearby. In addition, the proposed railway line and station are on the east side making it a better choice as a future multimodal transport terminal. During two stakeholder meetings in Quetta and a meeting with the provincial Governor the political leadership and chamber of commerce and local business participants expressed their interest and willingness to support the development of a refurbished modern good practice border crossing.

76. The possibility of other options involving the development of the rail line, and possible extension of the line to Kandahar were discussed, but not considered likely to be developed in the immediate future.

77. Another option would be to remove the main customs and immigration facilities out of the border zone entirely – for example to a land port at Quetta with trucks moving under secure transit arrangements between the land port and the border. The present security problems in the border area would make such an approach problematical.

78. The possibility of phasing the construction of some road and parking areas and even some buildings was considered. The cost savings would be small and would result in a loss of flexibility.

79. A map of the proposed facilities at Chaman is shown as Figure 6.





## V. DEMAND ESTIMATION

80. Estimating the expected traffic is of crucial importance to the project both to ensure that the project is appropriately sized, and that the costs and benefits are correctly estimated. The expected traffic determines the size of the facilities required and thus the construction costs. On the benefits side, it is traffic which is the main beneficiary through savings in operating costs. Estimating the costs and benefits enables us to determine whether the project is justified.

### 1. Existing Traffic

81. The Phase I report gives figures for average daily vehicle in the low and high season and an annual estimate for Torkham, Chaman and Wahga. The difference between the low season and high season figures is very large, particularly at Torkham and Chaman, both for exports and imports indicating considerable variability in flows. This may be part of the reason for long queues forming.

82. Traffic data available from other sources was used to validate the Phase I figures and arrive at consistent estimates of base year traffic.

#### a. Torkham

83. The Phase I report gives annual traffic numbers in Volume 2 (Annexes). These are shown in Table 1.

**Table 1: Annual (2014) and Daily Average Truck Movements (Torkham)**

(Source: Phase I Report, Volume 2, Page 80)

	Imports	Exports	Transit in	Transit out
<b>Annual</b>	39,096	165,717	2,237	27,451
<b>Daily Average</b>	130	552	7	92

84. The “transit in” figure appears low especially compared to data provided by customs officials who say the number ranges between 20 and 40 per day. A figure based on 20 vehicles per day has been adopted for inbound transit. The other figures are consistent with advice from Torkham customs.

#### b. Chaman

85. Data provided by Chaman customs authorities to the Consultant during latter’s field visit included cross border traffic for the last 5 years as shown in Table 2.

**Table 2 Traffic and Trade at Chaman Border**

Year	No. of Trucks			Value Mill. PKR	
	Exports	Imports	Total	Exports	Imports
2009-10	61,019	9,125	70,144	22,025	2,442
2010-11	67,217	19,208	86,425	23,972	6,478
2011-12	45,491	18,804	64,295	19,010	5,481
2012-13	32,730	19,215	51,945	13,701	6,454
2013-14	23,876	21,840	45,716	21,241	5,925

Source: Presentation Data from Chaman Custom Post

86. Afghan Transit Trade (Exports) data supplied by Pakistan Revenue Automation Ltd (PRAL) indicates export of 33,037 containers by NATO forces during 2013-14, of



which 22,667 containers passed through Chaman and 10,370 through Torkham. This figure is not included in the import and export vehicles reported above.

87. The significant decline in the number of vehicles using Chaman for export is generally attributed to the security situation at Chaman and the cost imposed by travel delays. It is believed that potential traffic is diverting to Torkham or to Bandar Abbas with transit thorough Iran.

### **c. Wahga**

88. The traffic handled at Wahga border post during last five years as reported by Wahga Customs Station is shown in Table 3.

**Table 3 -Number of Trucks handled at Wahga Border Post**

Year	Imports	Exports	Afg Transit	Total
2009-10	18,213	0	1,503	19,716
2010-11	31,897	4,664	1,724	38,285
2011-12	36,157	22,272	1,697	60,126
2012-13	44,589	32,393	2,772	79,354
2013-14	44,757	39,871	2,711	87,339

Source: Wahga Customs Station presentation

89. The above data were compared with trade data as shown in Table 4. As can be seen from the table, the implied tons per truck for exports and afghan transit have been increasing and are well in excess of the theoretical truck capacity. The Consultant understands that what is actually recorded is the number of consignments, and that the increase in apparent load reflects a trend towards larger consignment sizes that may involve multiple vehicles. The tonnages for 2012-13 and 2013-14 have therefore been converted to truck numbers assuming 25 tons per truck. (Table 5).

**Table 4 -Trade and Trucks at Wahga Border Crossing**

Year	Value Mill Rs.	Quantity Tons	Trucks (Table 3)	Ton/Truck
<b>export to India</b>				
2010-11	1332	144960	4664	31.1
2011-12	6235	666033	22272	29.9
2012-13	12722	1339599	32393	41.4
2013-14	13722	1693411	39871	42.5
<b>import from India</b>				
2009-10	16374	342848	18213	18.8
2010-11	20995	564727	31897	17.7
2011-12	25537	630385	36157	17.4
2012-13	62684	950470	44589	21.3
2013-14	62342	920362	44575	20.6
<b>Afghan transit</b>				
2009-10	2933	18920	1503	12.6
2010-11	3836	21775	1724	12.6
2011-12	4948	26796	1697	15.8
2012-13	11338	53648	2772	19.4
2013-14	15754	114798	2711	42.3

Source: Wahga Custom Station presentation/ consultant analysis

**2. Diverted Traffic**

90. It is believed that the reduction in export traffic at Chaman is at least partly due to traffic transferring to alternative routes – either Torkham or via Iran. Improvement to the Chaman crossing may win some of this traffic back. Part of the problem at Chaman is the security situation. The Project is based on the assumption that the security situation, and thus total trade will improve. It is therefore reasonable to assume that some of the lost traffic will divert back to Chaman. That the security situation will continue to fester or get worse is a risk that needs to be taken into account in the sensitivity analysis.

91. There is possibility of development of some new border crossing points on the Pakistan-Afghan and Pakistan-India borders in the future. There is also a proposal to construct a rail link from Peshawar to Jalalabad in Afghanistan. These proposals are generally predicated upon growing the total trade rather than diverting existing traffic. As there are no immediate plans for these developments, the possibility of traffic being diverted away from the present road crossings has been ignored.

**3. Generated Traffic**

92. The purpose of the Project is to encourage transit and trade. If the project is successful, the transit times at the borders could be significantly reduced. International literature on trade elasticities normally relates trade growth to exchange rate and income changes, but the same principles should apply to transit costs. On this basis an elasticity of between -0.6 and -0.4 seems reasonable. Since the border crossing is only part of a longer journey, the percentage cost reduction resulting from improved transit times is a lot less than the percentage reduction in time and will vary depending on the length of the journey. An estimate has been made based on the driver surveys that suggests that the journey time saving may be about 10% of the journey cost and thus the traffic generation could be expected to be around 5%.

93. Benefits to generated traffic are valued at half the rate of benefits to normal traffic.

**4. Baseline traffic**

94. With the corrections and adjustments indicated above, the estimated baseline traffic at the three border crossing points is shown in Table 5.

**Table 5 -Traffic Estimates at selected border crossing posts (2013-14)**

description	Torkham	Chaman	Wahga	Total
Imports	39,096	21,840	44,757	105,693
Exports	165,717	45,000	67,781	278,498
Transit in	6,000	3,000	4,587	13,587
Transit out	37,821	22,667	0	60,488
Total	248,634	92,507	117,125	458,266
Diverted traffic				
Generated 5%	12431.7	4625.35	5856.236	22,913
Total	261,066	97,132	122,981	481,179

Source: Phase I report with additional data from BCP.

## A. Growth Rate

95. In order to determine growth rate, trends in overall foreign trade of Pakistan, Pak-Afghan trade, Afghan transit trade and potential of transit trade of Central Asian land locked countries were considered.

### 1. Foreign Trade

96. The volume of foreign trade in US dollars over the last 12 years is given in Table 6. A geometric growth function was fitted using maximum likelihood estimation. This provided a best estimate of the average growth of exports of 7% and of imports of 9%. The data is shown graphically as Figure 7. It compares with a 4.6% geometric growth of GDP over the same period<sup>7</sup>.

**Table 6 -Foreign Trade (Million US \$)**

year	exports	imports	Total
2002-03	10974	11333	22307
2003-04	12459	13738	26197
2004-05	14482	18996	33478
2005-06	16553	24994	41547
2006-07	17278	26989	44267
2007-08	20427	35397	55824
2008-09	19121	31747	50868
2009-10	19673	31209	50882
2010-11	25356	35872	61228
2011-12	24696	40461	65157
2012-13	24795	40226	65021
2013-14	25151	41786	66937
Growth	7.83	12.59	10.51

**Figure 7 Foreign Trade of Pakistan**



<sup>7</sup> IMF Database in current dollars.

**2. Pak-Afghan Trade**

97. Pakistan is the main trading partner of Afghanistan both for exports and imports. During 2013-14, about 40 percent of Afghan exports and 20 percent imports were to and from Pakistan. From Pakistan's side, exports to Afghanistan are 7 percent of its exports while imports from are less than 1 percent of all imports.

98. Pak-Afghan trade is dominated by exports which increased from \$ 403 million in 2003-04 to \$ 1865 million in 2010-11 and thereafter decreased to \$1,244 million in 2013-14. The average annual growth between 2003-04 and 2013-14 is twelve percent. Fitting a geometric growth function to the data indicates an overall growth of exports of 7.8% and imports of 8.4%. Any increase in Pak-Afghan trade depends upon increase in production in Pakistan as well as revival of Afghan economy. In both cases, change is a slow process.

**3. Afghan Transit Trade**

99. The limited Afghan transit trade data available does not indicate any consistent and stable trend. From 2004-05 to 2009-10, transit trade increased 12 fold in current prices in Pak Rupees and 9 fold in US dollars. Then it decreased by 44 percent from Rs. 282 billion in 2009-10 to Rs.159 billion 2011-12 and has since recovered to Rs. 214 billion in 2013-14. No reliable trends can be derived from such a volatile data. It is therefore assumed that transit trade will increase at the same rate as Pak-Afghan trade.

**4. Central Asian Land Locked Countries**

100. The likely impact of land locked Central Asian countries bordering Afghanistan, namely, Tajikistan, Uzbekistan and Turkmenistan, depends upon the size of their economies, nature of demand for and supply of imports and exports respectively. The economic data of these countries as well as of Pakistan is given in Table 7.

**Table 7 – Economies of Central Asian Land Locked Countries.**

country	Pop 000 (2011)	GDP \$(M)	Per capita GDP\$	Exports\$ \$(M)	Imports \$(M)	Total \$(M)
Afghanistan	35320	18034	620	370	5500	5870
Tajikistan	6077	6522	835	1358	3778	5136
Uzbekistan	29341	45324	1545	10836	11296	22132
Turkmenistan	5105	28062	5495	16500	9900	26400
Total	75843	97942	1291	29064	30474	59538
Pakistan	176745	210741	1192	24567	44157	68724
% of Pak	0.43	0.46	1.08	1.18	0.69	0.87

101. The population and GDP of Afghanistan and the three neighboring land locked countries of Tajikistan, Uzbekistan and Turkmenistan are 43 and 46 percent respectively of the population and GDP of Pakistan. However, their combined foreign trade is only 13 per cent less than Pakistan. Compared to Afghanistan, the other three countries together have 15 percent more population but 4 times the GDP and foreign trade. This indicates a significant opportunity for trade and transit. Increased freedom of movement of vehicles and removal of restrictions on transit trade through Afghanistan could lead to a multifold

increase in trade between these countries and Pakistan and of transit trade through Pakistan.

102. Realisation of the transit trade potential will depend upon normalization of conditions in Afghanistan and changes in government policies, neither of which appear imminent. Thus while there is significant potential for increased trade and transit traffic out of Central Asia, and indeed that is one of the reasons for the project, the additional traffic has not been included in the calculation of benefits.'

## **5. Forecast GDP**

103. It is common to estimate freight flows based on GDP with an elasticity of around 1.0 – 1.3. The IMF database forecasts GDP to increase at four percent, rising to just over five percent from 2018 to 2020. The freight volumes forecast varies by year but overall increases at seven percent.

104. On balance, an average of 7 percent has been adopted. P with and without the Project.

105. Table 8 shows the forecast annual truck movements at each BCP with and without the Project.

**Table 8 Forecast Annual Truck Movements**

	Without Project			With Project		
	Torkham	Chaman	Wahga	Torkham	Chaman	Wahga
2015	248,634	92,507	117,125	248,634	92,507	117,125
2020	348,722	129,746	164,273	366,158	129,746	164,273
2025	489,101	181,975	230,402	513,556	181,975	230,402
2030	685,989	255,230	323,151	720,289	255,230	323,151
2035	962,135	357,973	453,236	1,010,242	357,973	453,236
2040	1,349,444	502,076	635,686	1,416,917	502,076	635,686

## **VI. ECONOMIC ANALYSIS**

### **A. Scope**

106. An economic analysis of the project was undertaken following ADB's Guidelines for the Economic Analysis of Projects. The Consultant evaluated the Project's cost and benefits; conducted a sensitivity analysis and evaluated the economic risks.

107. The project is being promoted for more than one reason. As the border station provides the traveller's first impression of Pakistan, a prime consideration is improve the country's image and to provide a more user friendly and safe entry into Pakistan. Allied to this is to provide an environment in which necessary border processes can be undertaken effectively and compliance assured, thus contributing to the Country's security and the integrity of its borders. It is difficult to place a value on these aspects, but it is noted that many countries spend considerable sums on this aspect alone and must perceive benefit from so doing.

108. A further expressed aim of the Project is to get Pakistan products to international markets in less time and at a reduced transaction cost, and to become part of a regional transport corridor connecting Pakistan with Central Asia and neighbouring trading partners. This aspect stresses the need for the necessary border procedures to be undertaken in a way that minimises the impact on transit and trade – primarily by reducing the time taken to negotiate the border crossing.

109. For the economic analysis, we have concentrated on the latter impact, that of reducing the transit time for goods moved in trucks. The compliance, national security and prestige aspects are difficult to quantify and have been treated as additional unquantified benefits.

110. For travellers on foot between Pakistan and Afghanistan, the procedures are likely to become more formal. Some travellers are currently crossing with minimal checks or other formalities. For these people, the transit time is likely to increase. Many current foot-travellers are believed to engage in 'shuttle trade' whereby goods are carried as personal belongings to avoid the need to pay import duties. These people may be worse off if the new facilities allow border controls to be better enforced. There will be mitigating factors such as improved shelter and facilities, and clearer procedures that should reduce uncertainty. For travellers to and from India at Wahga, procedures are already stricter and pedestrians will benefit from the improved facilities.

111. We have assumed that overall, the benefit to the nation from regulating the border crossing exceeds any dis-benefits in the form of additional time faced by foot travellers crossing with Afghanistan, and that the loss of income for shuttle traders is compensated by increased opportunities for legitimate trade. At a conservative estimate, at least 20% of the cost of the project is for people crossing on foot. Assuming that the benefit from monitoring movement across the border exceeds the cost is equivalent to reducing the capital cost by 20% or adding 20% of the capital cost to the benefits. While we have not done this, the substantial unquantified benefits need to be taken into account when viewing the results.

## **B. Vehicle Queuing**

### **1. Current Situation**

112. A key input to the analysis is the time the vehicles take to negotiate the border. This includes both waiting time and processing time. The times recorded by the Phase I study are shown in Table 9. Generally most of the time spent by trucks is spent queuing rather than in being processed.

113. The more recent World Bank time study<sup>8</sup> for Wahga found even longer average delays. We have used the Phase I findings for consistency but note that this may understate the true extent of the problem.

**Table 9 Border crossing process times (hours)**

Border crossing	Export	Import	Transit out	Transit in
Wahga	7.6	5.1		
Torkham	5.5	3.3	3.8	7.5
Chaman	8.0	6.2	3.5	3.1
<b>Average</b>	7.0	4.9	3.7	5.3

*Source: International and national expert surveys at each of the border crossings*

### **2. Opportunity for Improvement**

114. At all three road border crossing points (BCP) export, import and transit declaration processing is labor intensive and use paper documents. Each border crossing point has long lines of queuing trucks waiting to enter the Customs Control Zone (CCZ) inside the BCP. Each procedure from gate entry registration, driver security check, document registration and processing to gate exit is time consuming. The National Logistic Cell and Customs insist on 100 per cent truck weighing and X-Ray scanning at Wahga which raises the issue that when the FBR achieves real time entity based risk management to identify high risk cargo which agency shall make the final selectivity decision. There is scope to reduce processing times at each of the three border crossing and increase BCP export, import and transit throughput.

115. If there is always a queue waiting for processing but it isn't increasing or decreasing over time, then the rate of processing must equal the rate of arrival. If that is the case, a small improvement in the processing time would mean trucks would be processed faster than they arrive and should in theory eventually clear the queue. Queueing will not be eliminated altogether, because truck arrivals are not evenly spaced – in fact for both Chaman and Torkham trucks tend to move in convoys for security reasons – but there would be times during the day when there would be no queue.

116. Note that if the arrival and processing rate are close to being in balance and there is a temporary surge in arrivals, this will result in an excess queue building up that will take a long time to clear. This is likely to be the reason for the large difference between the minimum and maximum processing times.

117. A reduction in the processing time could have one of several effects: one thing that could happen is that the number of staff would be reduced, leaving the rate at which the trucks pass through the facility unchanged. The benefit would then be relatively easy to calculate as the cost saving to the FBR. There would be negligible benefit for users. If the processing time is reduced but the number of staff-hours is unchanged, the average time

<sup>8</sup> Ibid

spent queueing would reduce. If we assume that trucks arrive in convoys of length  $N$  (with periods in between where the road is clear) and that the processing time is  $t$ , then the average dwell time is  $(N+1)t/2$ . The saving in dwell time is thus proportional to the saving in processing time. For this analysis we assume that the benefit comprises savings in user time.

118. Another way benefits are expected to arise is that because it is a computerised system with 'pre clearance', the pre-clearance can include assigning a processing date and time. By pre-booking slots, the queue time can be reduced even if the processing time is unchanged. Under the proposed layout, trucks that are 'booked in' will be able to proceed to the front of the queue because un-booked trucks will be directed to parking areas and will not block the entrance road. However while this will improve the orderliness of the border post, it may simply be moving the location at which the trucks wait from the border to the depot.

### 3. Estimating time savings

119. The phase I report lists the locations and activities that give rise to waiting or processing time. For example Table 10 shows the processes and bottlenecks for export truck processing at Wahga.

**Table 10 Export truck processing times: Wahga**

Wahga BCP export process	Waiting time average	Waiting time maximum	Process time	Total time average	Total time maximum
Approach road	3 hours	11 hours	3 mins	180 mins	663 mins
Entry gate	3 mins	30 mins	3 mins	3	33
Export "processing" registration	5		5	10	10
Customs gate registration	5		5	10	10
NLC yard entry	0		5	0	5
Truck weighing	10		5	15	15
Truck scanning	5	25 mins	3	8	28
Examination including unloading and loading – transshipment	120 mins	180 mins	30	120	180
Truck re weighing	10	30 mins	5	15	35
Export superintendent	5	10 mins	2	7	12
Single entry permit	25	30 mins	5	30	35
Out of gate	10	15 mins	5	15	20
<b>Total</b>	<b>283 mins</b>	<b>480 mins</b>	<b>76 mins</b>	<b>413 mins</b>	<b>1046 mins</b>

Source: survey at Wahga BCP by international and national project experts ADB TA-8405 PAK 15<sup>th</sup> January 2014

120. The number of trucks accessing the border each day is not high compared with road border crossing points in Europe or North America yet import and export dwell times are very high. The main reasons are:

- The border crossing point entry has only one entry gate and one entry lane so trucks must queue to enter.
- There is no joint agency checking at the entry gate instead each agency such as Rangers and Customs carry out their individual checks.



- Exports are not pre notified in advance electronically and declarations must get manually registered.
- All trucks get weighed and scanned because real time entity based risk management is not used
- Transshipment at Wahga means wasting time while all trucks are unloaded and reloaded
- Trucks must queue and wait at each process step.

121. The key proposals are: to install computer systems that permit advance notification of export, import and transit cargo allowing Customs to carry out risk management and selection for inspection before the truck arrives at the border crossing; to widen the Pakistan approach road to the export entry gate and to install one extra entry traffic lane from India with new control booths built with windows at the height of a truck cab window so truck drivers will not need to leave their truck; CBRN vehicle detection equipment at entry gates to add extra security; Single Entry Permit check with entry gate area lighting so that the Rangers and other authority staff can carry out their duties at night; and duplication of the X-ray scanners.

122. Pre-booking should significantly reduce the excessive waiting time that occurs waiting to enter the BCP. The World Bank study found that at Wahga, trucks arrive through the night in an endeavour to reach the scanner before import trucks start arriving. The actual order in which trucks enter is determined by ballot, and waiting times can vary between 45 minutes and over nine hours.

123. Advance bookings would allow faster processing as trucks arrive because the details would already be entered and the HS Code would be agreed in advance by Customs. Currently for export freight entering Wahga, the waiting time averages 3h 15 and the processing time 21 minutes. For trucks that are pre-registered, the processing time should reduce to about 8 minutes (a 3 minute security check on the road and 5 minutes for confirmation of data on entry) – ie a reduction of 60%. For unregistered trucks, the process will still be faster than at present as data only needs to be entered once. The time should reduce to about 13 minutes. If half the vehicles are pre-registered, the overall reduction will be 50%. If trucks arrive in convoys, the waiting time reduction will be proportional to the reduction in processing time, ie also 50%.

124. The increase in lane capacity and X-ray scanning equipment will enable double the number of trucks to be processed at any time. This will require more staff in these areas, but this can be achieved using staff no longer needed elsewhere.

125. Pre-booking will allow real time entity based risk management, which will allow customs to select high risk cargo for secondary inspection. A risk management scheme that selected 5% of pre-booked vehicles but all un-booked trucks (as at present) would approximately halve the processing time. This will translate into reduced throughput time at Chaman and Torkham, In Wahga this process is undertaken during goods transshipment which will be largely unaffected (improved shelter and working conditions may facilitate more rapid turn- around while storage facilities will obviate the need to wait if the designated transfer vehicle is not available). Assume an overall 20% reduction in inspection time.

126. Doubling the gate capacity for exiting trucks will not reduce the processing time, but will double the possible throughput, and should thus eliminate delays for exiting vehicles.

127. Table 11 shows the current throughput time and the estimated time based under the project on the proposed facilities and other changes to procedures.

**Table 11 Current and estimated throughput time (hours)**

	Current throughput time		Estimated time with Project		Time saving	
	import	export	import	export	import	export
Torkham	3.3	5.5	1.6	3.0	1.7	2.5
Chaman	6.2	8.0	3.7	4.8	2.0	3.7
Wahga	5.1	7.6	3.3	4.4	1.9	3.2

Source: analysis and interpretation of phase I data

#### **4. Valuation of time savings**

128. The next question is how to value an hour of idle time for trucks waiting to pass through the border crossing. The value to the truck operator is the opportunity cost of the time saved. This values the time spent waiting according to the revenue lost as a result of the truck having to wait at the customs post less the operating cost that would apply.

129. The operating costs for a truck (fuel, tyres, maintenance) are generally incurred in proportion to the kilometres operated. The opportunity cost is therefore equal to the revenue forgone less the per-kilometre costs.

130. To estimate the revenue forgone, industry rates for hiring a 2 and 3 axle trucks between Karachi and each of the BCP (Table 12) were obtained. The rates are shown in Table 12. The best fit estimate for two axle trucks is 82 PKR/km plus 1,650 PKR/hour and for 3-axle trucks 90 PKR/km plus 1,875 per hour. The unit rate per kilometre provides an estimate of the operating cost while the unit rate per hour gives an estimate of the net opportunity cost (potential revenue minus operating cost).

**Table 12 Quoted rates for hire of 2 axle trucks**

From	To	distance (km)	travel time (hrs)	Tariff (PKR)	
				2 axle	3-axle
Karachi	Torkham	1,408	30	150,000	165,000
Karachi	Chaman	820	18	120,000	135,000
Karachi	Wahga	1,285	20	140,000	155,000

Source: industry contact

131. Since the recorded average load is close to 30 tons, the 3 axle truck rate per hour estimated from Table 12 has been used – ie 1,875 PKR/hour. The rates do not include sales taxes. The opportunity cost is the time-based ownership and wage costs. These will include vehicle ownership, overheads and wage costs. These have been treated as ‘non-traded’ costs and no shadow factors have been applied.

## **C. Capital Costs**

### **1. Financial Costs**

132. The Phase I report estimated the cost of the project based on an initial design and used unit costs provided in the NHA schedule of rates to which 17% taxes and 10% contingencies on tax paid value were added.

### **2. Economic Cost**

133. The NHA rates schedule includes taxes, insurance, overhead and company profits, which together amount to some 20-25% of the cost. The 17% tax added by the Phase I consultant has also been excluded. Physical contingencies at 10% have been added to the tax excluded costs.

134. The financial costs have been converted to economic costs following the procedures outlined in the ADB *Guidelines for the Economic Analysis of Projects* and in particular Appendix 10. A domestic numeraire has been used, with a SERF calculated to be 1.04 and a shadow price of labour of 0.7.

135. Land has been valued in its best alternative use. At Wahga this is for agriculture. The value has been calculated based on the cash flow from the crop following the ADB guidelines. The LARP estimates the value of the crop at 65,000 PKR per acre. Given the total land is 62.4 acres, and assuming a 20 year horizon, this gives a present value of the revenue of \$300,000. Allowing 30% for costs (seeds, fertilizer, etc) this gives a net value of \$212,000.

136. At Torkham and Chaman the land is barren but for BCP related activities: although compensation will be paid, the land value is zero.

137. The resulting economic costs are about 30 % less than the financial costs. They are summarized in Table 13 below.

**Table 13 -Summary of Economic Costs 000 US \$**

Item	Torkham	Chaman	Wahga	Total
Land	-	-	0.21	0.21
Infrastructure	20.43	26.75	27.31	74.48
Building	22.26	23.06	26.79	72.12
Trade Facilitation	2.30	2.18	1.91	6.39
ICT	0.19	0.19	0.19	0.56
Security & Eqpmnt	9.39	8.02	7.58	24.99
PMU /supervision	4.27	4.27	4.27	12.81
Sub Total	58.83	64.48	73.21	196.52
Contingencies 10%	5.88	6.45	6.83	19.16
Total	64.72	70.92	75.09	210.72

Source: based on FBR PC-1 and consultant calculation

### **3. Operation and Maintenance Costs**

138. The change in operation and maintenance costs is expected to be minimal: The project will improve efficiency of staff by providing ICT to streamline procedures, while risk management will allow the number of complete inspections to be reduced. This will result in greater throughput, more effective processing of pedestrians and less queuing for trucks. Increased efficiency of the staff means the same number of persons would be able to handle more work. Similarly although there will new infrastructure and equipment, the maintenance cost is expected to be less than the cost of maintenance of the current dilapidated infrastructure, equipment and machinery. Overall the assumption has been

made that any change in operations and maintenance costs will be minimal. However sensitivity analysis has been undertaken including an annual operations and maintenance cost calculated at 4% of the capital cost.

#### **4. Project Life**

139. Different components of the project have different lives. At one extreme would be machinery and equipment which may have a life of 10~15 years, depending upon the type and nature of equipment. At the other extreme would be buildings and infrastructure which have a life of 40~50 years. The project life has been taken at 20 years including 3 years construction period for two reasons. Firstly the project may need expansion, modifications, redesign or reconstruction much earlier than the life of the infrastructure and secondly, costs and benefits discounted to present value become insignificant after 20 years. The ICT and security equipment is assumed to be replaced completely after 10 years. A residual value of 60 percent of original cost has been added to benefits in the last year of the project.

#### **D. Cost Benefit Analysis**

140. Using data and parameters indicated above, cost benefit analysis of the project has been carried out by comparing life cycle costs and benefits by discounted cash flow method, using net present value (NPV) and internal rate of return (EIRR) as decision criteria. Details are given in the accompanying tables. A discount rate of 12 percent prescribed for evaluation of infrastructure projects has been used for calculating the net present value.

##### **1. Summary of Results**

141. The summary of results is given below. Torkham has substantial positive NPV at 12 percent discount and EIRR well above the target rate of 12 percent. Chaman and Wahga have small positive NPV and EIRR marginally above the target rate. Over the three projects, the NPV is positive and the overall rate of return is 17.2%

142. The analysis does not include significant non-quantifiable benefits. The project will ensure that all people and goods crossing the borders are properly identified and accounted for. It will lead to a reduction in smuggled, banned and environmentally harmful goods being imported. National security and border integrity considerations could be conservatively valued at a minimum of 20% of the capital cost of the project and would raise the return well above the 12% target. Table 14 summarises the results based on quantifiable benefits only.

**Table 14 – Summary of Cost Benefit Analysis**

Component	NPV @ 12 % (\$ 000)	EIRR %
Torkham	84,680	25.5%
Chaman	249	12.0%
Wahga	6,515	13.1%
All together	91,444	17.2%

143. Torkham has highest volume of traffic which makes it viable. Although traffic at Wahga is lower, dwell times are longer. If the dwell times in the World Bank report were to be used, the benefits would be significantly higher.

##### **2. Sensitivity Analysis**

144. Sensitivity of results was tested with respect of 20 percent increase in cost, or a 20% decrease in benefits. (A reduction in the dwell time saving or a reduction in the user

valuation of the saving have the same effect). A 20% increase in cost would reduce the rate of return to 15.3% while an increase in cost of 60% would be necessary to reduce the return on the project as a whole to 12%. For benefits, a decrease of 20% reduces the return to 14.8% and a 37% decrease would reduce the return to 12%. Maintenance costs have to exceed 10% of the capital value of the buildings per year before the project ceases to be viable.

**Table 15 - Sensitivity Analysis**

Variation	NPV	EIRR	Switching value
<b>Base case</b>	91,444	17.2%	
<b>20% increase in cost</b>	57,509.38	14.9%	54%
<b>20 % decrease in benefits</b>	39,221	14.4%	35%
<b>4% maintenance cost</b>	68,208	16.5%	16%

Source: consultant estimate

### **3. Conclusion**

145. The economic analysis shows that overall, the project is economically viable just taking into account the time savings for trucks carrying import and export cargo. Most of the benefits are at Torkham, where volumes are highest and delays are significant, but Chaman and Wahga are marginally above the target rate of return on truck traffic alone.

146. There are additional benefits from the Project that are not captured in user cost savings. These relate to the benefit to the country of having effective border procedures. Improved border procedures will enhance security and ensure the integrity of the borders. They will reduce the incidence of smuggled goods and contraband, while encouraging legitimate trade.

147. Overall the Project is economically justified.

## TA8405-PAK: Border Services Improvement Project

**Table 16 - Cost Benefit Analysis Values in USD (000)**

Year	Torkham			Chaman			Wahga			All combined		
	Torkham	Benefits	Net Benefits	Costs	Benefits	Net Benefit	Cost	Benefits	Net Benefit	Cost	Benefits	Net Benefit
1	21,356	0	-21,356	23,405	0	-23,405	24,778	0	-24,778	69,539	0	-69,539
2	22,003	0	-22,003	24,114	0	-24,114	25,529	0	-25,529	71,646	0	-71,646
3	21,356	0	-21,356	23,405	0	-23,405	24,778	0	-24,778	69,539	0	-69,539
4	0	16,101	16,101	0	6,718	6,718	0	7,811	7,811	0	30,630	30,630
5	0	17,228	17,228	0	7,189	7,189	0	8,357	8,357	0	32,774	32,774
6	0	18,434	18,434	0	7,692	7,692	0	8,942	8,942	0	35,068	35,068
7	0	19,724	19,724	0	8,230	8,230	0	9,568	9,568	0	37,523	37,523
8	0	21,105	21,105	0	8,807	8,807	0	10,238	10,238	0	40,150	40,150
9	0	22,582	22,582	0	9,423	9,423	0	10,955	10,955	0	42,960	42,960
10	0	24,163	24,163	0	10,083	10,083	0	11,722	11,722	0	45,967	45,967
11	0	25,854	25,854	0	10,788	10,788	0	12,542	12,542	0	49,185	49,185
12	0	27,664	27,664	0	11,544	11,544	0	13,420	13,420	0	52,628	52,628
13	11,685	29,601	17,916	10,206	12,352	2,146	9,492	14,360	4,868	31,383	56,312	24,929
14	0	31,673	31,673	0	13,216	13,216	0	15,365	15,365	0	60,254	60,254
15	0	33,890	33,890	0	14,141	14,141	0	16,440	16,440	0	64,472	64,472
16	0	36,262	36,262	0	15,131	15,131	0	17,591	17,591	0	68,985	68,985
17	0	38,801	38,801	0	16,190	16,190	0	18,823	18,823	0	73,814	73,814
18	0	41,517	41,517	0	17,324	17,324	0	20,140	20,140	0	78,981	78,981
19	0	44,423	44,423	0	18,536	18,536	0	21,550	21,550	0	84,509	84,509
20	0	47,532	47,532	0	19,834	19,834	0	23,059	23,059	0	90,425	90,425
21	0	50,860	50,860	0	21,222	21,222	0	24,673	24,673	0	96,755	96,755
22	0	54,420	54,420	0	22,708	22,708	0	26,400	26,400	0	103,527	103,527
23	-25,886	58,229	84,115	-28,369	24,297	52,667	-30,034	28,248	58,282	-84,290	110,774	195,064
NPV	52,578	137,258	84,680	57,025	57,274	249	60,070	66,586	6,515	169,673	261,117	91,444
EIRR			25.5%			12.0%			13.1%			17.2%

## **VII. FINANCIAL ANALYSIS**

### **A. Financial Objectives**

148. The main objective of the Project is an improvement in the integrity and efficiency of Pakistan's border crossings in order to encourage legitimate transit and trade. The Project is viewed as not net revenue generating: while there will be some increase in revenues and expenditures it is difficult to forecast the net effect and in any event the change in net revenues are peripheral to the Project's main aims. The financial evaluation has thus been limited to identifying the budgetary consequences of the Project.

149. Under ADB guidelines, cost projections during project implementation and five years of project operations need to be presented for a non-revenue earning project. Projections of capital, maintenance and operating expenses are included in the following sections. The Consultant was also required to establish the capability of the agency to effectively manage project funds. This is addressed in section VII.F.

### **B. Project Cost And Financing**

#### **1. Capital Cost**

150. Table 17 presents the project cost summary including price contingency and financial charges during construction. The costs were computed in accordance with the guidelines set out in the *ADB Financial Management Assessment and Analysis of Projects*. They also include land acquisition and other local costs (including for vehicles and other fixed assets for a project management unit (PMU). These local costs are included in the PC-1 prepared by FBR. The PC-1 specifies as foreign cost the project cost estimate presented in the Phase 1 report of BSIP but excludes physical contingencies and taxes, which are treated as local costs to be financed through the budgetary allocation of the Federal Government of Pakistan.

151. The assumed loan terms, which may change during loan negotiation, are as follows.

- 20-year maturity inclusive of 5-year grace period;
- Fixed interest rate of 2.9% based on published fixed swap rate for a 20-year loan, although as the ADB guidelines suggest, the prevailing (lower) 6-month LIBOR fixed swap rate of 1.73% plus a contractual spread of 0.6% was used for financial charges during construction
- A commitment charge of 0.15%; and rebate of funding cost margin of -0.15%

152. The total project funding requirement was estimated at USD 329.67 million (PKR 41.5 billion), with USD 227.58 billion to be financed by ADB loan and USD 102.09 million to be sourced from the federal budget.

153. The Pakistan Rupee (PKR) price is based on an exchange rate at time of construction of 124 PKR to the dollar compared to 100 currently. The decrease in value is based on the expected relative inflation of the two currencies.

**Table 17 Project Cost Summary & Financing Implications**

	In Million Rupees			In Million USD		
	Foreign	Local	Total	Foreign	Local	Total
Land Acquisition	-	550.00	550.00	-	5.16	5.16
Infrastructure & Development Works	10,306.81	-	10,306.81	85.32	-	85.32
Buildings	9,979.45	-	9,979.45	82.61	-	82.61
IT Connectivity and IT Systems	961.13	-	961.13	7.73	-	7.73
Trade Facilitation	80.03	-	80.03	0.64	-	0.64
Security and Equipment	3,526.32	-	3,526.32	28.31	-	28.31
Purchase of Vehicle	-	43.66	43.66	-	0.38	0.38
PMU Machinery and Equipment	-	4.24	4.24	-	0.04	0.04
Furniture and Fixtures	-	5.00	5.00	-	0.04	0.04
Project Management (PMU)	-	1,297.34	1,297.34	-	10.76	10.76
Consultancy Services <sup>1</sup>	699.26		699.26	5.55		5.55
<b>Base Cost</b>	<b>25,523.01</b>	<b>1,900.24</b>	<b>27,423.24</b>	<b>210.17</b>	<b>16.38</b>	<b>226.55</b>
Physical Contingencies	2,552.30	190.02	2,742.32	21.02	1.64	22.66
Taxes	4,772.80	355.34	5,128.15	39.30	3.06	42.37
Price Contingencies	1,295.94	2,528.73	3,824.67	10.56	20.69	31.25
<b>Fixed Investment Cost</b>	<b>34,144.05</b>	<b>4,923.59</b>	<b>39,118.39</b>	<b>281.05</b>	<b>41.36</b>	<b>329.67</b>
Financial Charges during Construction	855.13		855.13	6.85		6.85
Foreign exchange loss	1,548.55		1,548.55			-
<b>Total funding requirement</b>	<b>36,547.72</b>	<b>4,923.59</b>	<b>41,522.06</b>	<b>287.90</b>	<b>41.77</b>	<b>329.67</b>
<b>Financing Plan</b>						
ADB Loan	26,947.76	-	26,947.76	221.57	-	221.57
GOP Equity	8,635.69	4,923.59	13,559.28	58.73	41.36	100.08
	35,583.45	4,923.59	40,507.04	280.29	41.36	321.65

<sup>1</sup> Project Management, Detailed Design and Construction Supervision

## 2. Operating and Maintenance costs

154. The construction of the project is assumed to commence in Fiscal Year (FY) 2016-2017 with operations starting for years later in FY 2019-2020. At constant prices (un-escalated), annual O&M expenses are estimated to be Rs2.12 billion (USD15.5 million). At escalated prices, this will be Rs2.53 billion (USD14.5 million) by Year 5 or FY 2023-2024 (Table 19 to Table 21)

155. The main assumptions used to derive the operations and maintenance tables are shown in Table 18



**Table 18 O&M Expense Assumptions**

Item	Assumption
<b>Expense Assumptions</b>	
Salaries	(a) Assumes that LPA receives salaries/honoraria + provision for increase in personnel to operate project; (b) Equal to PMU salaries (assumption is PMU is abolished and gives way to LPA when project starts operating)
IT Connectivity	PKR p.a.; 1/3 of recurrent IT costs (see Phase 1 Study), which further assumes that IT system has a 3-year upgrade cycle, and that for projection purposes costs are equally spread out annually
Repair and Maintenance	1% of infrastructure, buildings and equipment base cost (annual costs - note: IT costs are excluded). For incremental analysis, existing annual repair & maintenance expenditures in the 3 border stations are deducted from this cost; estimated annual expenditures are PKR 10 million.
Rentals	Incremental cost is assumed to be zero because based on PC-1, FBR will acquire the land for the project
Utilities	1.73 million of utilities cost to current annual budgetary allocation for utilities in the 3 border stations – based on multiple of project O&M to prevailing annual O&M budget for the 3 border stations.
Other O&M Expenses	10% of cost of above O&M items
<b>O&amp;M Price escalation assumptions (per year, unless otherwise specified)</b>	
Salaries	5% based on PC-1 annual adjustments for personnel
IT Connectivity	Assumes that cost of technology falls through time
Repair and Maintenance	10% every 2 years, similar to adjustment in O&M expenses for the 3 border crossing stations in the Federal Budget
Utilities	10% every 2 years, similar to adjustment in O&M expenses for the 3 border crossing stations in the Federal Budget
Other O&M Expenses	8% p.a. local inflation rate projections

**Table 19 Un-escalated O&M Expenses (Million PKR)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Salaries	1,297.34	1,297.34	1,297.34	1,297.34	1,297.34
IT Connectivity	351.29	351.29	351.29	351.29	351.29
Repair & Maintenance	262.23	262.23	261.03	261.03	259.73
Utilities	18.99	18.99	18.99	18.99	18.99
Other O&M Expenses	192.99	192.99	192.87	192.87	192.74
<b>Total O&amp;M Expenses</b>	<b>2,122.84</b>	<b>2,122.84</b>	<b>2,121.52</b>	<b>2,121.52</b>	<b>2,120.09</b>

**Table 20 – Escalated O&M Expenses (Million PKR)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Salaries	1,297.34	1,362.21	1,430.32	1,501.83	1,576.92
IT Connectivity	351.29	351.29	351.29	351.29	351.29
Repair & Maintenance	262.23	262.23	288.46	288.46	317.30
Utilities	18.99	18.99	20.89	20.89	22.98
Other O&M Expenses	192.99	208.42	225.10	243.11	262.55
<b>Total O&amp;M Expenses</b>	<b>2,122.84</b>	<b>2,203.14</b>	<b>2,316.05</b>	<b>2,405.57</b>	<b>2,531.05</b>

**Table 21 – Escalated O&M Expenses (Million USD)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Salaries	9.50	9.37	9.25	9.13	9.01
IT Connectivity	2.57	2.42	2.27	2.13	2.01
Repair & Maintenance	1.92	1.80	1.86	1.75	1.81
Utilities	0.14	0.13	0.14	0.13	0.13
Other O&M Expenses	1.41	1.43	1.46	1.48	1.50
Total O&M Expenses	15.54	15.16	14.97	14.62	14.45

### C. Fund Flow Mechanism

156. The discussion below presents the proposed basic elements of the fund flow mechanism or disbursement process for the Border Improvement Services Project (BISP). Only the basic design elements are presented, on the assumption that a Project Management Consultant (PMC) will be appointed to develop the details of the fund flow process, verify contractors' works and provide advice in the preparation of disbursement requests. ADB will provide FBR with a copy of the loan disbursement handbook to guide its project manager on the proper procedures, forms and documentation for disbursement requests.

157. The fund flow design parameters discussed below are based on a number of references most especially the ADB Loan Disbursement Handbook (2012 edition), Accounting Policies and Procedures Manual (APPM) of the government of Pakistan (1999), and interview with another Pakistan agency with on-going ADB-assisted development projects.

#### 1. Disbursement Procedures

158. The general practice for ADB-assisted projects in Pakistan is to adopt a direct payment procedure for disbursement of funds. This involves payment directly to project suppliers, contractors, service providers upon request of the executing agency (EA). The EA will be the Federal Board of Revenues (FBR) in the case of BSIP.

159. An imprest account should be opened to meet small, day-to-day project expenses.

160. FBR as executing agency is responsible for project implementation. The agency reports project accomplishments in accordance with design specifications and timetable under the loan agreement. It also certifies the satisfactory delivery of supplies and services and submits supporting documents justifying its request for ADB payments to suppliers, contractors, consultants, etc. Payments contemplated under the disbursement procedures cover only the project cost items eligible for ADB funding as identified in the project documents and are based on a pre-agreed schedule.

#### 2. Institutional Arrangements/Mechanisms

161. Government accounting rules mandate the appointment of a project manager for each development project. The project manager is responsible for recording project-related financial transactions and periodical reporting of project accounts to higher authorities, specifically the Accountant General Pakistan Revenues (AGPR) and the Auditor General (AG). ADB requires the assignment of borrower's authorized representative(s) who will also be signatories to requests for project payments called withdrawal applications (WA's).

162. To address these requirements, FBR will form a project management unit (PMU) as project manager, to be led by a Project Director and with support from a deputy and a team of accountants, internal auditor, environmentalist, engineers and IT specialists. Apart from preparing the WA in accordance with ADB rules and procedures, the PMU is tasked with ensuring deliverables are on-time.

163. It is proposed that the services of a Project Management Consultant (PMC) be engaged to orient and assist the PMU on ADB project administration and project payments procedures and to get the project started off. The PMC also assists the Project Director in verifying the works done by contractors against their contractual obligations and payment claims.

164. Having found the invoice in order, the PMU/Project Director recommends payment and forwards the supporting documents for the WA to the FBR Head Office. Signatories, assigned by FBR, sign the withdrawal applications and submit it to ADB, along with the supporting documents, through the Economic Affairs Division (EAD) of the Ministry of Finance. EAD is responsible for the management of external and other borrowings obtained to fund development projects. The loan agreement is a contract between ADB and the federal government of Pakistan represented by the Ministry of Finance. FBR is the revenue division of the Ministry of Finance.

### **3. Supporting documents**

165. For requests for disbursement or withdrawal application (WA) under direct payment procedure, ADB requires the submission of the following supporting documents:

- The application itself in letter form
- Summary sheet(s) for each cost category claimed

166. Supporting documents – where applicable, suppliers invoice, or purchase order; consultant's or service provider's invoice; contractor's invoice; contractor's invoice and interim payment certificate or summary of work progress; contractor's invoice should be attached to the withdrawal application.

167. Imprest fund involves request for funds for small payments that have yet to be incurred, and the liquidation and/or replenishment of the fund. For these purposes, the supporting documents are as follows:

- For request for advances – estimate of expenditure (ADB has standard form to be accomplished in the Handbook)
- For liquidation and/or replenishment – imprest account reconciliation statement (IARS); bank statement; either one of the following – statement of expenditure (SOE), or summary sheet and proof of payment and supporting documents as required under direct payment; and, if force account works (FAW) is approved and used, the certificates for FAW need to be attached to the WA

168. Other documentations required are specified in the ADB Loan Disbursement Handbook. These include records for all signed contracts in a contract ledger, annual audited project financial statements (AFS), and all other records evidencing eligible expenditures, such as purchase orders, invoices, bills, receipts and sub-loan agreements.

#### **4. Imprest account**

169. The loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2012, as amended from time to time) and whatever detailed arrangements are agreed upon between the Pakistan government and ADB.

170. A USD imprest account is established at the National Bank of Pakistan and credited with a loan advance. This covers small, day-to-day expenditures that could potentially create cash flow problems for the executing agency without the account. The expenditures contemplated are the ADB share of eligible project expenditures, specifically those under infrastructure and development works, buildings, IT connectivity and IT systems, trade facilitation, security and equipment, and consultancy services components of the Pakistan Border Services Improvement Project (BSIP).

171. A rupee sub-account is also established by the FBR to fund rupee-denominated commitments of FBR to project contractors and suppliers. Funds flow from the USD imprest account to the rupee sub-account when FBR withdraws from the imprest account to fund rupee check payments to contractors and suppliers drawn from the rupee sub-account. The dollar withdrawal is deposited into the rupee sub-account in rupee based on the prevailing official exchange rate at the time of the deposit.

172. All accounts will be audited annually by an independent auditor.

##### **a) Conditions to first disbursement**

173. For the first disbursement, FBR should:

- Provide projected cash flow that indicates numerous small payments to be made, showing annual funding requirement for the initial year of project implementation. These expenditures should be provided in the federal government's schedule of authorized project expenditure for the year.
- Provide information on staffing, structure and mechanism for internal control, accounting and auditing procedures within the agency to address part of the risks identified, which is the need to improve the transparency of internal accounting systems in FBR.
- Execute an agreement/contract for an independent audit of the imprest fund
- Establish the Project Management Unit (PMU) as project manager
- Appoint a Project Management Consultant (PMC) to assist the PMU in the verification of contractors' works and in the preparation of disbursement requests.

##### **b) First withdrawal application**

174. The following shall be submitted by FBR through the External Affairs Division (EAD) of the Ministry of Finance, which is responsible for managing external borrowings for development projects, to ADB:

- Withdrawal authorization letter from EAD, with the specimen signature of authorized signatories
- Withdrawal application (WA) for initial deposit into the imprest account
- Estimate of expenditures based on the amount of contracts awarded or to be awarded

175. The amount of first withdrawal (contained in the WA) should not exceed 10% of the ADB loan amount.

##### **c) Establishment of an imprest account**

176. First disbursement based on WA is deposited to the USD imprest account established with the National Bank of Pakistan, the depository bank of EAD/MOF. For the

account, the National Bank of Pakistan must be able to issue detailed bank statements promptly. There must also be no restriction on the frequency of withdrawals.

177. Funds flow out of this account and converted into rupees in rupee sub-account/s (with the National Bank of Pakistan and/or State Bank of Pakistan) established by FBR to fund FBR rupee payments for project contractors and suppliers. The transfer of funds into the rupee account occurs when FBR makes withdrawals to pay for estimated rupee obligations to contractors and suppliers. Pakistan government accounting rules require payment in cheque and supported by vouchers. These withdrawals are done at least monthly, and as critical need arises.

**d) Disbursement procedures to project beneficiaries**

178. The disbursement procedure is as follows (Figure 8):

- The imprest account funds individual payments to project beneficiaries (suppliers, service providers, contractors) not exceeding USD100,000
- Project beneficiaries issue invoices to FBR to support claims for payments
- The Project Management Consultant (PMC) verifies the invoices
- Upon verification of invoices, FBR pays the project beneficiaries through its rupee account/s
- Project beneficiaries issue receipts for payments made by FBR (including payment for reimbursements of expenses already incurred)
- The receipts, invoices and other proof of payments are kept by FBR for ADB examination and audit purposes; copies of receipts and invoices are also forwarded to EAD.

**e) Replenishment/Liquidation of imprest fund**

179. The procedure for replenishment, liquidation and reimbursement of eligible expenditures shall generally be in accordance with ADB's Loan Disbursement Handbook (2012, as amended from time to time) and whatever arrangements are agreed upon between ADB and the Government of Pakistan consistent with the accounting, reporting and auditing systems of the government.

180. EAD makes the official request for replenishment of imprest fund based on supporting documents prepared and submitted by FBR and verified/validated by the PMC. The following documents must be submitted to ADB for the replenishment:

- Withdrawal Application (WA, *see form in Appendix 10A of the 2012 ADB Loan Disbursement Handbook*)
- Statement of Expenditures (SOE, *see Appendices 9B and 9C of the Handbook*)
- Bank Statement and the imprest account reconciliation statement (*see Appendix 10C of the Handbook*)

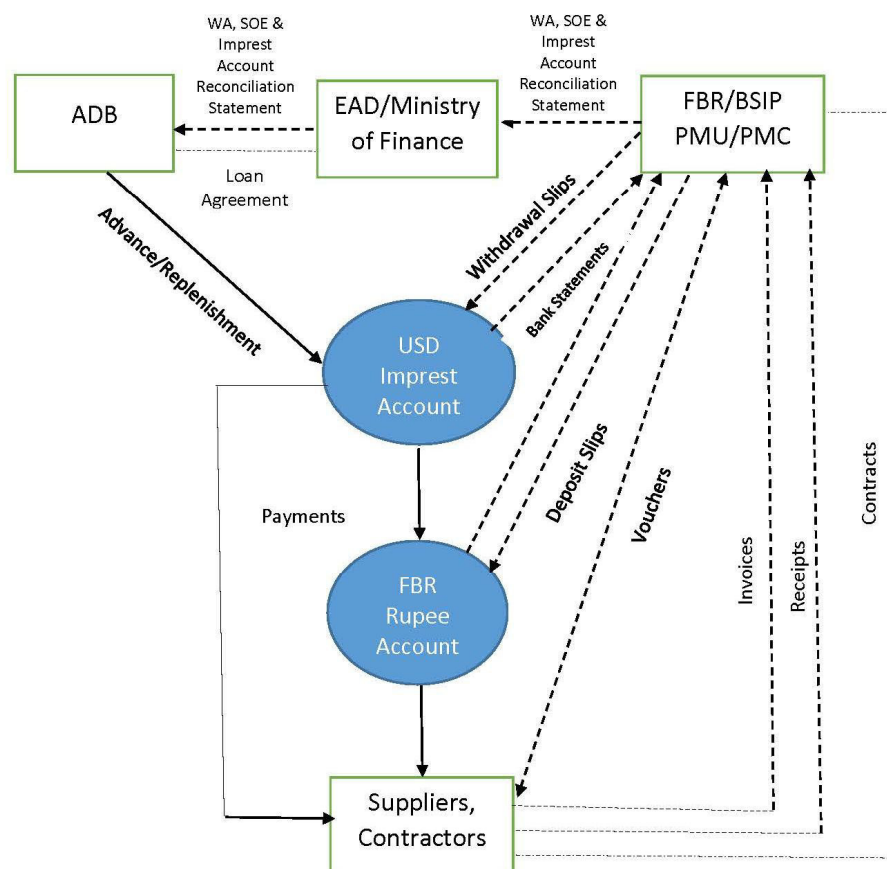
181. The WA and SOE should be denominated in USD, which is the currency of the imprest account. The rupee-USD conversion rate used is the prevailing rate on the date indicated in the WA.

182. Request for replenishment is made every 6 months and amounts to at least USD100,000. All claims should be consolidated in the WA and SOE. The imprest fund will be gradually reduced if utilization is low.

183. FBR must liquidate the imprest fund/loan advance 6 months before loan closure by submitting Statement of Expenditures through EAD.

184. All SOE's should be retained by FBR for examination by ADB whenever needed. SOE records are included in the periodic ADB audit process.

## Imprest Fund Disbursement Arrangement: Replenishment/Reimbursement



ADB : Asian Development Bank  
 BSIP : Border Services Improvement Project  
 EAD : External Affairs Division  
 FBR : Federal Board of Revenues  
 PMC : Project Management Consultant  
 PMU : Project Management Unit  
 SOE : Statement of Expenditures  
 WA : Withdrawal Application

—————> Funds flow      - - - - -> Document flow      - - - - -> Contract/Agreement

**Figure 8 Imprest Account Procedures**



**D. Project Accounting**

**1. Pakistan government accounting policies and procedures**

185. The Pakistan government's accounting rules mandate that accounts be set up for each development, regardless of fund source, i.e., whether internal (national budget) or external (official development assistance). The projects are classified in accordance with the elements contained in the government-prescribed Chart of Accounts and the procedures for recording expenditures incurred in development projects are indicated in the government accounting system. The Chart of Accounts specifies the following hierarchy:

- Agency
  - Grant No. (given in the “fund” code in the Chart of Accounts) and type of expenditure (whether out of revenue account or out of capital account)
    - Project No. and Name
      - Detailed function-object

186. Expenditures of a development project include all direct costs, such as salaries, direct purchases of materials and items of plant and equipment, direct services, any direct costs incurred and passed on from other departments that relate to the project, and any other costs set out in the development project budget.

187. Books of account are maintained by the agency, the Auditor General (AG) and the Accountant General Pakistan Revenues (AGPR) for the development project. Specifically, these books are the Appropriation Register, Sub-Ledgers and General Ledger. They shall include all transaction details associated with the development project. The transactions are coded according to the Chart of Accounts.

188. Development project expenditures are posted in the General Ledger. The amounts posted in the project account are consolidated on a monthly basis and incorporated into the monthly accounts prepared by the AG and AGPR. The rules also specify that the project manager provide expenditure statements and other reports, as required by donor agencies for progress monitoring and for reimbursement of advance of funds.

189. In essence, development project accounting within all agencies of the government of Pakistan is well established and fairly standard, and the accounting department of all agencies is aware of the rules and procedures and presumed to be compliant. For a revenue-generating agency specifically the Federal Board of Revenues (FBR), with more enhanced finance and accounting capability compared to other agencies, setting up of accounts for development projects as mandated by government accounting rules should not pose a challenge.

190. However, it is standard practice and recognized by government accounting policies for all agencies with externally-financed projects to maintain two separate books of account for the same project, one to comply with government mandates and the other to meet the accounting requirements of the international financial institution. This should be the case for the Border Services Improvement Project (BSIP), which is being assisted by the Asian Development Bank (ADB).

**2. Books of account for ADB-assisted BSIP**

191. Setting up of project books of account for ADB should reflect information on expenditure items presented in the documentary supports for withdrawal applications and



required for project accounting reports. The WA supporting documents under the direct payment procedure include invoices for specific goods, services or civil works delivered. For the imprest fund procedure, among the key documents needed would be estimate of expenditure and statement of expenditures (SOE) with sufficient breakdown.

192. More specific line items where transactions are entered should cover the following items under the ADB loan disbursement procedure:

**a) Investment costs**

1. Civil works
2. Equipment
3. Land acquisition and resettlement
4. Consultants
5. Training

**b) Recurrent costs**

1. Project management
2. Equipment operation and maintenance

**c) Contingencies**

**d) Finance charges**

193. Other items not included above but are presented as major expenditure components in the Project Cost Table (from the Project Feasibility Study) should also be considered for inclusion in the project books of account. The main items found in the Project Cost Table are as follows:

- Land acquisition
- Infrastructure and development works
- Buildings
- IT connectivity and IT systems
- Trade facilitation
- Security and equipment
- Vehicles
- Machinery and equipment
- Furniture
- Project management
- Contingencies
- Taxes
- Financial charges during construction

194. Given the large magnitude of project investment cost (USD228 million in ADB loan, USD102 million in government equity), Subsidiary Ledgers will be necessary per major item to identify major sources of expenditures in terms of suppliers, consultants, service providers and contractors.

**E. Private Sector Involvement in BCP Operations**

195. The ToR required the Consultants to look into the possibility of private sector participation in BCP operation as part of the financial viability assessment. The concept of a PPP based border operation can be illustrated by experience in PPP operations in Turkey.

**1. PPP Concept in Turkey**

196. Border crossing points in Turkey have been modernized through public-private partnership (PPP) schemes commencing with a project in Gurbulak in 2003. Since then, at least eight border crossings have been built and operated under private initiative.

197. In the first PPP project, the Ipsala border was modernized with the involvement of UMAT, a private company. Thereafter, all border crossing modernization projects have been undertaken by GTI, a private company formed by the Union of Chambers and Commodity Exchanges of Turkey.

198. The PPP scheme is carried out under the build-operate-transfer (BOT) model where:

- The private sector (GTI, etc.) invests in the modernization at no cost to the government
- The private sector operates, maintains and upgrades/improves the border crossing facilities at its own expense over a pre-agreed period of time based on the agreement (protocol) signed with the government
- The assets and facilities are transferred to the government for free at the end of the operating period.

199. In the case of GTI, the modernization project involves the provision of modern buildings and support infrastructure; systems and capacity building (training) to speed up customs transactions; technological (IT) innovations for faster processing of papers and more efficient information systems; and a modern environment for users/cargo firms.

200. Customs authorities continue to execute customs rules, including assessment of import tariffs and duties, with the private sector providing the back-up technology (systems and equipment support) and physical environment (buildings, infrastructure, layout, etc.) to ensure that cross border operations are done more efficiently, cost-effectively and on par with international standards.

201. GTI charges user fees set at a level to ensure cost recovery. The government gets its facilities modernized and operated at no cost to government, and in addition benefits from taxes paid by GIT.

202. The private sector-initiated border crossing modernization projects have been credited with effectively addressing smuggling and illegal trafficking; increasing user (drivers, officers, passengers) satisfaction; and resulting in more rapid and effective service. Queues have been practically eliminated, and processing time for cargo vehicles reduced by almost 70% from 30 minutes to 10 minutes.

203. GTI is in the process of undertaking more modernization projects, with five more border crossings under various stages of implementation and another six being planned as future projects. The next step involves a joint border crossing facility with neighbouring countries to eliminate duplication of customs procedures and processes. A pilot project is being trialled with Georgia. Meanwhile, improvement of operations and processes in existing projects continue. This involves analysis of current workflows, determination of needs and priorities, review of approaches and consultations, and training.

## **2. Relevance to Pakistan**

204. The Turkish experience took a situation very similar to Pakistan's border crossings and used the PPP model to finance improvements to infrastructure and technology. Not only has the model been successful in delivering improved facilities, it has also driven improved services for users.

205. The Pakistan crossings already have some elements of private enterprise. Currently trucks using the BCP facilities pay a gate fee and fees for each of the activities: weighing, scanning, loading and unloading, storage, etc. The Consultant understands that these activities are organised by National Logistics Cell (NLC) at Wahga, and that similar arrangements are in place at Torkham and Chaman. The actual activities are undertaken by subcontractors including a casual labour pool. In the financial analysis it has been assumed that these charges are in the nature of a fee for service and that the fees would not generate any surplus of the sort that would be needed to fund new infrastructure or facilities.

206. The Project has been designed on the basis that the import and export procedures are required to meet national security and customs compliance requirements. In other words they are for the benefit of Pakistan, not specifically for the benefit of users. No increase in fees (as would be required if the fees were to fund modernisation) are envisaged, and indeed part of the justification for the project is that it will encourage additional transit and trade. To pay the capital and interest costs for the new facilities proposed, the fee would need to average around \$100 per loaded truck which would have a significant effect on traffic.

207. Even if it was felt that a fee was sustainable and justified there is a question mark over the likelihood of finding companies willing to take the commercial and security risks in the current environment. Elsewhere in this report, doubts are raised about the likelihood of getting serious bids for the construction of the terminals. Similar considerations would apply to any PPP operation.

208. This being the case, the scope for private sector participation appears limited to:

- Some form of management contract to undertake a role similar to that currently being undertaken by NLC.
- An operating contract to manage the truck operation and possibly other facilities-management services (building maintenance, computer systems management etc.)

209. While it would in theory be possible to have a private company build the facilities and charge FBR a fee for use (effectively an annuity contract or 'rent to buy'), this is likely to be an unattractive proposition for the Government of Pakistan given that the private company would need to charge commercial interest rates with a significant margin for risk, whereas a loan from ADB would be at concessionary rates.

## **3. Land Port Authority**

210. FBR is proposing the creation of a Land Port Authority (LPA), an interagency and multi-stakeholder coordinating body for operating the project. The ultimate goal of LPA, though, is the development of a single window system that integrates the steps and documentations necessary for passenger and cargo clearance at the border. There is no mention in the LPA concept paper, if a private entity will handle the management of border crossing services in the three border terminals. A consultant has been retained by ADB to consider the establishment of a Land Port Authority.

211. This Consultant considers that any initiative for private operation of the border points should take into account the findings of that study. A limited form of private participation could be an integral part of the LPA model, with the operation of the land port subcontracted to one or more private operators or the use of subcontractors for aspects of the land port operation as is the case with the BCP today.

#### **F. Financial Management Assessment**

212. The terms of reference for the Border Services Improvement Project (BSIP) require the Consultant to prepare a financial management assessment (FMA) for the executing agency – the Federal Board of Revenue (FBR). While there is no question about the financial strength of FBR, being the Government of Pakistan’s (GoP) main revenue-generating arm – and in any case it is GoP, not the FBR who will repay the loan – an FMA is nevertheless required to identify any issues that may arise and any requirements that will need to be met to comply with ADB procedures.

213. FBR has prior experience managing foreign-assisted projects, having managed the World Bank-funded Tax Administration Reform Program (TARP). The agency may nevertheless need assistance in setting up mechanisms that are ADB compliant for handling BSIP payments, and in establishing special project accounts and a financial reporting system that meets the design requirements and standards of governance of ADB.

214. The Financial Management Assessment is included as Appendix A. It concluded that the mobilization of a Project Management Consultant (PMC), alongside the project supervision consultant and detailed design team should be considered to assist in the establishment of the PMU and boost its technical capability in overseeing the project. Once established, the PMU could then gradually take over project management responsibilities.

## **VIII. SOCIAL ISSUES, LAND ACQUISITION AND RESETTLEMENT**

### **A. Terms of Reference**

215. The ToR requires the Consultant *inter alia* to conduct a poverty and social analysis in accordance with ADB's Poverty and Social Analysis Handbook, 2012, determine whether there are any affected ethnic minorities and to address land acquisition and resettlement issues in line with ADB's Safeguard Policy Statement (2009) including establishing a computerised data base. The main objective of the poverty and social analysis is to evaluate the social impacts of the proposed border crossing project with particular focus on the poor and the vulnerable.

216. The outputs of the study included i) a socio-economic and poverty profile for affected areas; ii) social safeguards for the project affected people and communities; iii) a proposed land acquisition and resettlement plan with operating budget; iv) a proposed multi-tiered grievance mechanism for the project; v) a computer data base for the project; and vi) recommendations. These outputs are detailed in a poverty and social impact assessment (PSIA) included as Appendix C and a land acquisition and three resettlement plans (LARP), one for each border crossing point (available separately). This chapter summarises the methodology and key results.

217. The PSIA is an evidence-based, research-driven, gender-sensitive, and environmentally conscious development planning tool that helps planners and decision makers of executing agencies and donors in i) avoiding where possible negative project impacts; ii) minimize the negative impact if unavoidable; iii) enhance/restore the livelihoods of project affected people to pre-project conditions; and iv) improve the living standards of displaced vulnerable groups.

218. In response to early activities by the Consultant, ADB indicated that its main concern was the land acquisition issue and that lower priority should be given to poverty reduction. The three LARP have been prepared in close consultation with ADB's Pakistan Resident Mission and FBR.

### **B. Research and Secondary Data**

219. A significant part of the early effort related to the gathering of secondary data such as socio-economic data of Pakistan and legal frameworks applicable to the project. The macro data of the socio-economic description of Pakistan, its political system, and gender and development data were compiled for use in this report

220. Both primary and secondary data were used in this study. Secondary data were gathered from various web sites and reports. Primary data gathering at the BCP included i) site reconnaissance and photo documentation; ii) public consultation meetings; iii) semi-structured interviews; iv) focus group discussions; v) surveys specifically for women and vi) a 100% census of displaced persons and assets. Three major categories of project stakeholders were identified at each BCP: (i) government institutions involved in the management of border activities; (ii) border communities that reside or have commercial interests in the border environs; and (iii) frequent users of the border facilities such as the pedestrians and truck drivers.

221. Preliminary surveys were undertaken at the three Project sites, the team adopting two major data gathering techniques: firstly a Key Informant Interview (KII); secondly a

Reconnaissance Survey (RS). Reconnaissance of the locations of existing economic and social activity and potential relocation sites involves photo documentation of the existing situation to the extent that it is relevant to the proposed scenarios. The RS also established: a) the area of land needed for the expansion of the infrastructure; b) the area currently occupied by the border operations office; c) the extent of the land to be acquired; and d) the proposed relocation sites.

222. In the main surveys, a total of 147 household heads participated in the 100% census of affected people and structures. The Consultants held eleven consultation meetings, focus groups and semi-structured interviews. A total of 52 women took part in the women's surveys. Participants included i) FBR and border officials; ii) border communities; and iii) border user groups. The team used a combination of quantitative and qualitative analysis.

### **C. Socio Economic Background**

223. Pakistan is a federal republic with a President as chief of state and a Prime Minister as head of government. It has four constituent provinces: Punjab, Baluchistan, Khyber Pakhtunkhwa and Sindh; and four federally administrated areas. Islamabad is a federal capital territory. Pakistan has a mixed economy with a combination of free market activity and government intervention.

224. The Government's poverty reduction strategy aims to improve the living standards and incomes of the rural population to which most of the poor belong. The government has also launched social protection programs that include i) provision of low cost housing; ii) provision of medical insurance; iii) provision of financial assistance/scholarships to widows and children of victims of terrorist attacks; and iv) the "Benazir Income Support Programme (BISP)" to provide direct cash transfers to the poor.

225. According to Pakistan's Millennium Development Goal Report 2013, the incidence of people living below the official poverty line decreased from 22.3% in 2005-06 to 12.4% in 2010-11. However rural unemployment is rising as a result of increasing population, low growth and reducing job opportunities. Power shortages contribute to lower production and lower economic growth.

226. Gender discrimination is outlawed under both civil and sharia law. The Ministry of Women and Development (MOWD) provided a policy framework in the eighth Five-Year Plan for promoting the integration and mainstreaming of gender equality and women empowerment in the development processes. However the social and cultural context of Pakistani society is predominantly patriarchal. Women's access to property, education and employment etc. remains considerably lower than men's. As of 2010, the female literacy rate in Pakistan was at 39.6% compared to that of males at 67.7%, while (in 2008) of the 47 million employed only 9 million were women.

### **D. Public Consultation, Participation and Disclosure**

#### **1. General**

227. A robust public consultation and information disclosure process is required for information dissemination and identification of stakeholders' concerns and plays a central role in ADB's SPS (2009). The ADB procedures emphasize the importance of a well-informed consultation process with affected communities and in particular with people displaced by land acquisition and resettlement. Consultations were required for the

development of the land acquisition and resettlement plans (LARP) as well as the social and poverty analysis and the initial environmental examination (IEE) for each BCP. Effective stakeholder consultation incorporates the principles of timely engagement, transparency, inclusiveness and meaningful participation.

228. The Social specialists prepared a terms of reference for a survey company to gather primary data in the project sites. The tasks include socio-economic surveys, census and tagging of affected people and structures, and as well as the facilitation of community-based consultation meetings with stakeholders such as displaced persons, landowners, pedestrians and truck drivers, and vulnerable groups. Environmental issues were also covered. The purpose of these consultations is to gather widely-held perceptions of project stakeholders on a) social impact of the projects and stakeholders' recommendations on mitigation measures and social safeguards; b) land acquisition and resettlement –related concerns; and c) their recommendations for grievance redress systems, policies and procedures.

229. This section covers the process and outcomes of the stakeholder consultation and information disclosure process undertaken by the Consultant. The findings of the stakeholder engagements will be reflected in the scope of the public consultation and participation to be carried out after the development of a LARP and during project implementation.

## **2. Identification of Project Stakeholders**

230. Three major categories of project stakeholders were identified at each BCP: (i) government institutions involved in the management of border activities, (ii) border communities that reside or have commercial interests in the border environs (iii) frequent users of the border facilities. These stakeholders have been identified in Table 22.

**Table 22 Stakeholders and Consultation Tools**

<b>S.No.</b>	<b>Stakeholder Type</b>	<b>Stakeholders</b>	<b>Consultation Tools</b>
1	Border Managers	<ul style="list-style-type: none"> <li>• FBR</li> <li>• NLC</li> <li>• Political Agent (Torkham)</li> <li>• FIA (Wahga)</li> <li>• FC (Chaman)</li> </ul>	<ul style="list-style-type: none"> <li>• Consultative meetings</li> <li>• Scoping sessions</li> </ul>
2	Border Communities	<ul style="list-style-type: none"> <li>• Jirga (Torkham)</li> <li>• Displaced people</li> <li>• Local Landlords (Chaman)</li> <li>• Village elders</li> <li>• Women</li> </ul>	<ul style="list-style-type: none"> <li>• Focus Group Discussion</li> <li>• Semi-structured interviews</li> </ul>
3	Border User Groups	<ul style="list-style-type: none"> <li>• Truck Drivers</li> <li>• Pedestrians</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-structured interviews</li> </ul>

## **3. Consultation with the Stakeholders**

231. Stakeholders were consulted using various social consultation tools. Particular care was taken to include people who would be displaced by the project and local women. The objective was to understand stakeholder views and concerns so that project benefits could



be maximized and negative impacts mitigated. These consultation objectives were shared at the outset of each meeting as outlined below:

- (i) To identify the positive and negative impacts of improvements to the BCP on the community
- (ii) To identify suggestions to mitigate any expected adverse impacts
- (iii) To identify concerns/suggestions of the community regarding the environmental impact of the project and to discuss mitigation measures
- (iv) To identify the existing grievance redress structure in the community
- (v) To solicit suggestions for public consultation and disclosure in the community with regards to the project

232. The stakeholder consultations were held in February and March, 2015 as illustrated in Table 23. More details on the people consulted and the views expressed are provided in the LARP and IEE documents.

**Table 23 Stakeholder Consultations Conducted for the Three BCP**

Stakeholder	Tools	Date Wahga	Date Torkham	Date Chaman
Deputy Collector Customs, FBR	Consultative Meeting	28-02-15	02-03-15	16-03-15
Assistant Commissioner (Chaman)	Consultative Meeting			17-03-15
Assistant Director FIA (Immigration), Wahga	Consultative Meeting	28-02-15		
Political Agent/ assistant political agent	Consultative Meeting		02-03-15/ 03-03-15	
Senior Manager, NLC	Consultative Meeting	28-02-15		16-03-15
Village Elders	Focus Group Discussion	04-02-15		
Local Landlords	Focus Group Discussion			19-03-15
Businesses/Chamber of Commerce & Industry	Focus Group Discussion		05-03-15	20-03-15
Displaced Persons	Focus Group Discussion	07-02-15		
Jirga (communal land)	Focus Group Discussion		08-03-15	
Women	Focus Group Discussion, Semi-structured interviews	05-02-15	07-03-15	21-03-15
Truck Drivers	Semi-structured-interviews	06-02-15 to 08-02-15	05-03-15 to 06-03-15	20-03-15 to 21-03-15
Pedestrians	Semi-structured interviews	05-02-15 to 06-02-15	05-03-15 to 06-03-15	20-03-15 to 21-03-15

**4. Information Disseminated**

233. During the consultation meetings, the following information was disclosed:
- Scope of the project and its various components
  - The stakeholders involved and their roles and responsibilities
  - The process of land acquisition and calculation of compensation
  - Description of the entitlement matrix to be developed for DPs
  - The importance of a Grievance Redress Mechanism and the role of the community
  - Overview of land acquisition and resettlement related impacts on communities
  - Environmental impacts and proposed mitigation
  - Concerns and suggestions of the DPs regarding the projects' impacts on their assets and livelihoods

**5. Gender Involvement in the Consultation Process**

234. One of the overarching pillars of meaningful consultation is the inclusion of vulnerable groups, including women in the consultation process. To this end, semi-structured interviews were conducted randomly with women from the community. Apart from recording women's socio-economic profile, women were asked to comment on existing issues of women in the area, access to education and health facilities and their opinion regarding project impacts. A brief socio-economic profile of the women interviewed is presented in Table 24.

**Table 24 Socio-economic Profile of Women surveyed**

Characteristic	Wahga	Torkham	Chaman
Mean age	44	35	34
Percentage who were illiterate	69%	100%	89%
Average age at the time of marriage (all married)	19	16	17
The mean number of children	6	7	7
Average ratio for male and female children	1:1	3:4	1:1
Percentage of women surveyed who were housewives	94%	100	100%
Percentage of women wanting to learn new skills	44%	72%	67%

**6. Indigenous People**

235. The ADB's "Policy on Indigenous People" is designed to ensure that vulnerable segments of society, and in particular those who may have been displaced or marginalised by modern developments, are adequately catered for in the Project design. Indigenous people typically differ significantly from the mainstream population in terms of culture, identity, economic systems, and social institutions, and often reflect specific disadvantage in terms of social indicators, economic status, and quality of life.

236. The policy document lists two criteria for indigenouness:
- (i) descent from population groups present in a given area, most often before modern states or territories were created and before modern borders were defined, and
  - (ii) maintenance of cultural and social identities, and social, economic, cultural, and political institutions separate from mainstream or dominant societies and cultures.

237. While the people of the border regions may well meet the first of these conditions, they remain the dominant cultural and ethnic force in their respective areas. There is no

need to treat any group as especially vulnerable and thus no indigenous people in terms of ADB policy requirements.

## **E. Survey Findings**

238. The following sections provide a brief overview of the Consultant's findings. A more detailed analysis can be found in the Poverty and Social Impact Assessment (Appendix x.)

### **1. Findings of the Household Survey**

239. The average income of residents at the three project sites is 90,000 PKR per month. With an average family size of 17 members this is PKR 175 per person per day, not significantly above the poverty threshold of USD1.25 per day per person. Sixty one percent of the potentially displaced people (DP) own lands – in all cases in the name of male head of household. The houses are all katcha (adobe).

240. The key findings from the household survey are summarised in Table 25. In terms of access to facilities, the percentage shown is the percentage who claimed to have access.

**Table 25 Key results - HH survey**

	Wahga	Torkham	Chaman
Average income	78,155 PKR	140,208 PKR	50,222 PKR
Source of income	Subsistence ag. 38% Employment 22% Business 19%	Trade/business 83%	Trade/business 89%
Average family size	11	23	18
Poverty incidence	32%	79%	54%
Women in poverty	53%	100%	75%
Mobile phone	85%	75%	93%
Source of drinking water	Piped water 40% Bore water : 60%	Piped water: 33% tube wells :21% vendors 12% Bore water 1%	Vendors 74%
Source if electricity	Line :100%	Line 58% Private generator 33%	Line 64% Private generator 33%
Use of coal/wood	93%	83%	95%
Disposal of sewerage	Pit latrine: 99%	Pit latrine : 17% Open drainage 67%	Pit latrine: 55% Open drainage 67%
Disposal of garbage	Problem : 96%	Problem: 92%	Problem : 50%
Access to high schools	25%	85%	100%
School attendance: M	85%	96%	83%
School attendance: F	93%	58%	48%

Literacy rate M	83%	67%	52%
Literacy rate F	31%	0%	52%
Access to hospitals	100%	100%	100%
Access to clinics	0	0	100%

241. As part of the surveys, the Consultant asked about women's decision-making rights on different issues. The results are shown as

242. Table 26. It demonstrates the generally subservient role of women in rural society.

Table 26 Role of Women in Decision-Making on Different Issues (percent who have a *role*)

	Wahga	Torkham	Chaman
Daily household chores	62%	100%	100%
Upbringing, Education and Marriage of children	25%	89%	0%
Expenditures on household items	44%	44%	44%
Contribution to household income	6%	11%	0%
Purchase and disposal of household property	0%	6%	0%
Dispute resolution regarding their family matters	12%	56%	0%
Discuss household problems with neighbors/local community	19%	33%	0%
Matters related to outdoor activities of male family members	6%	6%	22%

## **2. Findings of Focus Group Discussions**

### **a) Support**

243. The Stakeholders at all three sites welcomed the project and saw it as increasing economic activity in their areas. In Torkham, the Jirga proposed a joint venture as a way of ensuring that the community's stake is protected and there are mutual benefits from the project. At Chaman, the comment was made that both businessmen and immigrants suffered long hours of waiting time, affecting the efficiency of their business activities. They were hopeful the new facilities will decrease waiting time and streamline the process of cross-border facilities.

### **b) Caveat**

244. However at Torkham, it was said that businessmen and their Afghan counterparts are able to cross the border easily and there are no barriers to trade. While welcoming the project, they were concerned that immigration processes and fees should encourage cross-border businesses and that no actions should be taken that discourage existing business activities. This view was reinforced by the Jirga, who said that people visit relatives across the border frequently and that currently, this is easy. The new facilities should ensure that border crossing remains a hassle-free so that businessmen and immigrants can cross the border with minimum documentation and waiting time.

### **c) Opportunities**

245. The BCPs are the primary source of income in their areas. In all cases the stakeholders were concerned to ensure that preference was given to village residents both during construction and subsequent operation. There was also a call for training in the

required skills. The Torkham Jirga proposed that the government to enter in to a public-private partnership agreement for development of the terminal with any of the following options:

- (i) Construction financed by Khuga Khail tribe and benefits shared equally between government and tribe
- (ii) Construction financed by the government and benefits shared equally between government and tribe
- (iii) Construction costs and project benefits shared

**d) Compensation**

246. Acquisition of private property only applies in Wahga. While there was a willingness to sell the land in the national interest, there was some concern about the compensation process because of a previous experience. The main issues were

- Fair and timely compensation that takes account of location and other market factors
- That land parcels not be split - owners should be compensated for their entire holding otherwise they will be left with uneconomic remnants.
- Village elders should be consulted on the rates, and a third party should be involved in the process to ensure fairness.

247. The need for a third party in the compensation process was also stressed in Torkham and Chaman. While there is no legal requirement for this, FBR may consider this option if it facilitates agreement. Stakeholders expressed support subject to receiving proper compensation.

248. Special mention was made of the need for taxis to be able to continue their business during construction and for the taxi-stand and many small shops in the area to be given proper space within the new terminal so they can continue their business activities. There was also a concern that they be compensated for the income loss they have to suffer in the interim period.

**e) Environment**

249. Generally stakeholders did not foresee any major environmental hazards from the project. Of the potential issues discussed, only water was a significant concern at Torkham and Chaman. However at Wahga it was said that the communities enjoy a pleasant natural environment free from the noise and pollution of city life. They are concerned that their existing pleasant natural environment will be disturbed by the influx of workers and construction vehicles. Wahga villagers complained that there are no proper designated places for waste disposal; they often dispose their waste near their homes, which is an environmental and health hazard for the community. The construction phase of the project should ensure that it does not add to the waste problems and, if possible, develop a waste management system that also helps the villagers.

250. There is already a significant water shortage in Torkham and Chaman. The new project should have a proper water supply system that incorporates the needs of local residents and businesses. The Jirga in Torkham suggested plantation as a way of improving the water table and said it would welcome initiatives to improve the situation.

251. Concern was expressed at Wahga and Torkham that the roads are not adequate. At Wahga the fear was that the village roads will get over-burdened and villagers' mobility will be affected, while at Torkham, business people worried that there would be more delays for

departure/arrival of their goods. They suggested improvement of the road between Peshawar and Torkham to complement the proposed development of Torkham BCP.

**f) Other**

252. Torkham business owners said that proper banking facilities and better communication infrastructure should be incorporated in the terminal. Business owners have to travel all the way to Peshawar many times to avail proper banking services. The Jirga suggested that Jirga representatives be part of the Grievance Redress Committee from the community's side for the project.

**3. Key Findings from the Women's Surveys**

**a) Awareness and support**

253. Awareness of the project was highest in Torkham, (56%). Nineteen percent of the women in Wahga were aware of the project while none of the women in Chaman were aware of the project. Support for the project ranged from 62% in Wahga, 72% in Torkham and 100% in Chaman.

254. In all cases, the women agreed that the project will enhance the commercial activities and support the business of villagers. Men and women will get employment opportunities while women should also get some benefit such as improvement in the overall security system, provision of jobs and improved roads and medical services.

**b) Resettlement and compensation**

255. Women in Wahga had a particular concern relating to possible resettlement, demolition of their houses and loss of land for fodder. They were concerned about getting proper compensation.

**c) Concerns**

256. The main concern raised related to mobility for women and access to the village during construction work. This is particularly concerning due to the practice of purdah. Many women suggested that alternate routes should be available for women and their livestock during the construction phase. They said that the project proponents should ensure that access to schools and health facilities are not hampered due to construction activities. Dust was also raised as an issue.

**d) Needs**

257. The three most pressing needs identified by women in Wahga were a hospital (88%), a high school (69%), and a vocational center for stitching & embroidery (50%). In Torkham, reliable water was the main concern, they also identified, availability of electricity, development of proper schools and improvement of road conditions in the area. Water, a hospital, and establishment of proper educational facilities, especially for girls were also the concerns expressed in Chaman.

258. In all three areas, women expressed the desire to learn more skills. The majority wanted to learn embroidery and stitching, while in Wahga, a significant number were also interested in attaining nursing and beautician skills.

**F. Project Impacts and Mitigation Plans**

**1. Benefits of the Project**

259. The project is in line with pillar vii of the Government of Pakistan's Poverty Reduction Strategy PRSP-II that addresses the removal of infrastructure bottlenecks. Its long-term

impact is i) increased economic growth; and ii) improved access to public infrastructure, services and employment resulting to improved quality of life among stakeholders especially the project-affected people of Wahga, Torkham, and Chaman.

260. The success indicator of increased economic growth includes the following: i) increased household income; ii) reduced vehicle operating cost; iii) reduced dwell and waiting time in the customs area; iv) reduced travel time; v) increased traffic count; vi) savings in transport costs; vii) increased number of business permits issued by government; viii) increased volume of business and trade transactions; ix) increased size of effective agricultural area (Wahga); ix) increased value of agricultural production (Wahga); x) Increased quality of commercial products delivered in the market; xi) increased number of tourist visits; xii) increased value of manufacturing production.

261. The success indicator of increased access to public infrastructure, services, and employment includes the following: i) increased household access to farm inputs and outputs (Wahga); ii) increased household access to markets and trading posts; iii) increased household access to financial services; iv) increased household access to national and local government administration services; v) increased household access to health/HIV/AIDS services; vi) increased household access to education services; vii) increased household access to public/private utilities; viii) increased household access to ports and terminals; ix) increased number of jobs created; x) decreased unemployment rate; xi) decreased incidence of Index and Non-index Crime; and xii) decreased incidence of rebellion and terrorism.

262. Aside from the above-mentioned social benefits, there will be more opportunity for women to operating various enterprises as a result of the projects. These enterprises are most likely family-based enterprises. Their working-age sons and daughters will also be employed in these enterprises plus other people in the community. If women earn income, they will be freed of dependency from their husbands.

263. Moreover, national and local governments can generate increased revenues from tariff and tax collections. These revenues collected will be used to improve facilities and social services.

## **2. Issues and Mitigations**

264. Just under 300 acres of land will be needed for the realisation of the three BCP projects, 142 acres in Wahga; 56 acres in Torkham; and 101 In Chaman. While there are no resettlement concerns as there is no-one resident on any of the sites, there are productive farmlands, temporary and permanent businesses and various facilities. To minimize and effectively manage all adverse impacts and grievances, land acquisition and resettlement plans (LARP) have been prepared under SPS 2009 for each site. These are discussed in greater detail in the next section.

265. To ensure that all local residents benefit from the project it is proposed that works contracts specify that in hiring skilled and unskilled workers, local residents be given priority. This is normal procedure for works of this kind and was one of the strong requests from residents. Stall holders who cater to the transit trade will be given space within the new complex and local residents, especially women, should be given preference in the award of business concessions available in the project and consideration should be given to extending the government's micro-finance program in the project sites..



266. To mitigate the potential impact of HIV/AIDS, sexually transmitted infection (STI), human trafficking and bonded and child labor issues in the project sites, the expertise of a domestic social development specialist is proposed to help the project implementation and management to provide training and launch awareness programs for project staff and local residents. The contractors will distribute information to project workers, and the Project will coordinate with international agencies and nongovernment organizations involved in HIV/AIDS and trafficking prevention activities. The domestic consultant will be an expert on gender, HIV/AIDS, labor issues, and human trafficking to help the Ministry of Transport and Communications ensure that critical and gender-relevant issues are addressed during project implementation.

## **G. Land acquisition and Resettlement**

### **1. Land acquisition committees**

267. Land acquisition is a sensitive issue and the Consultant liaised closely with ADB Pakistan Resident Mission and FBR in preparing appropriate documentation. Much of the land required for the Project is already owned by government agencies and it is a matter of transferring the land rights to FBR. However ownership and transfer agreements needed to be verified and documented by the Consultant. The Consultant was advised that all the land at Chaman is in government ownership. In the case of Wahga, some additional private land will be purchased, while for Torkham, some tribal lands are required. In the case of Torkham the tribal Jirga proposed a lease arrangement rather than purchase.

268. To facilitate the process, a Land Acquisition and Resettlement Coordination Committee for each of the border crossings was proposed. FBR initially agreed to establish these committees but later decided that this task would be undertaken by the Government Steering Committee.

### **2. Disclosure of the LARP**

269. Disclosure of the proposed land acquisition and resettlement proposals is through the publication of a land acquisition and resettlement plan (LARP). A LARP has been produced for each of the BCP: these are published separately.

270. The key issues relating to land acquisition and resettlement were raised with affected people as part of the census of displaced people (DP), during focus group discussions, as part of the socio-economic surveys (section VIII.C above) and at field level corner meetings between the DPs, consultants, NLC, and FBR. In addition, the following steps will be undertaken for disclosure of the LARP.

- The LARP will be disclosed to DPs in a booklet for each BCP that will serve to inform DPs about key aspects of the compensation and entitlements established for that BCP and the implementation and monitoring mechanisms that will ensure their transparent and fair execution. The information booklet will summarise the impacts, asset valuation, unit rates, eligibility criteria, compensation entitlements, compensation delivery and grievance redress mechanism with institutional arrangements for implementation of LARP. The booklet will be translated into Urdu and distributed to all DPs

- After approval by the ADB, the LARP will be uploaded on FBR and ADB websites while hard copies of the approved LARP will be placed in relevant government departments managing border activities and will be shared with the local Union Council's Office. A summary LARP will be translated into Urdu by FBR covering information about project impacts; asset valuation, unit rates, eligibility criteria, compensation entitlements, compensation delivery and grievance redress mechanism with institutional arrangements and shall be disclosed to the DPs including women and other stakeholders by Project Office through social mobilizers.

271. A schedule explaining the date, time and venue for disbursement of compensation cheques for each affected village, compensation claim sheets for each DP and compensation disbursement and asset removal notices will be prepared in Urdu and distributed to all DPs.

#### **H. Dispute Resolution and Grievance Redress Mechanism**

272. Timely and effective redress of stakeholder grievances contribute to bringing sustainability in the operations of a project. In particular, it will help advocate the process of forming and strengthening relationships between project management and the stakeholder community groups and bridge any gaps to create a common understanding, providing the project management the 'social license' to operate in the area. The grievance redress mechanism proposed for the Project will help achieve the objectives of sustainability and cooperation by dealing with the environmental and social issues of the Project.

273. The proposed grievance redress mechanism (GRM) will be designed to cater for the issues of the people that can be affected by the Project. The objective of a GRM is to receive and facilitate the effective redress of stakeholder concerns and complaints about the Project. It serves to reduce risk for projects, offer stakeholders effective remedies for Project related issues and promote a mutually constructive relationship between the Project and its stakeholders.

##### **a) Founding Principles**

274. The founding principles for the GRM include:

- Proportionality: the GRM has to be scaled to the risks and adverse impacts on Project stakeholders, i.e., the efficiency and coverage of a Project grievance redress mechanism will be proportionate to the potential adverse impacts;
- Cultural Appropriateness: the GRM will be designed to take into account the cultural portfolio the Project's stakeholders. It will comply and conform with the traditional mechanisms for raising and resolving issues;
- Accessibility: the mechanism will be easily accessible for the stakeholders and take into account any restrictions in the stakeholder mobility;
- Transparency and Accountability: the GRM will be developed to ensure tracking and documentation of all grievances logged with the proponent to ensure transparency. It will allow the stakeholders the opportunity to hold the project proponent accountable; and,
- Appropriate Protection: the mechanism will not impede access to other remedies. GRM will work when communities are encouraged to share their concerns

freely, with the understanding that no retribution will be exacted for participation. The GRM will also ensure confidentiality of the grievant, if required;

**b) Organisation**

275. FBR (through its project management unit, PMU) will implement a three step grievance procedure for all project-affected people at or adjacent to the project sites. FBR will appoint a Grievance Resolution Officer (GRO) within the PMU with the responsibility to ensure that the grievance redress procedures are known to the public and followed by the contractor.

276. A local grievance committee (GRC) will be constituted by FBR. The GRC will function as an independent body that will regulate the PMU and the grievance redress mechanism. The GRC will consist of the GRO, Grievance Focal Persons (who will be educated people from the community, that can be approached by community members – at least one of whom should be a woman), one or more representatives from locally present NGO, the resettlement specialist or environment specialist from the Environmental Safeguards Unit (depending on nature of grievance), one person from the revenue department and one or more co-opted members of the public.

277. The Grievance focal persons will be provided training by the Project in facilitating grievance redress.

278. FBR will ensure that the grievance procedure is accessible to all community members, including vulnerable people such as single mothers, the very poor, the elderly, and youth. Contact information, including contact addresses, emails, hotline numbers and websites will be posted at the works site office and on community notice boards. GRO will consult with appointed GFO prior to work commencing to inform them of the grievance procedure, relevant contacts and methods of resolution to maximise accessible to potentially affected persons through GFO.

279. Contact details will be distributed by the GRO in the appropriate local language.

280. To ensure women have access to the grievance mechanism, focus group discussions will be held to design protocols that are suited to their needs, including, access to the provincial ombudsman's office. Outreach programs will be tailored by GRC to women's needs to ensure information is communicated to them.

**c) Procedure**

281. The GRO will place a complaint register at an accessible location (Union Council office, Mosque, or at Camp Office) for respective community so anyone can register their complaint in this register and will check it on weekly basis.

282. The first step (**Error! Reference source not found.**) on receiving a grievance will be for the GRO to refer the matter to the contractor, who will be given one week to respond to the grievance.

283. Any complaint that is not resolved directly will be referred to the GRC. The GRC will resolve the complaint within two weeks and inform the aggrieved party in writing the action taken against grievance.

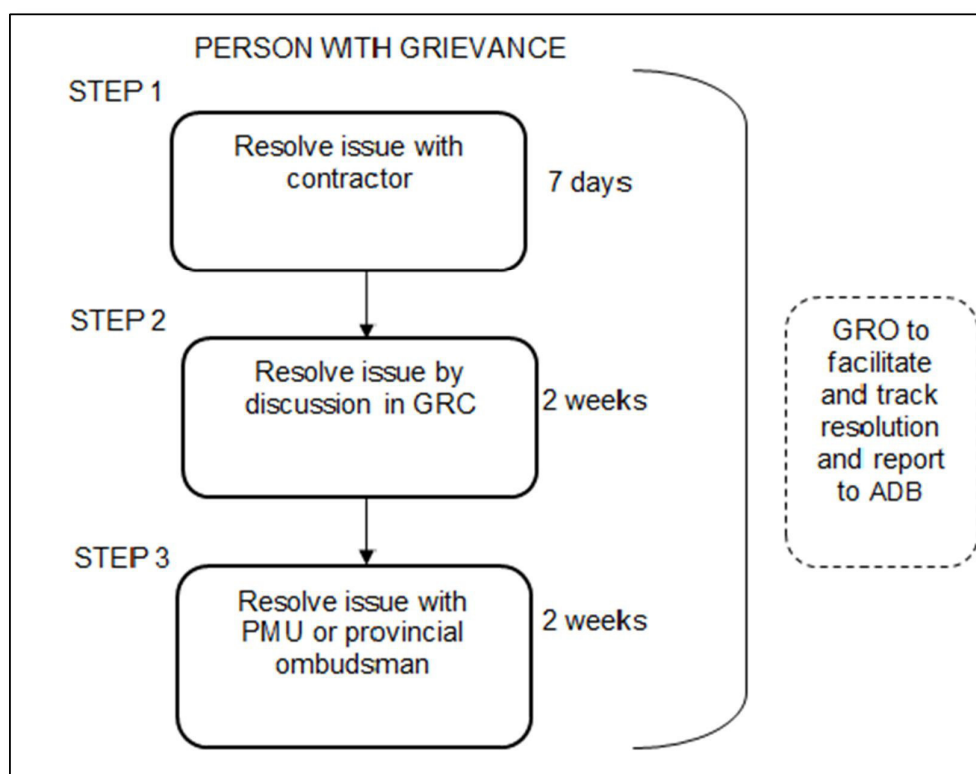
284. If the complaint cannot be resolved at the GRC level, the issue will be referred to the director in charge of the Project Management Unit (PMU) if the grievance related to actions

of the contractor or to the Provincial Ombudsman if the grievance relates to actions of WSD, the PMU or provincial government officers.

285. If the complaint still unresolved at the Provincial Ombudsman level, as the last step it may be taken at the national /provincial legal system. GRM shall take every possible effort to resolve the complaint at project level.

286. During loan implementation, all complaints received will be tracked and their resolution fully documented and reported to ADB by the PMU. The process is shown in Figure 9 and will include the following elements:

- (i) Tracking forms and procedures for gathering information from the contractor/highway section and complainant(s);
- (ii) Updating the complaints database routinely;
- (iii) Identifying grievance patterns and causes, promoting transparency and information disclosure, and periodically evaluating the effectiveness of the grievance mechanism and environmental controls, and
- (iv) Collecting and submitting input for inclusion in progress reports for ADB.



**Figure 9 Steps of the Grievance Redress Process**

## **IX. ENVIRONMENT**

### **A. Objective**

287. All ADB projects are required to comply with both the country's environmental policies and regulations and those of ADB as set out in ADB's Safeguard Policy Statement 2009 (SPS). Where there is conflict, the more stringent requirement (usually ADB) prevails. In either case, the objective of the environmental safeguards is to ensure safe implementation of the Project without unacceptable adverse impacts on the environment, including human health and wellbeing within the project affected area.

288. The terms of reference require the Consultant is to prepare an Environmental Impact Assessment (EIA) or an Initial Environmental Examination (IEE) depending on the environmental category of the projects together with an Environmental Management Plan (EMP) to ensure that the Project conforms to the SPS and complies with the applicable national and provincial legislation. These assessments and plans are essential to ensure environmental sustainability and soundness of the project activities. Based on the Rapid Environmental Assessment conducted at each site, the Consultant has determined that the project is ADB environmental category 'B', and thus that only an IEE is required.

289. The IEE aims towards building an understanding about existing environmental profile at each of the three border crossings. The crossings are located in three different provinces and fall in different eco-systems. However the consultant has been advised that all three come under the Federal Environmental Protection Agency rather than provincial EPA because of their strategic locations. The IEE aims to achieve (i) environmental protection of the envisaged interventions related with the project, (ii) environmental enhancements, (iii) environmental management and (iv) monitoring capacities during physical implementation of the project. At the same time the study will also make adequate recommendations during post-completion and operation of the project.

### **B. Preliminary Environmental Assessments**

290. Members of the environmental team visited each of the Project sites as part of the Consultant's initial site visits. From an environmental point of view, the main objectives of the site visits were:

- Introduction and familiarization of environmental team member with customs, agency administrative and border associated officials and the project site
- A Rapid Environmental Appraisal (REA) of the project site.

291. The REA for all three sites were included in the Interim Report

#### **1. Wahga**

292. On 13 Nov 2014, an appraisal visit was made to Wahga. The main objective was to collect information regarding the current facilities and procedures adopted by customs and the National Logistic Cell (NLC) for export, import and transit trade with India. The meeting was followed by an inspection, including the storage yard and the scanning system, routes of movement, checking, loading and unloading areas inside the yard.

293. The issues arising from the meeting and inspections are summarized as under:

- a) **Quarantine Cell and Phytosanitary Department:** NLC has a quarantine cell at the storage yard, which confirms proper inspection and testing of imported edible items, especially vegetables including tomatoes and chilies etc. The authorized quarantine

officer examines the vegetables for insects/ pests, infection/diseases and fungal infections etc and issues a clearance certificate. However, instead of using modern laboratory or instrumental testing facilities, they rely on visual inspection which may not be as effective. From these discussions and site visit, the environmental team has to probe further for:

- Quantum and disposal arrangement of discarded and spoiled vegetables, including infected, diseased and rotten product: Mishandling or improper disposal of these wastes may affect the surrounding agricultural lands, water bodies and wildlife especially birds attracted and feed on these vegetables inside the storage yard.
  - Methodological arrangement for handling / collection of solid wastes.
  - Type of protective measures for laborers employed on loading and unloading
- b) **Vegetation:** Visual inspection of the site revealed that there is no environmental sensitive forest or vegetation cover on or close to the site. The site is located on flat land with vast cultivation under an extensive irrigation system. However some isolated trees in the surrounding areas may need to be cut during development of the proposed facilities.
- c) **Land Acquisition:** The issue of land acquisition also discussed with custom officials. According to their statements, NLC has sufficient land adjacent to the existing dry port/ storage yard.
- d) **Export of Plants:** During the meeting, a list of medicinal plants exporting by Pakistan was acquired from the custom office. Further data regarding these plants will be collected during the detailed environmental survey.
- e) **Ambient Air Quality:** The ambient air quality appears to be of adequate standard, as the project site is well away from the industrial zones and traffic congestions of Lahore city. Due to movement of heavy trucks, some dust and vehicle emissions will be present and there will be noise which may affect workers health. This needs to be probed further.

294. The information and understanding gained on this visit was used to plan detailed data collection and community consultation.

## **2. Torkham**

295. Following a meeting with customs officials, a walk through site was undertaken to see the current facilities including the border post, trade vehicles parking area, taxi parking, custom office and also the new proposed project site. The followings is a summary of the issues arising from the meeting and the inspection.

- a) **General Topography and Vegetation:** The major part of the project area is barren, dry and rocky, with gently rolling mountainous terrain. The proposed site is surrounded by high mountains, which results in a paucity of flat land.
- b) **Quarantine Cell and Phytosanitary Department:** Questions were asked regarding the onsite office and examination/ testing of fruits and vegetables by the phytosanitary/ Quarantine Departments. The Consultant was advised that there is no on-site quarantine cell for examining and testing fruits imported from Afghanistan. Similarly, it was also noticed that there are inadequate checks on the import of other hazardous items/ substances such as used dry batteries, computer equipment, TV and computer monitors and / or other hazardous materials. Such items contribute towards environmental pollution and pose health hazards for workers.



- c) **Traffic Management and Associated Health & Safety Risks:** Owing to high traffic volume and limited parking space, the present traffic management is highly unsatisfactory. It is likely to cause serious safety risks for pedestrians. Traffic management during construction of the project is likely to aggravate this. However, after detail site survey, a suitable alternate route will be proposed.
- d) **Vegetative Cover:** The project corridor falls outside the monsoon zone. It gets limited precipitation in winters through western Mediterranean winds, with some snowfall on mountain tops. Hence, climatic conditions do not support extensive natural vegetation. However, some acacia, Dalbergia Sisso (Sheesham), and eucalyptus varieties were observed. During recent decades, vegetative cover has been further thinned, mainly by Afghan refugees collecting firewood.

### **3. Chaman**

296. The purpose of the site visit is to carry out project area reconnaissance in order to observe, verify and document presence of important environmental and social aspects of the project site that may require special attention in the undertaking of the EA documentation for the proposed border improvement project and to conduct a Rapid Assessment of the Environment.

297. The following are the summary findings of the meeting and the site inspection:

- a) **Location and Topography:** The project is located at the town of Chaman in Killa Abdullah District. The district is bordered by: districts Pishin in the east; Quetta in the south from whence it is reached via the Khojak pass; and Afghanistan in the west. It is composed of two tehsils: Gulistan and Chaman. The general character of the district is mountainous; however the project area is on an open plain.
- b) **Climate and Vegetation:** Killa Abdullah is dry and temperate. Where water is available, such climatic conditions are suitable for horticulture. Orchards of apples, apricots, peaches, plums, grapes and pomegranates are observed on both side of the road from Quetta to Chaman. However, insufficient water at the project site together with intensive land use for grazing and use of vegetation for fuel has resulted in total loss of vegetation cover. Bad agro-pastoral practices and lack of awareness, in combination with the high incidence of poverty are the main causes for the depletion of natural resources and continuing threat to biodiversity.
- c) **Quarantine Cell and Phytosanitary Department:** While there is an onsite quarantine cell for examining and testing of fruit, it is poorly equipped and consequently largely ineffectual. There are no laboratory facilities for checking agriculture products and food items: checking of these commodities is by visual inspection. Acceptability of fruits and vegetables relies on certification issued by a third party certifying body.
- d) **Import / export of toxic materials:** There is no facility to control the import of used batteries, computer / TV monitors; etc . A scanner is available that scan trucks loaded with scrap for presence of munitions and explosive material. The list of materials and commodities being traded at Chaman does not include reference to chemicals but the officers agreed that chemicals are occasionally traded. The Consultant advised the Custom officials that chemical trading will require special checking and storage and disposal facilities (if warranted).
- e) **Traffic Management and Associated Health & Safety Risks:** With adequate land and low traffic volumes the area is not very congested. However the parking areas



are unpaved and dust is a problem. There is no water sprinkling facility on site to suppress the dust and in consequence conditions are not suitable for working.

- f) **EPA environmental compliance requirements:** The current operations at Chaman do not comply with the requirements of the Pakistan Environmental Protection Act 1997. Customs officials were not aware of any of their requirements under the Act and the Custom officials consulted were surprised to know that environmental considerations should be part of their operation. It was explained that this would be required with the proposed Project. The Deputy Director said that any proposal to improve the environmental performance of the Chaman area will be welcomed

## **C. Initial Environmental Examination**

### **1. Introduction**

298. The environmental assessments discussed above noted that the three BCP lack the necessary facilities and equipment to serve as efficient regional transport facilities. They struggle to process the current volumes of export, import and transit cargo and pedestrians. The primary objective of the project is thus to provide both structural and non-structural interventions to address the inadequacies that are restricting trade operation and hampering transit trade. By improving the three BCP's operational capabilities, it is expected that the project will enhance the economic growth and in the long term reduce poverty in Pakistan

299. Under the proposed improvement project, the works consist of (i) developmental works, (ii) buildings and (iii) colony/accommodations. The goods consist of the provision of short-and long-term equipment and system for data connectivity Marshal Reporting Console (MRC), Information and Communications Technology (ICT) and Information Technology (IT).

300. The implementation of the proposed improvement works, involving earth and civil works is not expected to generate significant environmental impacts. In reference to ADB Environmental Safeguards Policy (2009), the project falls under Category B.

301. Category 'B' projects require the preparation of an Initial Environmental Examination (IEE) report. Hence, an IEE was undertaken for each BCP as part of the process of compliance with the ADB's Safeguards Policy of 2009 and within the policy, legal, and administrative frameworks relevant to the environmental assessment of the Government of Pakistan. The three IEE are separate documents, but the main features are summarised here.

### **2. Project Description**

302. The proposed scope of improvement consists of the provision of developmental works, buildings, colony/ accommodation and equipment. The list of the proposed improvement works and goods at each site is provided in Table 27.

**Table 27 Project Description**

Structural Intervention	Developmental Works	Earthworks / Approach Road to Passenger Terminal / Approach Road / Fencing & Signage / Internal Road / Overhead Water Reservoir / Street Lights / Flood Lights / Weighing Bridge / Parking Area / Retaining Wall for Road / Boundary Wall / Toll Booth / Toll Canopy / Secondary Inspection Canopy / Cargo Immigration Canopy / Quarantine Shed / Surface Drainage Works / Solar Power System / Power Supply Network
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	Buildings	Central Administration Building / Seized Goods Warehouse / Commercial Warehouse / Small Offices / Customs Lab / Passenger Terminal Building Renovation / Services Area (Pray Area, Café, Main Shop) / Services Watch Tower / Security Gates / Business Center
	Colony/ Accommodations	Accommodation / Pavement / Approach Road
Equipment		Short Term (Data Connectivity MRC, ICT Equipment)
		Long Term (Data Connectivity MRC, ICT Equipment and IT Systems)

303. As of July 2014, project cost for the Border Improvement Project is estimated to be USD 225 million (M) of which Wahga is 80M, Torkham 69 M and Chaman 76M This cost includes funds for the integration and implementation of and environmental management plan (EMP) in the overall project design to ensure compliance with safeguard requirements of ADB and the Government of Pakistan. EMP costs, especially those EMPs to be undertaken during construction phase, will be incorporated into the contractors' cost while some will be provided specifically manage solid waste and wastewater during the operation phase where funds shall be likewise allocated by the EA.

304. The main objective of the EMP is to ensure that the environmental and social concerns about the project are incorporated in the overall project design and these concerns are eliminated and reduced to levels that are acceptable during implementation and operation of the project.

305. In the performance of the EMP by the Executing Agency (EA), the scope of EMP works includes the implementation of the mitigation measures for each phase of the project and the undertaking of environmental monitoring works including capacity building on EMP implementation. The EA will be responsible to monitor and supervise the implementation of the EMP.

306. The EMP shall cover capacity-building, monitoring and EMP implementation of the approved safeguard plans. The cost of EMP is presented in Table 28.

**Table 28 EMP actions and estimated cost**

EM P	Details	Cost (PKR) Wagah	Cost (PKR) Torkham	Cost Chaman
1. Capacity Building	Includes hiring of third party entities; Cost is to be shouldered by the Contractor	1,500,000	1,500,000	
2. Monitoring	Cost during pre-construction and construction phases is to be shouldered by the Contractor	926,000	576,000	
3. EMP	Cost is to be shouldered by the Contractor	Part of the project cost		

### 3. Environmental and Socioeconomic Conditions

307. The environmental data collection and gathering approach included site visits, community consultation and the use of satellite imagery and secondary data from recent studies and works.

308. All three BCP are currently operational, so the proposed improvement works are not a departure from the present land use and environment of the project areas. The existing environment in each case is void of environmentally sensitive ecology. For Wahga, most of the surrounding environs are agricultural lands, but the other two sites are largely barren. The locations are free from ecologically sensitive or cultural heritage sites. Thus the issue of impacts and risks to ecological and biodiversity conservation is not applicable to this project.

309. Table 29 provides a brief description of the environment at each site.

**Table 29 Description of the Environment**

BCP	Space Requirements (in acres)	Brief Description of Environment
Wahga	141.5	Flat agricultural land with small individual farm lots – mostly used for growing fodder crops. No ecologically sensitive environment or precious physical cultural resources
Torkham	56.0	Barren mountainous area with low rainfall. No ecologically sensitive environment and precious physical cultural resources
Chaman	101.0	Flat desert area with little vegetation. No ecologically sensitive environment or precious physical cultural resources

### 4. Impacts and EMP

310. Screening for environmental impacts is made through a review of the parameters associated with the proposed works of the BCPs improvement project. Screening is used as an important tool to identify environmental impacts so as to plan the necessary mitigation measures.

311. Important considerations that are factored-in during the analysis of potential environmental impacts of the proposed improvement project are the (i) magnitude and nature of works to be done in the project area and, (ii) the existing environmental conditions in the project area.

312. During detailed design and pre-construction phase, it will be ensured that the EMP shall form part of the provisions of the tender documents and contractual obligations of the Contractors. This inclusion of the EMP in the tender documents and construction contract documents will oblige the Contractor to adhere and implement the requirements of the EMP.

313. During construction, construction works during site preparations are the main impact-generating activities. Construction works will inevitably lead to the generation of dust, noise, construction wastes and accidental spillage of machine oil and lubricants, solid and wastewater disposal on the construction site, pollution of surface waters and soil. Mitigation measures for such anticipated impacts have been analyzed and recommended to be implemented during construction period. For instance, dust control will be addressed by

regular spraying of exposed surfaces with water to mitigate this impact. While for the management of wastes, the Contractor may install temporary wastes management system (i.e., temporary septic tanks for domestic wastewater management and receptacles for solid wastes) which can be cleaned-up immediately after project construction completion.

314. During operation phase, each BCP shall be equipped with routine facilities and waste management system to manage both domestic solid waste and domestic wastewater. Management of reject, spoiled and damaged food commodities is an issue at Wahga. It is highly recommended that Wahga BCP should continue the practice of returning these commodities to their origin within the dwell time period of 24 hours.

315. On social impact assessment and management, an inventory of losses and required land for acquisition were made during the planning phase. These are to be ascertained and updated during detailed design phase. A separate plan for compensation and other assistance corresponding to the losses of the affected people has been prepared under the social management plan (see Chapter VIII)

316. Anticipated positive socio-economic impacts of the project include employment opportunities, short-term jobs created during the construction period, improved access and commodity trading to the border and improved levels of social services.

317. An Environmental Management Plan (EMP) is developed to provide guidance to the environmental measures needed to prevent and/or mitigate negative environmental effects associated with the project implementation, as well as provides a detailed description of the direct and indirect environmental effects during the conduct of the construction. The plan includes: (i) mitigating measures to be implemented, (ii) required monitoring associated with the mitigating measures, and (iii) implementation arrangement. Institutional set-up discusses the requirements and responsibilities during pre-construction, construction, and operation phases. The plan includes tabulated information on: (i) required measures for each environmental impact that requires mitigation, (ii) locations where the measures apply, (iii) associated cost, and (iv) responsibility for implementing the measures and monitoring.

318. The proposed environmental monitoring plan will become part of the construction supervision TOR and Contract Technical specifications.

## **5. Consultation and Participation.**

319. Project planning and the subsequent IEE preparation for the Project recognized the need for public consultation and participation as central to effective environmental and social safeguard. The Consultants carried out consultation on environmental impacts and mitigation measures as part of the wider consultation process. (Section VIII.C). The Federal Board of Revenue initiated a process of consultation during project preparation and intends to continue it during the construction phase.

## **6. Grievance Redress Mechanism.**

320. Implementation of the proposed project will be fully compliant to ADB's safeguards requirement on grievance redress mechanism. The proposed mechanism applies to both social and environmental issues and is discussed in section VIII.C. The FBR shall disclose the proposed mechanism in public consultations during detailed design and in meetings during the construction phase.

**7. Conclusion and Recommendation.**

321. Analysis of potential environmental impacts revealed no significant adverse impacts to people and environment from the proposed BCP improvement project. The IEE concludes that adverse environmental impacts arising from the location, design, construction, operation, and maintenance of the proposed project can be mitigated to less significant levels and the corresponding mitigation measures are doable. Monitoring can easily be done. The project can be implemented in an environmentally and socially acceptable manner.

## **X. PROCUREMENT**

### **A. Overview**

322. The Consultant has prepared procurement plans and documentation for civil work, ICT and security systems at the three BCP and documentation for the recruitment of consultants for design, construction supervision and capacity development. All procurement documents have been prepared following the most current ADB guidelines<sup>9</sup> and recommended templates. The completed documents are available separately.

#### **1. Phase I report**

323. The procurement due diligence is based on the preliminary design carried out under Phase I of this TA. The scope of border facilities at Wagha, Torkham and Chaman and the cost estimates for works and goods are taken from the Phase I final report. Prior to commencing the work, the Phase I Final Report was reviewed, particularly Volume 2 annexes on specifications and volume 3, which included architectural drawings.

324. The costs in the Phase I are preliminary and based on estimated unit costs for the type of building or structure. For example, the cost of the Central Administration Building is estimated to be PKR 66,376,500 based on an area of 2,055 square meters and a unit cost of PKR 32,300 per square meter.

325. Only preliminary designs were prepared in Phase I. Detailed engineering is needed before bills of quantity can be prepared and bidding documents finalised. In particular:

- Specifications for some items of work are missing. For example there is no specification for asphalt and asphalt thickness on roads is not specified.
- Structural drawings for the buildings are not available.
- The class of concrete for various structures is not specified.
- There is no provision to control fire.
- The power supply cable network from sub-station to buildings is not detailed.
- Various items of the ICT and security systems, although described in the cost estimate lack detailed specifications.

326. In the absence of detailed designs, this Consultant has used the Phase I preliminary design estimates for contract packaging.

#### **2. Procurement Considerations**

327. Two issues dictated the selection of procurement method and accompanying consulting services. Firstly, the Federal Board of Revenue (FBR) has only limited experience of managing externally funded projects and has not implemented any ADB funded projects. Support will therefore be needed at project start-up and during initial implementation.

328. Secondly, the BCPs of Torkham and Chaman and to a lesser extent Wahga are located in high security area controlled by the armed forces. Gaining access requires formal approvals, which take time. Visitors are required to travel with armed escorts for their safety. In view of these conditions, special arrangements will be needed for the selected contractors and consultants.

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<sup>9</sup> ADB *Procurement Guidelines* (March 2013) and *Guidelines on Use of Consultants* by Asian Development Bank and its Borrowers (March 2013).

### **3. Procurement Options**

329. Options for addressing the procurement issues are currently being discussed the Government. These range from unit price to turnkey or design-build contracts and from international competitive bidding to a single-source awarded to state owned enterprises. The Consultant has prepared typical bidding documents for all the options under consideration. These will allow ADB to choose the best procurement option for each site.

330. After mobilizing in October 2014, the Consultant prepared procurement documents for internationally bid contract (ICB) in accordance with the terms of reference (TOR). For consulting services, request for proposals (RFPs) were prepared for (i) detailed engineering and project management, and (ii) construction supervision. For works and goods, bidding documents following international competitive bidding (ICB) were prepared. For civil works, separate contracts for each border facility were proposed and for ICT/IT/security system one contract covering all facilities was developed. These draft documents were reviewed by ADB and the comments received have been incorporated.

331. Following the ADB mission in mid-February 2015, ADB proposed a competitively bid 'engineer, procure and construct' (EPC) contract for the border facility at Wagha and a 'design-build' contract for Chaman and Torkham. The latter would be awarded on a single-source basis to the Frontier Works Organization (FWO) on the basis that FWO is a military owned construction company that can conveniently work in the high security conditions.

332. For the EPC contract the Consultant initially considered the FIDIC Yellow Book for Design-Build contracts with amendments to meet ADB requirements. Subsequently, in early April 2015 a template for ADB's trial version of harmonized Design-Build contract was received.

333. The consulting services requirement envisaged in the TOR need modification if Design-Build contracts are pursued. Accordingly the Consultant has prepared additional procurement documents that includes (i) typical bidding documents for Wagha based on ADB's harmonized Design-Build template, and (ii) RFP for consulting services involving project management, design review and construction supervision.

334. Availability of all these documents should help ADB decide the best procurement option for each site. They are available as a separate volume.

### **4. Implementation Arrangements**

335. FBR is the nominated EA and for the project. The project PC-I prepared by FBR, proposes that a project management unit (PMU) be established, which would become the implementing agency (IA). The PMU would have 21 professionals and 31 support staff. FBR will also be using its field offices in the three provinces to support project implementation.

336. ADB and the Government have been discussing a role for the National Logistic Cell (NLC)<sup>10</sup>. NLC has major presence at all border facilities where it manages the movement of vehicles and goods. (See section IV.B). It owns the current land at Wahga and is purchasing the balance on behalf of FBR. One option is for NLC to function as IA, in which case a PMU may not be needed saving significant financial resources for FBR.

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<sup>10</sup> NLC is an army-owned agency whose origin were as a transport operator on behalf of the Government. It also bids for construction contracts, managing subcontractors to do the actual work.



337. As NLC is an army based agency, using NLC as the IA would facilitate procurement using ICB or NCB contracts.

**B. Consulting Services**

**1. ICB Construction Contracts**

338. Because of the preliminary nature of the designs prepared under Phase I, detailed engineering is necessary before bid documents for works and goods can be finalized. To keep project management separate from construction supervision, ADB advised that detailed design work should be combined with the project management functions.

Accordingly, two consulting service packages were proposed: (i) detailed engineering and project management; and (ii) construction supervision. The Consultant recommends that if this approach is taken, package (i) should be procured as part of advance action to assist FBR during initial stages of project implementation.

339. The consulting services for detailed engineering includes 14 person-months of international and 40 person-months of national input and includes finalization of bid documents plus support to FBR in procurement. The consulting services for project management will not only assist FBR in implementing the project but will also build capacity of its Project Management Unit (PMU).

340. The project management consulting services involve 34 person-months of international and 40 person-months of national input and include expertise to monitor compliance with environmental and social safeguards. Overall this consulting services package includes 48 person-months of international and 80 person-months of national input. It is expected that by the time the contract for project management services is completed, PMU should be able to independently manage implementation. Moreover, this PMU can be used in future for implementing similar projects at other border crossings.

341. The consulting services package for construction supervision includes 33 person-months of international and 245 person-months of national experts deployed at the three border facilities' sites.

**2. Based on Design-Build Contract**

342. If ADB and the Government decide to go with design-build contracts, the requirements for consulting services will change. One consulting services contract will be needed, that will include project management, design review and construction supervision.

343. As above, the consultant, in its project management role, will support PMU functions and initially focus on procuring the EPC/turnkey or design build contract packages for the three border facilities. The consultant will also ensure compliance with ADB's environmental and social safeguards. During design review, the consultant will ensure that the proposed design serves the intended purpose and meets the required design standards and specifications. The project management and design review will require 44 person-months of international and 66 person-months of national input.

344. For construction supervision, the consultant's role will be in accordance with FIDIC. As such, 33 person-months of international and 245 person-months of national input will be needed. Overall, the consulting services package will include 77 person-months of international and 311 person-months of national input.

### **3. Requests for Proposals**

345. The RFPs have been prepared following the ADB standard template. Information regarding dates and EA's responsible staff has been left blank and will need to be completed before the RFP is issued. Moreover, inputs relating to the application of local taxes and escalation have been left blank as these need the EA's decision. The Consultant has prepared a detailed reference list of such actions to assist the EA.

### **4. Short-listing Criteria**

346. Following ADB guidelines, typical short-listing criteria have been prepared for all consulting services packages. The criteria will be used to shortlist expressions of interests and limit the number of interested consulting firms asked to submit proposals.

### **5. Advance Contracting**

347. Whichever approach is used for procurement of construction, to ensure an early start, procurement of consulting services will need to be fast tracked so that the selected consultant can be mobilized quickly after the loan is approved and declared effective. ADB's procurement guidelines encourage advance action. It is therefore proposed that ADB and FBR consider use of advance contracting to initiate recruitment of consultants in parallel with processing of the loan by ADB. As it lacks experience of ADB projects, FBR should seek support of the Pakistan Resident Mission in engaging project management consultants.

## **C. Procurement of Works and Goods**

### **1. ICB Contracting**

348. If the approach indicated in the TOR is adopted, it is proposed that the three construction contracts are of sufficient size to be bid separately. A typical bidding document has been prepared for the Wagha facility based on international competitive bidding (ICB) following a single-stage two-envelope procedure. Missing information such as schedule of work, quantities and specifications would need to be included after detailed engineering is completed. Bidding documents for Torkham and Chaman can be prepared following the same template after completion of detailed engineering.

349. To ensure consistency and compatibility between the BCP, it is proposed that the information and communication technology (ICT/IT) systems and security systems are packaged under one contract. The bidding documents have been prepared accordingly. The scope includes supply, installation and testing. In addition the vendor will also conduct training of FBR staff for operations and maintenance.

350. Under the Phase II TOR, the Consultant was required to determine the likely level of interest from international contractors. The Consultant arranged meetings with international contractors currently working on major infrastructure projects in Pakistan. The outcome of these meetings was positive with all the firms contacted expressing their willingness to participate in the bidding process. They did express concern about security and hoped that a pragmatic arrangement could be concluded with FBR and the agencies responsible for security. All firms indicated they would make use of national sub-contractors.

### **2. Design-Build Contract**

351. In case the EPC/turnkey or design-build approach is adopted for the three border facilities the Consultant has prepared typical bidding documents for the Wagha facilities

based on the ADB's trial version of harmonized Design-Build contract template. This can readily be extended to the other BCP.

#### **D. Procurement Risk Assessment and Procurement Plan**

352. ADB's Procurement Governance Review<sup>11</sup> recommends undertaking a project procurement risk assessment. A Project Procurement Risk Assessment Report has been prepared following the ADB's Guide on Assessing Procurement Risks<sup>12</sup>.

353. The overall assessment of the project procurement risk is 'High'. FBR's principal responsibility is to be Pakistan's revenue collection agency. It is not set up to implement infrastructure projects and does not have permanent staff with experience in the stringent procurement requirements of multilateral development partners. FBR has previously implemented a World Bank funded project by setting up a dedicated PMU, and proposes to do the same in this case. It has not implemented ADB financed projects and is unfamiliar with ADB Procurement Guidelines. A project specific PMU will take time to establish and become fully operational, particularly as staff with experience of the previous projects have not been retained.

354. Proposed mitigation measures to manage the risks include hiring project management consultants to address capacity gaps and provide much needed support to FBR and the PMU during early stages of project implementation. In summary the proposals are:

- Using advance contracting under ADB Procurement Guidelines to engage project management consultants. The consultants will help timely start-up of project procurement activities and help FBR establish the PMU and develop its capacity;
- In view of lack of familiarity with ADB Procurement Guidelines, FBR should request ADB/PRM to assist in recruitment of project management consultants;
- Increased oversight of ADB sector division, including prior review of all contracts for works, goods and services before award; and
- Coordination with the Pakistan Public Procurement Regulatory Authority (PPRA) to arrange procurement training of FBR and PMU staff involved with the project; the PPRA trained staff should also attend ADB procurement workshops.

355. A Procurement Plan based on the recommended template is attached to the Project Procurement Risk Assessment Report. The contract packages for consulting services, works and goods have been prepared in accordance with the TOR. However, once a decision is reached regarding procurement option for the border facilities the Procurement plan can be amended accordingly.

356. The Project Procurement Risk Assessment Report is included as Appendix B. It also includes (i) procurement risk assessment management plan (P-RAMP), and (ii) completed questionnaire.

#### **E. Conclusion**

357. The following summarizes the procurement report:

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<sup>11</sup> ADB, 2013, ADB Procurement Governance Review, Manila.

<sup>12</sup> ADB, 2014, Guide on Assessing Procurement Risks and Determining Project Procurement Classification. Manila.

- The Consultant has endeavored to provide all necessary documents so that ADB and FBR has the flexibility to agree upon and use procurement option that best suit the conditions at each border facility site.
  - For consulting services, if unit priced contracts are used two packages have been prepared (i) for project management and detailed engineering, and (ii) construction supervision. If EPC/turnkey or design-build contract is used, the consulting services package includes project management, design review and construction supervision.
  - Bidding documents have been prepared for one facility (Wagha) for (i) unit priced contracts, and (ii) EPC/turnkey or design-build contracts. Once these documents are approved and a decision is taken regarding type of contract, bidding documents for Torkham and Chaman will be prepared.
  - In view of limited capacity of FBR to manage project implementation, project management consultants are needed irrespective of the type of contract. Also, these consultant need to be engaged using 'advance contracting'. The role of PRM is important in helping FBR engage these consultants.
358. Procurement documents that have been prepared and are available separately are:
1. Request for Proposal for project management and detailed engineering
  2. Request for Proposal for construction supervision
  3. Request for Proposal for project management, design review and construction supervision
  4. Short-listing Criterion for consulting services
  5. ICB Bidding Document for construction of border facility at Wagha
  6. ICB Bidding Document for ICT/IT and security systems at all three border facilities
  7. Design-Build Bidding Document based on harmonized trial template for Wagha BCP

## **XI. CONCLUSIONS**

359. The objective of the Phase II study was to undertake a due diligence of the Project developed and designed under Phase I. The due diligence covered economic and financial analysis, environmental and social safeguards and procurement.

360. In undertaking the economic analysis, it was noted that many of the benefits from the Project perceived by the Government of Pakistan relate to national imperatives such as managing the integrity of the country's borders. These benefits are difficult to quantify. This report concentrated on the quantifiable benefits, mainly time savings for the movement of international freight through the three border crossings. It was concluded that the expenditure could be justified on these benefits alone, and that therefore the Project as a whole was economically justified. Although there may be some revenue implications from the Project, it is essentially non-commercial in character so that a financial investment analysis would be inappropriate. The financial analysis concentrated on identifying the financial consequences of the Project and associated funding arrangements for the government. A financial management assessment concluded that although the FBR is financially strong and follows robust accounting procedures, it has only limited experience in managing a project of this type. The Consultant recommended that a project management consultant be appointed to assist the FBR in its management of the project.

361. No significant environmental issues were identified. The Project was classified as category C for environment requiring the preparation of an IEE for each site. These have been prepared and are available as separate documents.

362. There are no significant social or poverty issues. However because land acquisition will be required at all three sites, the Project is classified as category B. Land acquisition and resettlement plans have been developed for each site and are available separately. In the case of Wahga, most of the land is already held by the National Logistics Cell, but some additional privately held land will be acquired. At Torkham, the land is tribally held. The tribal representatives are in agreement with the land being used for the new BCP facilities and are in the process of negotiating a lease agreement with the Political Agent. At Chaman, the land is already in government ownership but does require the transfer to FBR to be documented. At both Torkham and Chaman, there are resettlement issues relating to taxi operators and stall holders operating on the sites, with the preferred solution being for them to be accommodated appropriately in the new facilities.

363. Procurement documents were initially prepared on the assumption that the facilities would be procured through international competitive bidding. The Consultant recommended that consultants be engaged to undertake detailed engineering design using advanced action for retroactive funding. Subsequent discussions between ADB and FBR in view of the security situation at the borders have led to consideration of the possibility of a sole source contract with Frontier Works Organisation. Documents have been prepared for both scenarios. A procurement risk assessment has been prepared which identified lack of experience in managing large internationally funded projects as a possible risk. The proposed approach is for the National Logistics Cell to be the Implementing Agency, supported by project management consultants.

364. Overall the conclusion is that the project is implementable, is economically and financially sound and can meet the ADB and Government safeguard requirements.

## APPENDIX A Financial Management Assessment and Risk Management Plan

1 The terms of reference for the Border Services Improvement Project (BSIP) require the Consultant to prepare a financial management assessment (FMA) for the executing agency – the Federal Board of Revenue (FBR) and a risk assessment and risk management plan. While there is no question about the financial strength of FBR, being the Government of Pakistan’s (GoP) main revenue-generating arm – and in any case it is GoP, not the FBR who will repay the loan – an FMA is nevertheless required to identify any issues that may arise and any requirements that will need to be met to comply with ADB procedures. The primarily purpose of the project is trade facilitation and while there may be some revenue impacts, ADB has confirmed that the project should be treated as non-revenue earning.

### Financial Management Assessment

2 Many of the areas of assessment are addressed by the fact that the Pakistan Government has sophisticated financial management systems in place. An accounting manual exists, and financial statements are compliant with international standards. The government accounting system is governed by the Pakistan General Order 1973, with a constitutionally-mandated Auditor-General overseeing both the accounting and auditing systems for all agencies in the country. The ADB office in Pakistan believes the country is in the forefront in Asia in terms of accounting and auditing, confirming the observation made in an earlier study on financial management and governance in DMC’s<sup>1</sup> that “accounting profession is strong and accounting and auditing standards are well established and based on International Accounting Standards.”

3 FBR plans to establish a project management unit (PMU) to handle BSIP. This is also the rule of the government, mandating the designation of a manager for each development project. The qualifications of the staff to be recruited to run the unit are specified in an attachment prepared by the agency for PC-1.

4 FBR has prior experience managing foreign-assisted projects, having managed the World Bank-funded Tax Administration Reform Program (TARP). The agency may nevertheless need assistance in setting up mechanisms for handling BSIP payments, and in establishing special project accounts and a financial reporting system that meets the design requirements and standards of governance of ADB. The mobilization of a Project Management Consultant (PMC), alongside the project supervision consultant and detailed design team should be considered to assist in the establishment of the PMU and boost its technical capability in overseeing the project. Once established, the PMU will gradually take over project management responsibilities.

5 Key findings of the financial management assessment undertaken for the Improving Border Services Project during project preparation are shown in Table A-1.

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<sup>1</sup> “Financial Management and Governance Issues in Selected Developing Member Countries” (2000)

**Table A-1 Financial Management: Federal Board of Revenue (FBR)**

Area of Assessment	Findings
Executing and implementing agency	<p>Federal Revenue Board (FBR) is a full-fledged revenue division under the Ministry of Finance, mandated to undertake the following functions:</p> <ul style="list-style-type: none"> <li>• Assess and collect Federal Government taxes</li> <li>• Assist in the formulation and administration of fiscal policy</li> <li>• Recording and reconciliation of revenue collections</li> <li>• Implement the country's commitments to international agreements on taxation and customs duties</li> <li>• Perform quasi-judicial functions of hearing of appeals</li> </ul> <p>The Board was created through the passage of the Federal Board of Revenue Act, 2007 as successor to the Central Board of Revenue.</p> <p>FBR is a self-accounting entity with accounting and financial operations authority delegated to the Board, subject to prescribed federal government rules and procedures on how the authority should be exercised.</p> <p>In accordance with government accounting rules, FBR will establish a Project Management Unit (PMU) for the Border Services Improvement Project (BSIP) to ensure timely delivery and on-time project completion. The PMU will be headed by a Project Director, with financial powers related to PMU operations delegated to the PD by the Principal Accounting Officer (PAO), and who shall also be responsible for the hiring of key PMU personnel with experience and expertise related to project implementation.</p> <p>External (ADB) financing of the project, however, will be directly provided to the Federal Government through the Ministry of Finance, which will manage the loan proceeds and their repayment.</p>
Major Experiences of Managing Externally financed projects	<p>FBR specifically mentioned the World Bank-funded Tax Administration Reform Program (TARP) amounting to USD76 million implemented from 2005 to 2012 as its major experience of managing externally financed projects.</p>
Fund Flow Arrangements	<p>FBR is following the mechanism devised by the Federal Government for the disbursement of funds for foreign-assisted projects. The procedure involves many other government agencies and entities, especially the Ministry of Finance</p>



Area of Assessment	Findings
	<p>(Economic Affairs Division; Planning and Development Division), Accountant General Pakistan Revenues (AGPR), State Bank of Pakistan and National Bank of Pakistan.</p> <p>Detailed disbursement procedures are specified under the government accounting manuals, in which all agencies are required to observe. All claims for projects should be duly prepared, approved by delegated authority, certified and authorized before payment can be issued.</p> <p>The fund flow mechanism as formulated under federal government rules, however, would have to undergo a few modifications to comply with standard requirements under ADB loan disbursement procedures.</p>
Organization and staffing	<p>As a self-accounting entity, and given its financially-sensitive role in the federal government, FBR is expected to have adequate officers and staff for its accounting system. The Board's accounting and financial system is being overseen by a Principal Accounting Officer (PAO) responsible for putting in place adequate financial controls and for ensuring good governance in financial affairs. The PAO is supported by professionally qualified staff to deal with accounting matters within the prescribed financial framework of the Government of Pakistan (GOP).</p>
Accounting Policy and Procedures	<p>FBR is following the accounting policy adopted by the Federal Government of Pakistan. GOP has set out the detailed policy and procedures to be used in accounting for the government's financial transactions, which can be found in the Accounting Policies and Procedures Manual (APPM). Compliance of the manual provisions is mandatory for all centralized agencies, including self-accounting entities like FBR.</p> <p>The government accounting rules and procedures are rooted in the Constitution, existing audit and accounting orders (including Pakistan Order 1973, which decrees that the Auditor General or AG shall be responsible for keeping the accounts of the Federation and of each province, in accordance with Article 170 of the Constitution which empowers the AG to prescribe the accounting principles and methods), and the International Accounting Standards and GAAP.</p> <p>All transactions are properly documented in accordance with the accounting procedures. All payments/disbursements of FBR pass through pre-audit and post-audit system. Annual audit reports are available.</p>
Segregation of Duties	<p>The Principal Accounting Officer (PAO), as prescribed in government accounting rules, is primarily responsible for</p>

Area of Assessment	Findings
	instituting controls, maintaining adequate financial reporting system, and compliance of the agency with relevant government accounting rules and procedures. FBR has an accounting wing with officers and staff who are assigned delineated tasks on specific accounting matters and within the accounting framework adopted by the government.
Budgeting System	<p>FBR formulates its budget requirements every year in coordination with the Planning and Development Division and Finance Division. The exercise mainly involves the coordination and consolidation of the budgets of all the departments and offices of the agency and in consultation with the other relevant Divisions.</p> <p>Budget preparation is triggered by instructions from the Ministry of Finance to all agencies of the Federal Government to review and provide new estimates of the current year's budget and to submit budget estimates for the coming year. FBR deploys adequate officers and staff – every sub-unit of agencies has a budget and accounts section to do this work – for budget preparation. The federal government has established rules and procedures, embodied in the Budget Manual, for the budgetary process and disbursement of funds.</p>
Payments	FBR follows the financial management policies, rules and procedures framed by the Ministry of Finance (Economic Affairs Division and Planning and Development Division). Payments are made through cheques to the concerned parties. The cheques are issued by the AGPR or National Bank of Pakistan upon the request and submission of relevant supporting documents by the FBR.
Cash and Bank	Specifically, Designated Disbursement Officers (DDO's) and Cashiers are nominated for cash handling and reconciliation with the AGPR, State Bank of Pakistan and National Bank of Pakistan, as these personnel are also responsible for handling all cash matters. Bank reconciliation is performed on a monthly basis, with daily check of bank scroll with payment advice notice, requiring one-on-one relationship with designated officers of the agency and designated branch of state bank, as specified in the government's accounting rules (see Chapter 6 of APPM).
Safeguard Over Assets	A Project Management Unit (PMU) will be established to ensure the timely completion of the project in accordance with its technical design and specifications. Operation of the project will be delegated to an interagency and multi-sectoral body to be created for such purpose, which is the Land Port Authority (LPA), and which shall also be responsible for the efficient operations, upkeep, repair and upgrade of project assets.

Area of Assessment	Findings
	Fixed asset management is guided by provisions in the APPM (Section 13.4) which requires, among others, that agencies/entities maintain a "Fixed Asset Register" for all categories of assets. The register shall include description, classification, date of purchase, original purchase cost, asset ID number, location, ownership/ responsibility for asset. The PAO is responsible for keeping and updating the register, shall keep a memorandum account for fixed assets and shall prepare fixed assets report on a quarterly basis.
Other Offices	Some other departments are also involved in the activities of the projects like the Economic Affairs Division, Planning and Development Division, State Bank of Pakistan, National Bank of Pakistan and AGPR offices all over the country.
Internal and External Audit	Internal and external audit system is in place. All the transactions/ payments undergo pre-audit as dictated by government audit rules. The PAO is responsible for controlling expenditures. As the law prescribes, post-audit is conducted by the Auditor General of Pakistan.
Reporting and Monitoring	<p>Financial rules of the Federal Government require that all agencies including FBR submit report of financial transactions on a monthly basis to the AGPR for consolidation with annual accounts. The reports include statement of assets and liabilities, statement of cash flows, statement of receipts and payments for each of the trust accounts, and notes to accounts.</p> <p>The FBR Act also specifically requires the submission by the Board of annual financial report to the Federal Government. FBR reports on financial transaction can actually be generated on a daily basis.</p>
Information Systems	I.T.-based monitoring and report generation system is not yet operational in FBR (this was also observed in the Phase 1 Report on BSIP). FBR is in the process of implementing a SAP System which is still at its basic stage.

## Risk Assessment and Risk Management Plan

5 The FBR will be the executing agency for the project. This assessment considers the financial risks associated with the loan and identifies actions being taken to mitigate identified risks.

6 ADB is in the process of preparing a new country partnership strategy (CPS). Preliminary findings indicate some improvement in governance and financial management aspects compared to CPS 2009-2013. However, risks are still there and a lot more work is still needed. At the project level, specific measures are needed to mitigate the risks.

7 The country and project level risks and their management plans are summarized in Table A-2.

**Table A-2 Risk Assessment and Mitigation Measures**

<b>Risks</b>	<b>Assessment without Mitigation</b>	<b>Management Plan or Measures</b>	<b>Assessment with Mitigation</b>
<b>Financial Management</b>			
1. Availability of adequate counterpart funds	Medium	FBR has prepared a PC-1 for approval by the Ministry of Finance Planning and Development Division. Approval of the PC-1 gives greater assurance that the government will provide adequate funds for the project. As the prime revenue agency of the Government FBR is in a strong position to assure availability of counterpart funds.	Low
2. Financial transparency and accountability	Medium	FBR will set up financial management system for the project, while the appointment of project management consultants should ensure that financial management is conducted in accordance with ADB rules and guidelines. External auditors will be engaged annually to review and verify the transparency and accountability of the system.	Medium
3. Limited experience in managing externally funded projects (particularly ADB funded projects)	Medium	FBR will hire a Project Management Consultant (PMC) familiar with ADB disbursement, monitoring and reporting procedures to support the Project Management Unit (PMU).	Low
4. Inadequate financial resources to sustain border facilities	Medium	Activities at the border such as consignment scanning and weighing are funded by direct charges. Salaries for officials will be paid out of the annual budget. FBR are unlikely to underfund a revenue gathering operation.	Low
<b>B Project Implementation</b>			
1. Limited Experience in managing large construction projects	Medium	Design-build and turnkey contracts will ensure that the projects are appropriately managed and there are no cost overruns. Project consultants will review detailed design and construction drawings by contractors to ensure functions and quality of border facilities meet FBR expectations..	Medium
2. Poor performance of consultants / contractors	Medium	FBR with support of project management consultants (PMC) and ADB will ensure rigorous evaluation of proposals and bids and will set up procedures and benchmarks for contractors' performance. ADB	Low

## TA8405-PAK: Border Services Improvement Project

		intensive monitoring and review missions will identify issues and take necessary remedial actions at an early stage. PRM will participate in the monthly progress meetings with FBR, project consultants, and contractors.	
3. Safeguards compliance	High	There is a general lack of appreciation of ADB safeguard requirements. Internal and external monitoring agents will be engaged to ensure implementation of land acquisition, resettlement and environment management plans. A grievance redress mechanism will be set up to timely address complaints.	Medium
<b>C. Procurement</b>			
1. Lack of procurement capacity and implementing ADB projects	High	Project management consultants (PMC) will be engaged using advance contracting to manage project procurement. PRM/ADB will assist in timely engagement of PMC. PMC will also help FBR in establishing its project management unit (PMU).	Medium
2. EA unfamiliar with ADB guidelines	High	PMU staff to be trained by Public Procurement Regulatory Authority (PPRA). These staff will also attend ADB procurement workshops.	Medium
3. Low interest of qualified international contractors and consultants in the project due to security risks.	High	Based on level of security risks, turnkey and design-build contracts are being considered for the three border facilities. For low-risk Wagha, turnkey ICB contract is envisaged. For Torkham and Chaman, design-build contract with single source national or state owned contractor is under consideration.	Medium
<b>D. Governance</b>			
1. Non-economic consideration over contractor/consultant selection	Medium	The government is working to eradicate corrupt practices. The National Accountability Bureau (NAB) is fully empowered to enforce the National Anticorruption Ordinance to prevent, detect, investigate, and prosecute cases involving corruption, corrupt practices, misuse/abuse of powers, misappropriation of property, kickbacks and commissions.	Medium
2. Collusion between FBR and contractors/	Medium	FBR, as the main government revenue gatherer, has rigorous procedures in place	Medium

### ***TA8405-PAK: Border Services Improvement Project***

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consultants		to identify and prevent corrupt practices by its officers. Reporting and disbursement procedures by PMU/ PMC will follow ADB guidelines.	
<b>Overall</b>	<b>Medium</b>		

## **APPENDIX B. PROJECT PROCUREMENT RISK ASSESSMENT REPORT**

### **EXECUTIVE SUMMARY**

The overall assessment of the project procurement risk is High. The Federal Board of Revenue (FBR) of the Government of Pakistan is the nominated Executing Agency (EA) for the proposed Border Services Improvement Project. In view of its prime responsibility as the main revenue collection agency of the country FBR is not set up to implement large foreign-assisted infrastructure projects. As such it does not have permanent procurement department or unit. In the past FBR had established a Project Management Unit (PMU) to successfully implement a large World Bank funded project. The PMU was staffed with experts selected on competitive basis or seconded from other Government agencies. However, the PMU was disbanded after project completion and the experienced staff was not retained. FBR is using a similar approach for smaller donor-assisted projects that are ongoing. For the proposed Border Services Improvement Project, FBR intends to establish a PMU after approval of the project by ADB and the Government. Past experience has shown that it takes a long time to recruit staff for PMU and develop its capacity to manage project. This results in implementation delays. Moreover, FBR has not implemented any ADB financed project in the past and is not familiar with ADB Procurement Guidelines.

The following mitigation measures are proposed to manage the risks:

- Up-front engagement of consultants for project management using provision of advance contracting under ADB Procurement Guidelines; the consultants will not only help timely start-up of project/procurement activities but also help FBR establish the PMU and develop its capacity;
- In view of lack of familiarity with ADB Procurement Guidelines, FBR should request ADB/PRM to assist in recruitment of project management consultants;
- Increased oversight of ADB sector division, including prior review of all contracts for works, goods and services before award; and
- Coordination with the Pakistan Public Procurement Regulatory Authority (PPRA) to arrange procurement training of FBR and PMU staff involved with the project; the PPRA trained staff should also attend ADB procurement workshops.



## **I. INTRODUCTION**

The Government of Pakistan intends to encourage economic growth and reduce poverty by addressing the inadequacies that are restricting trade and hampering full capitalization of the transit trade potential. The Border Services Improvement Project involves improvement of border facilities at Wagha, Torkham and Chaman. The Project will encourage trade by providing physical and information & communication technology (ICT) infrastructure that will allow improved and integrated processes to be introduced at these border crossing points. The aim is to reduce dwell time for cargo clearance at border crossings, providing expeditious clearance and encouraging increased trade flows without compromising essential checks. Integrated procedures will provide a common ICT platform for all the organizations involved at the border and will pave the way for one-window operation.

The assessment was prepared in accordance with the ADB's *Guide on Assessing Procurement Risks and Determining Project Procurement Classification* (August 2014). FBR is the designated EA. The project procurement risk assessment was undertaken through several meetings with relevant staff of FBR held during October to December 2014.

## **II. PROJECT PROCUREMENT RISK ASSESSMENT**

### **A. Overview**

The risk rating for organization and staff capacity is assessed as High because FBR does not have permanent procurement department or unit and the PMU responsible for implementing the proposed project has not been established. FBR intends to initiate this after approval of the proposed project by ADB and the Government. Experience has shown that establishing such PMU takes a long time to recruit competent staff and develop capacity to manage the project. Another reason for high risk rating is lack of dedicated procurement staff within FBR. The risk rating for procurement practices is assessed as Substantial because FBR has not implemented any ADB financed project and is not familiar with ADB Procurement Guidelines. This risk could have been mitigated as FBR has managed a large World Bank funded project in the recent past and its implementation was rated 'highly satisfactory' in the World Bank's implementation completion report. However, the PMU was disbanded after project completion and skilled staff was not retained. All other risk ratings are assessed as Moderate to Low.

#### **i) Organization and Staff Capacity**

##### Risk Assessment:

The overall risk rating for the organizational and staff capacity is assessed as High.

In view of its prime responsibility as the main revenue collection agency of the country, FBR does not have a permanent procurement department or unit to undertake procurement involved in implementing large infrastructure projects. Routine procurement for its operations is the responsibility of the Administration Wing which is headed by a Chief. The Project Monitoring, Implementation and Evaluation (PMIE) unit under the Administration Wing looks after construction and maintenance of FBR offices and other facilities.

FBR has experience of working on foreign-assisted projects. During 2005-2012, FBR implemented the World Bank's financed Tax Administration Reform Program (TARP) that involved major organizational restructuring. Under TARP, FBR established a PMU that

undertook recruitment of consultants, procurement of goods and works and executed construction contracts. Procurement committees were created to scrutinize and evaluate proposals and bids and to award contracts. Some staff of PMU was engaged on competitive basis while others were seconded from other Government agencies. All procurement was carried out following World Bank's procurement guidelines. The World Bank's implementation completion report for TARP gave a 'highly satisfactory' rating. However, PMU staff that was trained in procurement was not retained by FBR after completion of the project.

Similarly under an ongoing DFID financed Resource Mobilization Program (RMP), FBR has established a PMU to engage consulting services. However, the PMU does not have adequate staff.

Under another program, FBR has created a preliminary bid scrutiny committee and a bid evaluation committee for procurement and installation of Systems for Electronic Monitoring of Production (SEMP) in five industrial sectors through two-stage bidding process following Public Procurement Rules 2004.

### **ii) Information Management**

#### **Risk Assessment:**

The overall risk assessment for information management is Low.

FBR maintains procurement records systematically. All procurement documents are retained for ten years, including procurement carried out under foreign-assisted projects. FBR maintains file referencing system for each procurement activity and provide adequate resources in terms of office space, equipment and staff to sustain its record keeping system. When feasible information technology is used track records.

### **iii) Procurement Practices**

#### **Procurement of Goods & Works**

#### **Risk Assessment:**

The overall risk rating for the Procurement of Goods and Works is assessed as Substantial.

The Administration of FBR follows Public Procurement Rules 2004 and Public Procurement Regulations 2008 for local routine procurement of general items for its offices. Similarly PMIE follow same rules and regulations in procuring goods and works for maintenance of office facilities of FBR. As the head of the agency also chairs procurement committee there is potential for conflict of interest. For foreign assisted projects such as TARP, a PMU was established to carry out procurement of works and goods in accordance with the World Bank's Procurement Guidelines. However, the PMU staff that was trained in procurement was not retained after project completion. For the proposed project, FBR intends to establish a new PMU. The staff recruited for PMU will require extensive training and capacity building in ADB Procurement Guidelines before they can start taking on procurement responsibilities.

## **Consulting Services**

### Risk Assessment:

The overall risk rating for the Consulting Services is assessed as Substantial.

FBR does not normally require consulting services. If needed, individual consultants are usually engaged to undertake specific assignments. PPRA's Consulting Services Regulations 2010 provides guidance for procurement of consulting services. It is only under foreign-assisted projects that FBR need to engage consulting services. Under TARP, consultants were engaged following World Bank's procurement guidelines. However, experienced PMU staff was not retained. For the ongoing DFID-assisted RMP, FBR's PMU is being established and is involved in engaging consulting services following donor's procurement rules and requirements. For the proposed Border Services Improvement Project, upfront engagement of project management consultant should be pursued to ensure timely start-up of project activities. This will also help establish PMU to develop its capacity.

## **iv) Effectiveness**

### Risk Assessment:

The overall risk rating for Effectiveness is assessed as Moderate.

The performance of all contracts is monitored regularly and reported to the FBR Chairman. For large foreign-assisted projects, FBR uses project management program to generate performance reports. For the World Bank funded TARP, Peachtree software was used to monitor and report payments. In accordance with Rule 48 of the Public Procurement Rules 2004, grievance redress committees were formed for all procurement activities. However, the head and members of the procurement committees also chaired the grievance committee. On the financial side, internal and external audit systems are in place in FBR. All transactions/payments are processed through pre-audit system. Reports on financial transactions can be generated on a daily basis. The auditors from the Office of the Auditor General of Pakistan carry out external audit at the end of each fiscal year and the audit report is submitted to the FBR Chairman.

## **v) Accountability Measures**

### Risk Assessment:

The overall risk rating for Accountability Measures is assessed as Moderate.

FBR follows business ethics and transparency in all procurement activities in line with the Public Procurement Rules 2004 and Public Procurement Regulations 2008. Committees are formed to scrutinize and evaluate bids and proposals and recommend contract awards. Committee members have to declare any potential conflicts of interest. In case of foreign assisted projects, external approval of donor agencies is obtained for all procurements requiring prior review. However, there is no effective and efficient complaint redressal mechanism. The cases of mis-procurement are sent to the courts which is time consuming.

## **B. Strengths**

FBR has the capacity to put together team of experts, engaged on competitive basis or seconded from other Government agencies, to undertake procurement under large foreign-assisted projects. This was demonstrated in the case of World Bank's TARP where World Bank Procurement Guidelines were followed and the project was given a 'highly satisfactory' rating in the project's implementation completion report.

## **C. Weaknesses**

FBR does not have dedicated procurement staff. It relies on PMUs that are established to implement foreign-assisted projects that require major procurement. Experience has shown that the PMUs take a long time to recruit suitable staff and develop procurement capacity. However, this capacity is lost when the PMU is disbanded after project completion. Moreover, FBR has not implemented any ADB-financed project and is therefore not familiar with ADB procurement guidelines.

## **III. CONCLUSION**

FBR is the EA for the proposed Border Services Improvement Project. FBR is the prime federal agency of Pakistan that is responsible for formulation and administration of fiscal policies, auditing and revenue collection for the Government. As such it does not have dedicated staff to implement large foreign-assisted infrastructure projects. In the past FBR has relied on PMU staffed with experts selected competitively or seconded from other Government agencies to implement an externally funded major project. However, the PMU was disbanded after project completion and experienced staff was not retained. FBR intends follow similar approach for the proposed Border Services Improvement Project and the PMU will be established after project approval by ADB and the Government. Past experience has shown that it takes a long time to recruit staff and establish PMU and develop its capacity to manage the project independently. This results in implementation delays. Moreover, FBR is not familiar with the ADB Procurement Guidelines as it has not implemented any ADB financed project. Based on the above, the overall procurement risk of the project is assessed a High. The risks identified will be mitigated through:

- Up-front engagement of consultants for project management using provision of advance contracting under ADB Procurement Guidelines; the consultants will not only help timely start-up of project/procurement activities but also help FBR establish PMU and develop its capacity;
- In view of lack of familiarity with ADB Procurement Guidelines, FBR should request ADB/PRM to assist in recruitment of project management consultants;
- Increased oversight of ADB sector division, including prior review of all contracts for works, goods and services before award;
- Coordination with the Public Procurement Regulatory Authority (PPRA) to arrange procurement training of FBR and PMU staff involved with the project; the PPRA trained staff should also attend ADB procurement workshops.

**ANNEX 1. PROJECT PROCUREMENT RISK ASSESSMENT QUESTIONNAIRE**

QUESTION	RESPONSE	RISK <sup>1</sup>
<b>A. ORGANIZATIONAL AND STAFF CAPACITY</b>		
<b>PROCUREMENT DEPARTMENT/UNIT</b>		High
A.1 Does the agency or Government have a Procurement Committee that is independent from the head of the agency?	Procurement committees are established by FBR in response to various procurement needs. These procurement committees are chaired by the head of the agency.	
A.2 Does the agency have a procurement department/unit, including a permanent office that performs the function of a Secretariat of the Procurement Committee?	<p>FBR does not have a permanent procurement department or unit. Local routine procurements of general items is carried out by the Administration Wing of FBR. Procurement committees are constituted for different procurement functions.</p> <p>The Project Monitoring, Implementation &amp; Evaluation (PMIE) Section of the FBR Administration Wing, working under its Chief, handles construction and maintenance of FBR office buildings and other facilities since 2007. A team of architect, civil engineer, quantity surveyor, draftsman and Second Secretary Projects Finance works in PMIE to deal with construction, interior development and refurbishment activities of the FBR buildings. There is no dedicated procurement team within PMIE.</p> <p>For foreign-assisted projects, FBR establishes Project Management Units (PMU) to manage procurement and implementation as explained below:</p> <ul style="list-style-type: none"> <li>• For World Bank financed Tax Administration Reforms Program (TARP), FBR established a PMU that implemented the project during 2005-2012. The procurement team of TARP PMU was not retained after project closure in June 2012.</li> <li>• For the ongoing DFID-funded Revenue Mobilization Program (RMP), the PMU is headed by a</li> </ul>	

<sup>1</sup> Questions indicated with \* are associated with potentially 'High' or 'Substantial' risks due to the impact being 'High', therefore the strategy for managing those risks should be addressed in the Project Procurement Risk Analysis (Appendix 3).

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
	Project Director who is a senior BS-21 officer. Procurement under RMP involves hiring of consulting services only which has not been yet.	
A.3 If yes, what type of procurement does it undertake?	See response to A.2.	
A.4 How many years' experience does the head of the procurement department/unit have in a direct procurement role?	See response to A.2.	
A.5 How many staff in the procurement department/unit are: i. full time ii. part time iii. seconded	For foreign-assisted projects, procurement staff in PMU seconded from other Government departments.	
A.6 Do the procurement staff have a high level of English language proficiency (verbal and written)?	Administration Wing officers dealing with routine procurement of general goods are all senior officers (BS-17 and above) and have substantial level of proficiency in written and verbal English.	*
A.7 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	The number and qualifications of the staff is not sufficient to undertake the additional procurement required under the proposed project.	*
A.8 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	Yes, to meet the existing requirements.	
A.9 Does the agency have, or have ready access to, a procurement training program?	Procurement training can be arranged with the Public Procurement Regulatory Authority (PPRA). Standard training programs are available on need basis.	*
A.10 At what level does the department/unit report (to the head of agency, deputy etc.)?	Usually Line Members or Project Directors.	
A.11 Do the procurement positions in the agency have job descriptions, which outline specific roles, minimum technical requirements and career routes?	Formal job descriptions do not exist. However, institutional arrangements are in place to guide and provide on job training to help new entrants in learning procurement practices.	

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
A.12 Is there a procurement process manual for goods and works?	Public Procurement Rules 2004 and Public Procurement Regulations 2008 provide guidance. There is no formal manual.	
A.13 If there is a manual, is it up to date and does it cover foreign-assisted projects?	See response to A.12. For foreign-assisted projects, donors' procurement guidelines are followed.	
A.14 Is there a procurement process manual for consulting services?	The processes are explained in Public Procurement Rules 2004, Public Procurement Regulations 2008, and Procurement of Consulting Services Regulations 2010.	
A.15 If there is a manual, is it up to date and does it cover foreign-assisted projects?	See response to A.14. For foreign-assisted projects, donors' procurement guidelines are followed.	
<b>PROJECT MANAGEMENT UNIT</b>		<b>High</b>
A.16 Is there a fully (or almost fully) staffed PMU for this project currently in place?	No. FBR intends to establish a PMU for this project and is seeking Government approval of its financing. The remaining responses of this section pertain to this proposed PMU.	*
A.17 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	There is a position of procurement specialist in the PMU. Depending on the level of expertise of the person selected, support of consultants will be needed to undertake procurement for the proposed project.	*
A.18 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	The PMU is expected to be fully equipped to undertake the planned procurement.	
A.19 Are there standard documents in use, such as Standard Procurement Documents/Forms, and have they been approved for use on ADB funded projects?	FBR is familiar with World Bank procurement guidelines and standard bidding documents.	*
A.20 Does the agency follow the national procurement law, procurement processes, guidelines?	Yes. All procurement is carried out following Public Procurement Rules 2004 and Public Procurement Regulations 2008.	*
A.21 Do ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs?	For foreign-assisted projects, standard formats recommended by donors are followed.	



## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
A.22 Who drafts the procurement specifications?	Technical experts	
A.23 Who approves the procurement specifications?	Project Director	
A.24 Who in the PMU has experience in drafting bidding documents?	It is expected that the Procurement Specialist of PMU will lead this effort with the support of consultants. This is in line with past experience of implementing World Bank funded TARP. In this case the PMU team reviewed the standard bidding documents which were drafted consultants engaged by FBR through competitive procurement. The consultants prepared design, drafted bid documents and assisted in evaluating bids. The bid evaluation reports were scrutinized by PMU on behalf of FBR.	*
A.25 Are records of the sale of bidding documents immediately available?	Yes	*
A.26 Who identifies the need for consulting services requirements?	The Project Procurement Plan includes details of procurement requirements.	
A.27 Who drafts the Terms of Reference (ToR)	PMU procurement staff in coordination with consultants.	
A.28 Who prepares the request for proposals (RFPs)	PMU procurement staff supported by the project consultants.	
<b>B. INFORMATION MANAGEMENT</b>		<b>Low</b>
B.1 Is there a referencing system for procurement files?	Yes	
B.2 Are there adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency?	Yes. For foreign funded projects such as TARP record were managed independently.	*
B.3 Does the agency adhere to a document retention policy (i.e. for what period are records kept)?	Yes	*
B.4 Are copies of bids or proposals retained with the evaluation?	Yes	
B.5 Are copies of the original advertisements retained with the pre-contract papers?	Yes	
B.6 Is there a single contract file with a copy of the contract and all subsequent contractual	Each procurement package is given a separate file number.	

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
correspondence?		
B.7 Are copies of invoices included with the contract papers?	Yes	
B.8 Is the agency's record keeping function supported by IT?	Yes, when needed.	
<b>C. PROCUREMENT PRACTICES</b>		
<b>Goods and Works</b>		<b>Substantial</b>
C.1 Has the agency undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.	As mentioned earlier, (i) the World Bank-funded Tax Administration Reforms Program (TARP) which is completed, and (ii) DFID funded Revenue Mobilization Program which is ongoing.	*
C.2 If the answer is yes, what were the major challenges faced by the agency?	Building capacity of the PMU to implement the projects independently took a long time.	*
C.3 Is there a systematic process to identify procurement requirements (for a period of one year or more)?	Not known in the current scenario	
C.4 Is there a minimum period for the preparation of bids and if yes, how long?	Yes. Under Public Procurement Rules 2004, 15 days for NCB and 30 days for ICB are required for bidders to submit their bids.	*
C.5 Are all queries from bidders replied to in writing?	Yes. Also under Rule 48 of the Public Procurement Rules 2004, Grievance Redressal Committees are formed for all procurement activities.	*
C.6 Does the bidding document state the date and time of bid opening?	Yes	*
C.7 Are bids opened in public?	Yes	*
C.8 Can late bids be accepted?	No	*
C.9 Can bids (except late bids) be rejected at bid opening?	Yes	*
C.10 Are minutes of the bid opening taken?	Yes	*
C.11 Are bidders provided a copy of the minutes?	Yes	*
C.12 Are the minutes provided free of charge?	Yes	*
C.13 Who undertakes the evaluation of bids (individual(s), permanent committee, ad-hoc committee)?	FBR nominated committees. In foreign-funded projects, procurement staff of PMU reviews the bid evaluation reports prepared by the consultants engaged by FBR.	
C.14 What are the qualifications of the evaluators with respect to	Procurement specialists in the project consultants' team undertake bid evaluation.	*

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
procurement and the goods and/or works under evaluation?		
C.15 Is the decision of the evaluators final or is the evaluation subject to additional approvals?	Approval of Line Members in case of Contract Award Recommendation Committee (CARC) or Chairman FBR is required.	*
C.16 Using the three 'worst-case' examples in the last year, how long from the issuance of the invitation for bids can the contract be awarded?	Not known. Usually the contracts are awarded within the bid validity period.	
C.17 Are there processes in place for the collection and clearance of cargo through ports of entry?	Yes	
C.18 Are there established goods receiving procedures?	Yes	
C.19 Are all goods that are received recorded as assets or inventory in a register?	Yes	
C.20 Is the agency/procurement department familiar with letters of credit?	Yes	
C.21 Does the procurement department register and track warranty and latent defects liability periods?	Yes	
Consulting Services		Substantial
C.22 Has the agency undertaken foreign-assisted procurement of consulting services recently (last 12 months, or last 36 months)? (If yes, please indicate the names of the development partner/s and the Project/s.)	See response to C.1.	*
C.23 If the above answer is yes, what were the major challenges?	(i) Preparing terms of reference in consultation with the concerned FBR Wings; and (ii) long time it took to build capacity of PMU in managing the project independently.	*
C.24 Are assignments and invitations for expressions of interest (EOIs) advertised?	Yes	*
C.25 Is a consultants' selection committee formed with appropriate individuals, and what is its composition (if any)?	Consultants' selection committee was formed with relevant members from FBR ranging from Secretaries, Chiefs and related experts.	
C.26 What criteria is used to evaluate EOIs?	Short-listing criteria was formulated in light of World Bank Guidelines.	
C.27 Historically, what is the most common method used (QCBS, QBS,	QCBS	*

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
etc.) to select consultants?		
C.28 Do firms have to pay for the RFP document?	No	*
C.29 Does the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP?	Yes, quite detailed evaluation criteria was included in the RFP.	*
C.30 Are pre-proposal visits and meetings arranged?	Yes	
C.31 Are minutes prepared and circulated after pre-proposal meetings?	Yes	*
C.32 To whom are the minutes distributed?	All prospective bidders and FBR committees	*
C.33 Are all queries from consultants answered/addressed in writing?	Yes	*
C.34 Are the technical and financial proposals required to be in separate envelopes and remain sealed until the technical evaluation is completed?	Yes	*
C.35 Are proposal securities required?	No	*
C.36 Are technical proposals opened in public?	Yes	*
C.37 Are minutes of the technical opening distributed?	Yes	*
C.39 Who determines the final technical ranking and how?	The FBR nominated committees, based on majority voting.	*
C.40 Are the technical scores sent to all firms?	Yes	*
C.41 Are the financial proposal opened in public?	Yes	*
C.42 Are minutes of the financial opening distributed?	Yes	*
C.43 How is the financial evaluation completed?	Based on the evaluation procedure described in the RFP.	*
C.44 Are face to face contract negotiations held?	Yes	*
C.45 How long after financial evaluation is negotiation held with the selected firm?	Within two weeks.	
C.46 What is the usual basis for negotiation?	Any non-substantial amendment in scope of work, TORs, deliverables etc.	
C.47 Are minutes of negotiation taken	Yes	*

## TA8405-PAK: Border Services Improvement Project

QUESTION	RESPONSE	RISK <sup>1</sup>
and signed?		
C.48 How long after negotiation is the contract signed, on average?	Within two weeks.	
C.49 Is there an evaluation system for measuring the outputs of consultants?	Consultants' outputs are reported regularly to the head of the agency.	
Payments		Low
C.50 Are advance payments made?	Under World Bank funded TARP, the consultants did not request advance payment.	
C.51 What is the standard period for payment included in contracts?	Usually 30 days or as mentioned in the Conditions of Contract	
C.52 On average, how long is it between receiving a firm's invoice and making payment?	Usually 30 days or as mentioned in the Conditions of Contract	
C.53 When late payment is made, are the beneficiaries paid interest?	No	
D. EFFECTIVENESS		Moderate
D.1 Is contractual performance systematically monitored and reported?	Yes, for foreign-assisted projects contractual performance is regularly monitored and reported to the head of the agency.	
D.2 Does the agency monitor and track its contractual payment obligations?	Yes. Peachtree software was used for TARP.	
D.3 Is a complaints resolution mechanism described in national procurement documents?	Yes. Following Rule 40 of the Public Procurement Rules 2004, Grievance Redressal Committees were formed for II procurement activities.	
D.4 Is there a formal non-judicial mechanism for dealing with complaints?	Yes	
D.5 Are procurement decisions and disputes supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment?	Yes	*
E. ACCOUNTABILITY MEASURES		Moderate
E.1 Is there a standard statement of ethics and are those involved in procurement required to formally commit to it?	Yes	*
E.2 Are those involved with procurement required to declare any potential conflict of interest and remove themselves from the procurement	Yes	*

QUESTION	RESPONSE	RISK <sup>1</sup>
process?		
E.3 Is the commencement of procurement dependent on external approvals (formal or de-facto) that are outside of the budgeting process?	Yes	
E.4 Who approves procurement transactions, and do they have procurement experience and qualifications?	The Contract Award Recommendation Committees (CARC) of FBR as done for TARP.	*
E.5 Which of the following actions require approvals outside the procurement unit or the evaluation committee, as the case may be, and who grants the approval?	For foreign-assisted projects, approval of donor is required in all procurement needing prior review.	
a) Bidding document, invitation to pre-qualify or RFP		
b) Advertisement of an invitation for bids, pre-qualification or call for EOIs		
c) Evaluation reports		*
d) Notice of award		*
e) Invitation to consultants to negotiate		
f) Contracts		*
E.6 Is the same official responsible for: (i) authorizing procurement transactions, procurement invitations, documents, evaluations and contracts; (ii) authorizing payments; (iii) recording procurement transactions and events; and (iv) the custody of assets?	No	*
E.7 Is there a written auditable trail of procurement decisions attributable to individuals and committees?	Yes	*

**ANNEX2      PROCUREMENT RISK ASSESSMENT AND MANAGEMENT PLAN (P-RAMP)**

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measure</b>
<p>The EA has never implemented any ADB financed project</p> <p>The EA does not have permanent procurement department or unit</p> <p>The EA relies on Project Management Units (PMU) to implement foreign-assisted projects. However PMU for the proposed project will be established after ADB/Government's approval. It takes a long time to recruit PMU staff and build its capacity to manage major procurement. This results in implementation delays.</p>	High	<p>The proposed mitigation/management actions include but are not limited to:</p> <ul style="list-style-type: none"><li>• Engage project management consultant (PMC) to assist FBR in project startup activities including procurement;</li><li>• Fast track engagement of PMC use advance contracting provision under ADB Procurement Guidelines;</li><li>• Seek assistance of ADB/PRM in advertising EOI, short-listing firms, issuing RFP, evaluating proposals and awarding contract for PMC;</li><li>• PMC will also assist in establishing PMU and develop its capacity.</li></ul>
<p>The EA is unfamiliar with the ADB procurement guidelines</p>	High	<ul style="list-style-type: none"><li>• Coordinate with PPRA and arrange a series of training programs for relevant EA and PMU staff;</li><li>• Ensure that staff trained by PPRA would also attend procurement workshops arranged by ADB.</li></ul>



**ANNEX 3 PROCUREMENT PLAN (BASED ON TOR)****Basic Data**

Project Name: <b>Border Services Improvement Project</b>	
Project Number:	Approval Number:
Country: <b>PAKISTAN (Federal)</b>	Executing Agency: <b>Federal Board of Revenue</b>
Project Procurement Classification:	Implementing Agency:
Procurement Risk: <b>High</b>	
Project Financing Amount: \$ ADB Financing: Cofinancing (ADB Administered): Non-ADB Financing:	Project Closing Date:
Date of First Procurement Plan:	Date of this Procurement Plan:

**A. Methods, Thresholds, Review and 18-Month Procurement Plan****1. Procurement and Consulting Methods and Thresholds**

Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

<b>Procurement of Goods and Works</b>		
Method	Threshold	Comments
International Competitive Bidding (ICB) for Works	\$10,000,000 and above	Prior review
International Competitive Bidding for Goods	\$2,000,000 and above	Prior review
National Competitive Bidding (NCB) for Works	Beneath that stated for ICB, Works	
National Competitive Bidding for Goods	Beneath that stated for ICB, Goods	
Shopping for Works	Below \$100,000	Prior review
Shopping for Goods	Below \$100,000	Prior review

<b>Consulting Services</b>	
Method	Comments
Quality and Cost Based Selection (QCBS)	80:20
Quality Based Selection	

## **TA8405-PAK: Border Services Improvement Project**

### **2. Goods and Works Contracts Estimated to Cost \$1 Million or More**

The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

<b>Package Number</b>	<b>General Description</b>	<b>Estimated Value</b>	<b>Procurement Method</b>	<b>Review [Prior / Post/Post (Sample)]</b>	<b>Bidding Procedure</b>	<b>Advertisement Date (quarter/year)</b>	<b>Comments</b>
BSI/CIV/01	Construction of Border Crossing Facilities at Wagha	\$61.9 million	ICB	Prior	1S2E		Large Works Bidding Documents will be used.
BSI/CIV/02	Construction of Border Crossing Facilities at Torkham	\$48.9 million	ICB	Prior	1S2E		Large Works Bidding Documents will be used.
BSI/CIV/03	Construction of Border Crossing Facilities at Chaman	\$57.1 million	ICB	Prior	1S2E		Large Works Bidding Documents will be used.
BSI/EQU/01	Installation of ICT and Security Systems at three Border Crossing Facilities	\$36.0 million	ICB	Prior	1S2E		Goods Bidding Documents will be used.

### **3. Consulting Services Contracts Estimated to Cost \$100,000 or More**

The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

<b>Package Number</b>	<b>General Description</b>	<b>Estimated Value</b>	<b>Recruitment Method</b>	<b>Review (Prior / Post)</b>	<b>Advertisement Date (quarter/year)</b>	<b>Type of Proposal</b>	<b>Comments</b>
BSI/CS/01	Project Management and Detailed Engineering	\$2.25 million	QCBS	Prior		FTP	80:20
BSI/CS/02	Construction Supervision	\$2.62 million	QCBS	Prior		FTP	80:20

## TA8405-PAK: Border Services Improvement Project

### 4. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)

The following table groups smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value	Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Advertisement Date (quarter/year)	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior / Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments

### B. Indicative List of Packages Required Under the Project

The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Comments

Consulting Services							
Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review (Prior / Post)	Type of Proposal	Comments
BSI/CS/03	Capacity Development in Trade Facilitation	\$636,525	1	QBS	Prior	FTP	

**C. List of Awarded and On-going, and Completed Contracts**

The following tables list the awarded and on-going contracts, and completed contracts.

**1. Awarded and On-going Contracts**

Goods and Works							
Package Number	General Description	Estimated Value	Awarded Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

Consulting Services							
Package Number	General Description	Estimated Value	Awarded Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

**2. Completed Contracts**

Goods and Works								
Package Number	General Description	Estimated Value	Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

**D. Non-ADB Financing**

The following table lists goods, works and consulting services contracts over the life of the project, financed by Non-ADB sources.

<b>Goods and Works</b>				
<b>General Description</b>	<b>Estimated Value (cumulative)</b>	<b>Estimated Number of Contracts</b>	<b>Procurement Method</b>	<b>Comments</b>

<b>Consulting Services</b>				
<b>General Description</b>	<b>Estimated Value (cumulative)</b>	<b>Estimated Number of Contracts</b>	<b>Recruitment Method</b>	<b>Comments</b>

**E. National Competitive Bidding****1. General**

The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Rules 2004 [S. R. O. 432 (1)/2004] issued on the 9<sup>th</sup> June 2004 by the Public Procurement Regulatory Authority Ordinance 2002 (XXII of 2002) of the Islamic Republic of Pakistan with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines.

**2. Registration**

- (i) Bidding shall not be restricted to pre-registered firms and such registration shall not be a condition for participation in the bidding process.
- (ii) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

**3. Prequalification**

Normally, post-qualification shall be used unless prequalification is explicitly provided for in the loan agreement/procurement plan. Irrespective of whether post qualification or

prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

#### **4. Bidding Period**

The minimum bidding period is twenty-eight (28) days prior to the deadline for the submission of bids.

#### **5. Bidding Documents**

Procuring entities shall use the applicable standard bidding documents for the procurement of goods, works and services acceptable to ADB.

#### **6. Preferences**

No domestic preference shall be given for domestic bidders and for domestically manufactured goods.

#### **7. Advertising**

Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids. NCB contracts estimated to cost \$500,000 or more for goods and related services and \$1,000,000 or more for civil works will be advertised on ADB's website via the posting of the Procurement Plan.

#### **8. Bid Security**

Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

#### **9. Bid Opening and Bid Evaluation**

- (i) Bids shall be opened in public.
- (ii) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.
- (iii) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (iv) No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without the ADB's prior concurrence.
- (v) A contract shall be awarded to the technically responsive bid that offers the lowest evaluated price and no negotiations shall be permitted.

#### **10. Rejection of all Bids and Rebidding**

Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

**11. Participation by Government-owned enterprises**

Government-owned enterprises in the Islamic Republic of Pakistan shall be eligible to participate as bidders only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

**12. ADB Member Country Restrictions**

Bidders must be nationals of member countries of ADB, and offered goods and services must be produced in and supplied from member countries of ADB.



## APPENDIX C

### SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY (SPRSS) TA 8405: Improving Border Services of Pakistan

#### SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

<b>Country:</b>	Islamic Republic Pakistan	<b>Project Title:</b>	Improving Border Services of Wagah, Torkham, and Chaman
<b>Lending/ Financing Modality:</b>	Project Loan	<b>Department/ Division:</b>	Federal Board of Revenue

<b>I. THE PROPOSED PROJECT</b>
<p><b>A. Project Objective</b></p> <p>The objective of the Project is to promote sustainable economic growth in the country and to reduce poverty by (i) improving the facilities and procedures at three border crossing points (BCP) Wahga, Torkham; and Chaman and (ii) increased regional trade and cooperation. The government considers the improvement of border equipment, facilities, and services as one of its highest priorities and an important part of the National Poverty Reduction Strategy. It recognizes that improving the border crossing points with India and Afghanistan is essential for increasing trade and to promote economic growth, and has officially declared the Project a national priority. The efficient movement of goods and peoples in the three borders will help Pakistan capitalize on its location between the land-locked countries of Central Asia and the sea, enabling it to participate more fully in the international production and marketing chain for trade-led economic growth.</p>
<p><b>II. POVERTY AND SOCIAL ANALYSIS AND STRATEGY</b></p> <p>Targeting classification: general intervention</p>
<p><b>A. Links to the National Poverty Reduction and inclusive Growth Strategy and Country Partnership Strategy</b></p> <p>The project is in line with pillar vii of the Government of Pakistan's Poverty Reduction Strategy PRSP-II<sup>1</sup> that addresses the removal of infrastructure bottlenecks. It recognizes that improved connectivity through Infrastructure development accelerates economic growth through exposure of local markets to larger regional markets. The project itself can generate employment opportunities for local villagers. The project's thrust on improving the border equipment and facilities has established linkages with Pakistan's Interim Country Partnership Strategy (2014–2015), and with ADB's Sustainable Transport Initiative. It is aligned with the government's development strategy, Vision 2025, and the development strategies and plans of provincial governments.</p>
<p><b>B. Results from Poverty &amp; Social Analysis during PPTA or due Diligence</b></p> <p><b>2. Key poverty &amp; social issues.</b> Pakistan fares better than India and Bangladesh on most poverty markers such as the United Nations multidimensional poverty index (MPI) and its poverty rate is below those nations. According to Pakistan's Millennium Development Goal Report 2013, the incidence of absolute poverty in the country decreased from 22.3 percent in 2005-06 to 12.4 percent of the population living below official poverty line in 2010-11. Its provincial poverty rate is 26.5% with urban-rural disparity in poverty incidence at 38% to 32% of headcounts, while the overall population below extreme poverty line is 31%. Poverty incidence in the project site is higher than the national level: 32% in Wahga; 71% in Torkham; and 90% in Chaman.</p> <p><b>3. Beneficiaries.</b> The project beneficiaries are the (i) traders and entrepreneurs; (ii) transport operators; (iii) pedestrians; (iv) residential communities; and (v) commercial entities.</p> <p><b>4. Impact channels.</b> The project will benefit the poor indirectly due to (i) growth in trade through the border crossings; (ii) employment opportunities generated; (iii) communication networks with other government and private entities in other areas; (iv) improved security due to project's security personnel and security equipment; and (v) expansion of the private sector and labor markets. Improved cross-border transport infrastructure opens doors to investments for new economic activities. Increased income reduces poverty incidence and improves living standards of households. As movement of goods and people across borders becomes easier, the diversity of resource endowments among neighboring countries tends to create geometric opportunities that entrepreneurs can exploit. Poor women will join both the formal and informal labor sectors. Others will become entrepreneurs. Overall, their families and immediate communities will benefit from the project.</p>
<b>III. PARTICIPATION AND EMPOWERMENT OF THE POOR</b>
<p><b>1. Public Consultation.</b> Individual and group stakeholder consultations were conducted both during the social impact assessment and during the preparation of the LARP. A total of nine individual consultations and fifteen focus group discussions were held with local residents, commercial entities, landlords, chamber of commerce and industry, vulnerable groups, women and minorities between February and March</p>

<sup>1</sup>Rana Assad Amin, Joint Secretary, External Finance Policy Wing (2009). Poverty Reduction Strategy Paper (PRSP-11). Finance Division, Government of Pakistan, Islamabad, Pakistan

2015 for all the three (03) BCPs. The team also (i) conducted a 100% census of project-affected persons; (ii) surveyed the socio-economic status of women; (iii) appraised the local residents of the project objectives; and (iv) gathered community perspectives on the proposed developments and their potential impact. The team ensured that dates and venues are convenient to the participants. Suggestions and requests arising from the consultations are being taken into account in the land acquisition and resettlement process and in the provision of opportunities for workers and trades people to participate in the project and for traders to take advantage of ongoing opportunities. A grievance process will be established to enable ongoing communication.

- 2. If civil society has a specific role in the project, summarize the actions taken to ensure their participation.** In all three project sites, findings show that there are no non-government organizations and civil societies helping the local communities. The local government units can be tapped for effective governance management and support. Also, there are supportive national level-based organizations concerned with poverty reduction in Pakistan. These include (i) Benazir Income Support Program; (ii) Pakistan Poverty Alleviation Fund; and (iii) Agah Khan Rural Support Program. These NGOs do not have local presence in BCP sites. But they can help in project policy formulation, monitoring and evaluation.
- 3. Explain how the project ensures adequate participation of civil society organizations in project implementation.** Consultation and information disclosure and a grievance redress mechanism will ensure participation in project implementation. Sectoral representatives and national-level based civil society organizations will be represented in the Steering Committee for the project.

#### IV. GENDER AND DEVELOPMENT

##### A. Gender Development.

The surveys undertaken as part of the Project preparation show that traditional attitudes to the role of women are strongly held, particularly at Chaman and Torkham. While the Project itself is essentially gender neutral, the government of Pakistan clearly enunciated in its PRSP-11 that it is determined to empower women and to reduce gender disparities. The Project therefore includes affirmative action to ensure a role for women in decision making, labour force participation and in commercial opportunities arising from the Project.

Employment opportunities for women will occur during construction and will be encouraged. The project will provide access for women to participate and obtain benefits during the project implementation phase including participating in the consultation meetings under the LARP. In the virtual operations and maintenance stage, they will benefit from the project demands on (i) skilled and non-skilled labor, (ii) formal and informal entrepreneurial activities, and (iii) improved security measures provided by the project.

**B. Key Issues.** What are the key gender issues in the sector/sub-sector that are likely to be relevant to this project/program?

Social issues such as (i) Human immunodeficiency virus (HIV)/acquired immunodeficiency syndrome (AIDS); (ii) human trafficking; and (iii) child labor are concerns of ADB and of the government of Pakistan which the BCP project implementation and management can support and help reduce if not totally eliminate in the future. Managing its supply and demand chain is the big challenge. Like other Asian countries, Pakistan is following a comparable HIV epidemic trend having moved from 'low prevalence, high risk' to 'concentrated' epidemic in the early to mid-2000s among key populations with HIV prevalence at 27.2% in 2011. It committed to respond to its national HIV epidemic by endorsing the Declaration of Commitment (DoC) of the United Nations General Assembly Special Session (UNGASS) on HIV/AIDS of 2001 and to achieve the 6th Millennium Development Goal (MDG) of 'halting and beginning to reverse the HIV/AIDS epidemic by 2015'. Human trafficking such as "people smuggling" and labor issues on bonded labor and forced labor are also on the rise. [Child labor](#) in the BCP areas is prevalent. These are hazardous to the physical, mental, spiritual, moral, or social development of children and can interfere with their education.

By increasing transit traffic following project completion and the number of foreign workers during construction, the Project may contribute to the HIV/AIDS, human trafficking, exploitation problems and therefore negatively impact women. Other than these concerns, the Project will have no adverse impact on vulnerable groups and no negative implication for gender concerns. To mitigate the potential impact of HIV/AIDS, sexually transmitted infection (STI), and human trafficking issues, the expertise of a domestic social development specialist is provided to help the project implementation and management to provide training and increase awareness of these issues. The contractors will distribute information to project workers, and the Project will coordinate with international agencies and nongovernment organizations involved in HIV/AIDS and trafficking prevention activities. The domestic consultant will be an expert on gender, HIV/AIDS, labor issues, and human trafficking to help the Ministry of Transport and Communications ensure that critical and gender-relevant issues are addressed during project implementation. These issues include women's participation during project implementation and provision of equal employment and wage opportunities for women and men employed in the project sites.

#### V. ADDRESSING SOCIAL SAFEGUARD ISSUES

##### A. Involuntary Resettlement Safeguard Category: ☐ A ☐ B ☐ C ☐ FI

- 1. Key impacts.** The LARP is based on a 100% census of APs. The census of APs is based on the social impact assessment of the three BCPs covering the project areas conducted through a 100% survey of project-affected households. Series of site visits and focus group discussions with the APs and other stakeholders were also done. The results show that (i) in Chaman, 100% (101 acres) of the land needed for the project is owned by the government of Pakistan; (ii) in Torkham, 50.7 acres of land will be purchased from communal land owners and private landowners with 100% compensation based on market values; and in (iii) Wagah, 64.5 acres of privately owned land will be purchased from landowners. There are also commercial structures affected by the ROW. The structures, land assets, and other affected people are entitled to compensation.

## TA8405-PAK: Border Services Improvement Project

<p>2. <b>Strategy to address the project impact.</b> The LARP covers the aspects of consultation and information disclosure, grievance redress mechanisms and compensation, entitlements and benefits. Planned institutional arrangements include hiring of a Resettlement Specialist and Independent Monitoring Consultants.</p>				
<p><b>B. Indigenous Peoples</b></p>		<p><b>Safeguard Category:</b></p>		
		<input type="checkbox"/> A	<input type="checkbox"/> B	<input checked="" type="checkbox"/> C
<p>1. Key impacts. Is broad community support triggered? <span style="float: right;"><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</span></p>				
<p>2. Strategy to address the impacts: In all three BCP areas, no Indigenous Peoples are found residing in the vicinity.</p>				
<p><b>V. ADDRESSING OTHER SOCIAL RISKS</b></p>				
<p><b>A. Risks in the Labor Market</b></p>				
<p>1. <b>Relevance of the project for the country's or region's or sector's labor market</b></p> <p>X <input type="checkbox"/> Unemployment    <input type="checkbox"/> Underemployment    <input type="checkbox"/> Retrenchment    <input type="checkbox"/> Core Labor Standards</p>				
<p>2. <b>Labor market impacts:</b> The project construction phase is expected to generate employment opportunities for local communities; however core labor standards will be fully adhered to and EA will ensure that all civil works comply with all applicable labor laws, will not employ child labor for construction and maintenance works.</p>				
<p>3.</p>				
<p><b>B. Affordability:</b> Affordability is taken into account as the road improvements will reduce transport cost and accident risk, and increase the mobility of the local population. There are no proposed toll fees in any of the project phases in all BCP sites.</p>				
<p><b>C. Communicable Diseases and Other Social Risks</b></p>				
<p>1. <b>Indicate the respective risks, if any, and rate the impacts as high (H), medium (M), low (L), or note applicable (NA)</b></p> <p>Communicable Diseases: L                      Human Trafficking: L                      Child Labor: L</p>				
<p>2. <b>Describe the related risks of the project on the people in the project area:</b> For other social risks and vulnerabilities such as HIV/AIDs and human trafficking, project will develop mechanisms to address the social issues identified during the social and poverty assessment. However, no significant negative impacts are anticipated.</p>				
<p><b>VI. MONITORING AND EVALUATION</b></p>				
<p>1. <b>Targets and Indicators:</b> In line with ADB's Safeguards Policy Statement (2009)</p>				
<p>2. <b>Required human resources:</b> (i) Project Management and Implementation Unit (PMU) at Federal Board of Revenue (FBR); ii) Safeguard Management Unit at PMU; (iii) Land Acquisition and Resettlement Unit (LARU) at Provincial Implementation Unit (PIU); iv) Grievance Redress Committee; and (v) Project Management Consultants will be hired and placed in PIU to facilitate land acquisition and resettlement and to manage social safeguards fully consistent with ADB's requirements.</p>				
<p>3. <b>Monitoring Tools:</b> Performance Data Sheets at sub-project level, monthly progress reports at PMU level, internal monthly monitoring reports, and resettlement database.</p>				